# 2007

ING Group

# Annual Report

Focusing the strategy to accelerate growth

ING

# In this report

# Management

### COMPOSITION OF THE BOARDS
on 31 December 2007

### EXECUTIVE BOARD
**Michel J. Tilmant** (55), chairman
**Eric F. Boyer de la Giroday** [1] (55)
**Dick H. Harryvan** (54)
**John C.R. Hele** (49), CFO
**Eli P. Leenaars** [1] (46)
**Tom J. McInerney** (51)
**Hans van der Noordaa** (46)
**Koos (J.V.) Timmermans** (47), CRO
**Jacques M. de Vaucleroy** (46)
(1) Nominated for reappointment as of 22 April 2008

### SUPERVISORY BOARD
**Cor A.J. Herkströter** [1] (70), chairman (until 1 January 2008)
**Jan H.M. Hommen** (64) (chairman as of 1 January 2008)
**Eric Bourdais de Charbonnière** [2] (68), vice-chairman
**Henk W. Breukink** (57)
**Peter A.F.W. Elverding** (59)
**Luella Gross Goldberg** [3] (70)
**Claus Dieter Hoffmann** (65)
**Piet Hoogendoorn** (62)
**Piet C. Klaver** (62)
**Wim Kok** (69)
**Godfried J.A. van der Lugt** (67)
**Karel Vuursteen** (66)
(1) Retirement as of 1 January 2008
(2) Nominated for reappointment as of 22 April 2008
(3) Retirement as of 22 April 2008

**Audit Committee***
Jan H.M. Hommen, chairman (until 1 January 2008)
Wim Kok (chairman as of 1 January 2008)
Claus Dieter Hoffmann
Godfried J.A. van der Lugt

**Remuneration and Nomination Committee***
Cor A.J. Herkströter, chairman (until 1 January 2008)
Jan H.M. Hommen (chairman as of 1 January 2008)
Eric Bourdais de Charbonnière
Luella Gross Goldberg
Karel Vuursteen

**Corporate Governance Committee***
Cor A.J. Herkströter, chairman (until 1 January 2008)
Jan H.M. Hommen (chairman as of 1 January 2008)
Eric Bourdais de Charbonnière
Luella Gross Goldberg
Karel Vuursteen
* The composition of the Committees was changed in January 2008. Please turn to pages 67-69 for more information.

Joan Spero, Harish Manwani, Aman Mehta and Jackson Tai are nominated for appointment to the Supervisory Board. The Shareholders' meeting will decide on these nominations on 22 April 2008.

You can find more information on the members of the Executive Board on pages 65-66 and on the members of the Supervisory Board on pages 67-69, including the Board nominees.

# Highlights

> Full year net profit up 20.1% to EUR 9,241 million

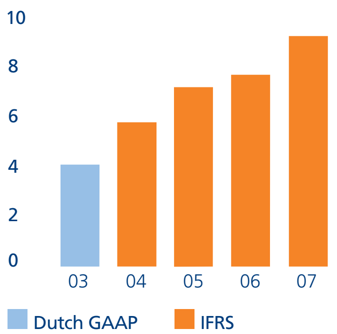
> Risk management and business profile shield ING from direct impact of credit market turmoil

> Robust commercial growth: insurance new business up 38% and continued growth in bank volumes

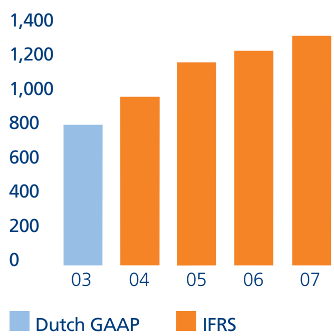
> Strong capital position with efficient capital allocation

> Sharpened strategic focus on banking, investments, life insurance and retirement services

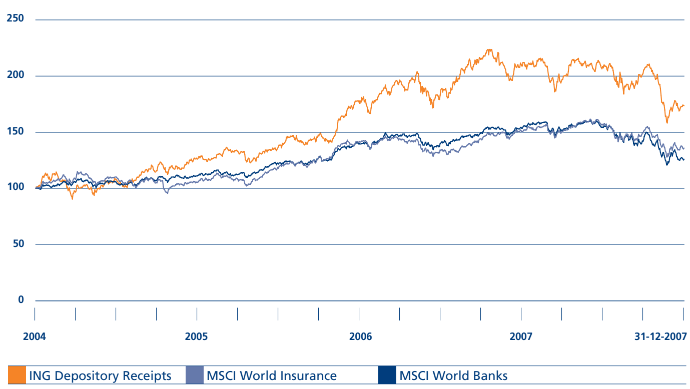
### NET PROFIT
in EUR billion




### TOTAL ASSETS
in EUR billion




### TOTAL RETURN INDEX



## Key figures (on a total basis)

| | 2007 | 2006 | 2005 | 2004 | 2003 [1] |
|---|---|---|---|---|---|
| **Income** (in EUR million) | | | | | |
| Insurance operations | **62,208** | 59,642 | 57,403 | 55,614 | 53,223 |
| Banking operations | **14,602** | 14,195 | 13,848 | 12,678 | 11,680 |
| **Total income** [2] | **76,587** | 73,621 | 71,120 | 68,171 | 64,736 |
| | | | | | |
| **Operating expenses** (in EUR million) | | | | | |
| Insurance operations | **5,515** | 5,275 | 5,195 | 4,746 | 4,897 |
| Banking operations | **9,967** | 9,087 | 8,844 | 8,795 | 8,184 |
| **Total operating expenses** | **15,481** | 14,362 | 14,039 | 13,541 | 13,081 |
| | | | | | |
| **Addition to loan loss provision Banking operations** (in EUR million) | **125** | 103 | 88 | 465 | 1,125 |
| | | | | | |
| **Profit before tax** (in EUR million) | | | | | |
| Insurance profit before tax | **6,533** | 4,935 | 3,978 | 4,322 | 3,506 |
| Banking profit before tax | **4,510** | 5,005 | 4,916 | 3,418 | 2,371 |
| **Total profit before tax** | **11,043** | 9,940 | 8,894 | 7,740 | 5,877 |
| Taxation | **1,534** | 1,907 | 1,379 | 1,709 | 1,490 |
| Minority interests | **267** | 341 | 305 | 276 | 344 |
| **Net profit** | **9,241** | 7,692 | 7,210 | 5,755 | 4,043 |
| | | | | | |
| **Figures per ordinary share** (in EUR) | | | | | |
| Net profit | **4.32** | 3.57 | 3.32 | 2.71 | 2.00 |
| Dividend | **1.48** | 1.32 | 1.18 | 1.07 | 0.97 |
| Shareholders' equity (in parent) | **17.73** | 17.78 | 16.96 | 12.95 | 10.08 |
| | | | | | |
| **Balance sheet** (in EUR billion) | | | | | |
| Total assets | **1,313** | 1,226 | 1,159 | 964 | 779 |
| Shareholders' equity | **37** | 38 | 37 | 28 | 21 |
| | | | | | |
| **Capital ratios** | | | | | |
| ING Group debt/equity ratio | **9.5%** | 9.0% | 9.4% | 10.2% | 14.4% |
| Insurance capital coverage ratio | **244%** | 274% | 255% | 204% | 180% |
| Insurance debt/equity ratio | **13.6%** | 14.2% | 13.4% | 14.3% | 19.8% |
| Bank Tier-1 ratio | **7.39%** | 7.63% | 7.32% | 6.92% | 7.59% |
| | | | | | |
| **Market capitalisation** (in EUR billion) | **60** | 74 | 65 | 49 | 39 |
| | | | | | |
| **Key performance indicators** | | | | | |
| Net return on equity (ROE) | **24.2%** | 23.5% | 26.6% | 25.4% | 21.5% |
| Net profit growth | **20%** | 7% | 25% | n.a. | –10% |
| Insurance | | | | | |
| Value of new life business (in EUR million) | **1,113** | 807 | 805 | 632 | 440 |
| Internal rate of return (life) | **14.3%** | 13.3% | 13.2% | 12.1% | 10.9% |
| Combined ratio (non-life) | **97%** | 91% | 95% | 94% | 98% |
| Banking | | | | | |
| Cost/income ratio | **68.3%** | 64.0% | 63.9% | 69.4% | 70.1% |
| RAROC after tax | **19.9%** | 19.7% | 22.6% | 14.5% | |
| | | | | | |
| **Assets under management** (in EUR billion) | **637** | 600 | 547 | 492 | 463 |
| | | | | | |
| **Employees** (FTEs year-end) | **124,634** | 119,801 | 116,614 | 112,195 | 114,335 |

[1] Figures according to Dutch GAAP.
[2] Including inter-company eliminations.

# ING at a glance

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

**Our profile**
ING is a global financial services company providing banking, investments, life insurance and retirement services. We serve more than 75 million customers in Europe, the United States, Canada, Latin America, Asia and Australia. We draw on our experience and expertise, our commitment to excellent service and our global scale to meet the needs of a broad customer base, comprising individuals, families, small businesses, large corporations, institutions and governments. Based on market capitalisation (31 December 2007), ING is one of the 20 largest financial institutions worldwide.

**Our strategy**
Capitalising on changing customer preferences and building on our solid business capabilities, ING's strategic focus is on banking, investments, life insurance and retirement services. We want to provide retail customers with the products they need during their lives to grow savings, manage investments and prepare for retirement with confidence. We will build and invest more in bank distribution platforms. We will increasingly invest in high-growth markets. The successful execution of the strategy is underpinned by continued efficient reallocation of capital through redeploying the capital we generate in mature markets to high-growth businesses, or returning it to our shareholders. With this strategy, ING remains focused on creating value for its shareholders and rewarding them with a better total return on investment than the average of our peers in the financial sector over the longer term.

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

**Our corporate responsibility**
ING wants to pursue profit on the basis of sound business ethics and respect for its stakeholders. Corporate responsibility is therefore a fundamental part of ING's strategy: ethical, social and environmental factors play an integral role in our business decisions.

www.ing.com

ING business lines

| | Underlying profit before tax* in EUR million | |
|---|---|---|
| Insurance Europe | 2007 | 1,840 |
| | 2006 | 2,249 |
| Insurance Americas | 2007 | 2,059 |
| | 2006 | 1,992 |
| Insurance Asia/Pacific | 2007 | 576 |
| | 2006 | 621 |
| Wholesale Banking | 2007 | 2,399 |
| | 2006 | 2,525 |
| Retail Banking | 2007 | 2,062 |
| | 2006 | 1,935 |
| ING Direct | 2007 | 530 |
| | 2006 | 694 |

* Excluding Corporate Lines Insurance and Banking.

| | Underlying profit before tax contribution to Group |
|---|---|
| • Operates the insurance and asset management activities in Europe. Main insurance activities are in the Netherlands, Belgium, Spain, Greece and Central Europe. Here we offer life insurance with a particular focus on pensions. In the Netherlands and Belgium we also offer non-life insurance. | 19% |
| • Provides insurance, investment, retirement and asset management products and services in the region. In the United States, ING is a top-10 provider of retirement services, based on sales. In Canada, we are the leading property and casualty insurer, based on gross premiums. We are also a leading pension and life insurance company in a number of Latin American countries, including Argentina, Mexico, Chile, Peru and Brazil. | 22% |
| • Conducts life insurance and asset/wealth management activities in the region. We are well-established in Australia, Hong Kong, Japan, Malaysia, New Zealand, South Korea and Taiwan. Our activities in China, India and Thailand are key future growth engines. | 6% |
| • Conducts global wholesale banking operations. The primary focus is on the Netherlands and Belgium, where we offer a full range of products to companies and other institutions. Elsewhere we take a more selective approach with regard to our clients and products. Wholesale Banking also manages ING Real Estate, the world's largest real estate investment manager based on the value of its assets under management. | 25% |
| • Offers retail banking services in the mature markets of the Netherlands and Belgium, and in the growth markets of Poland, Romania, Turkey, India and China. Private banking is offered in the Netherlands, Belgium, Luxembourg, Switzerland and various countries in Asia, Latin America and Central and Eastern Europe. | 22% |
| • Operates direct retail banking activities for customers in Australia, Canada, France, Germany and Austria, Italy, Spain, the United Kingdom and the United States. The main products offered are savings accounts and mortgages, and increasingly also mutual funds and payment accounts. | 6% |

# Chairman's statement
## ING shows strength in challenging environment

### Dear stakeholder,

**I am pleased to report that ING performed strongly in what has been a very difficult year for the financial sector, with a weak dollar, a flat yield curve and obviously the financial market turbulence. We generated attractive profits for our shareholders, while our strong balance sheet, our large customer base and our solid risk management have helped to shield us from the direct impact of the market turmoil.**

We report a raise in net profit by 20.1% to EUR 9,241 million. Our underlying net profit – total profit without the impact of divestments and special items – increased by 19.4%.

ING has systematically invested over the recent years to improve its risk management capabilities and has weathered the credit market turmoil with limited direct impact. This illustrates the importance of having solid risk management in times of stress.

We enjoyed strong performance on the commercial front. Our banking businesses continued to show solid volume growth and ING Direct passed the 20 million customer mark, a big achievement after only ten years of operation. And we achieved strong sales growth in our life insurance businesses in Central Europe, Asia and in the United States.

It is my firm belief that companies can only be successful if they put their customers first and know exactly how to best serve them. Customers' preferences are changing rapidly and are reshaping the financial industry. As customers live longer, accumulate more wealth, and expect easy access to financial products, we witness strong growth in client retail balances, particularly in developing markets. We also see a major shift in the distribution of financial products where banks are increasingly taking the lead.

This creates strong growth opportunities and I am convinced that ING is well positioned to capture these. We have a large customer base, strong product skills, and a good position in high-growth markets. And we have a track record for building innovative distribution platforms illustrated best by the creation of the world's leading direct bank. We also established one of the world's leading retail financial brands, enhanced in 2007 with the successful sponsorship of the ING Renault Formula One team.

Capitalising on changing customer preferences and building on our solid business capabilities, we have decided to sharpen our strategic focus to banking, investments, life insurance and retirement services. We want to provide retail customers with the products they need during their lives to grow savings, manage investments and prepare for retirement with confidence. We will build and invest more in bank distribution platforms, reinforce our product capabilities in asset management and asset gathering and increasingly allocate our capital to high-growth markets.

In line with our sharpened strategic focus, we have already stepped up our investment efforts in 2007 and started a major acquisition programme that strengthens our positions in important growth markets, including Turkey, South Korea, Thailand, and Latin America. We also sold several non-core businesses, such as our non-life insurance business in Mexico in early 2008.

We also continued to invest in organic growth. We further improved the efficiency and growth potential of our businesses. In the Netherlands we are bringing together ING Bank and Postbank under one single brand, while we are also optimising the service and retail distribution model in the Belgian market. We set up life insurance and retail banking greenfields in Central Europe. Moreover, we signed important bank distribution agreements in Greece and Malaysia. And we invested significantly in further growing ING Direct.

It is clear that we can fulfil our strategic initiatives only with a highly skilled and dedicated work force that is willing to go the extra mile for our clients. We put a lot of effort into attracting and retaining the best people and we are proud that we are recognised as a top-tier employer in an increasing number of countries.

Our role in society is very important to us and we continuously seek to meet the highest levels of sound business ethics. Corporate responsibility is embedded in the daily business activities of our employees. We made important progress in social and environmental areas. ING became 'carbon neutral' in 2007. And, I take great personal pride in the fact that ING and its employees helped raise funds for the education of around 125,000 children for one year; one child for every employee in the company.

As of 1 January 2008, Cor Herkströter retired as chairman of the Supervisory Board of ING Group. Jan Hommen has been appointed as his successor. On behalf of my Executive Board colleagues I wish to express my sincere gratitude and appreciation for the contribution Cor Herkströter made to ING Group for the past nine years. We truly value his contribution to the success of ING. I would also like to thank Luella Gross Goldberg, who will retire from the Supervisory Board at the Shareholders' meeting in April, for her commitment and contribution to ING over the past years.

ING has proven its commitment to enhance shareholder returns through an attractive increase in dividends and a EUR 5 billion share buy-back, which is well under way. Our Total Shareholder Return (TSR) development over the last four years was 74%, well above the average of our peers. Recent developments have been less favourable, also due to the financial markets. Given the strong fundamentals of our company and our sharpened strategic direction, I am confident of ING's growth prospects going forward.

**Michel Tilmant**
chairman Executive Board

# Information for shareholders

## € 26.75
ING share price year-end 2007

**SHARE PRICE PERFORMANCE**
In 2007, ING's share price decreased 20.4% to EUR 26.75 at year-end. Over the full year, ING underperformed the AEX by 23.8%-points. In the four-year period 2004 – 2007 ING's share price rose 44.7%.

## € 1.48
Proposed dividend per share

**DIVIDEND**
On 20 February 2008, ING Group proposed a total dividend for 2007 of EUR 1.48 per (depositary receipt for an) ordinary share. The dividend, to be approved by the annual General Meeting of Shareholders on 22 April 2008, represents an increase of 12% from EUR 1.32 over 2006. Taking into account the interim dividend of EUR 0.66 paid in August 2007, the proposed final dividend amounts to EUR 0.82 per (depositary receipt for an) ordinary share, to be paid fully in cash. The ING share will be quoted ex dividend as of 24 April 2008. The final dividend will be paid on 5 May 2008 on Euronext Amsterdam by NYSE Euronext and on 12 May 2008 on the NYSE.

## 74%
Total Shareholder Return
2004 – 2007

## 37%
Total Shareholder Return
2005 – 2007

**TOTAL SHAREHOLDER RETURN**
ING's Total Shareholder Return amounted to 74% over the four-year period 2004 – 2007 and to 37% over the three-year period 2005 – 2007.

## AA-
S&P rating of ING Group

**RATINGS**
Credit ratings are indicators for the likelihood of timely and complete repayment of interest and instalments of fixed-income securities as assigned by rating agencies. For an overview of the main credit ratings of ING, please see page 9.

## 22 April 2008
Annual General Meeting
of Shareholders

**ANNUAL GENERAL MEETING OF SHAREHOLDERS**
On 22 April 2008 the annual General Meeting of Shareholders will take place in the 'Muziekgebouw aan 't IJ', Piet Heinkade 1, in Amsterdam. The meeting will be webcast. The meeting documents are available on the ING Group website www.ing.com. Printed versions of the meeting documents can be obtained free of charge at ING Group, Amstelveenseweg 500, 1081 KL Amsterdam as of 26 March 2008.

# Information for shareholders (continued)

## PROFIT RETENTION AND DISTRIBUTION POLICY

ING Group's profit retention and distribution policy is determined by its internal financing requirements and its growth opportunities on the one hand and the capital providers' dividend expectations on the other. ING Group's internal funding needs are determined partly by statutory solvency requirements and capital ratios, compliance with which is essential to its existence. No less important to ING Group are its credit ratings, which directly affect its financing costs and hence its profitability. For their part, the capital providers expect a dividend which reflects ING Group's financial results and is relatively predictable.

Each year, after publication of the financial results for the first six months of the year, an interim dividend is distributed by way of an advance against the final dividend, being half of the total dividend over the preceding year.

In February 2005, ING defined its dividend policy as follows: ING intends to pay dividends in relation to the longer-term underlying development of cash earnings following the introduction of International Financial Reporting Standards (IFRS), which are expected to increase volatility in net profit. Furthermore, it was decided in the beginning of 2005 to change the dividend policy to a full cash dividend. This change was very much welcomed by investors and analysts. ING has no intention to change its dividend policy.

### Share buy-back programme

On 16 May 2007 ING announced a share buy-back programme to purchase ordinary shares (or depositary receipts for such shares), with a total value of EUR 5 billion over a period of 12 months, beginning in June 2007. At the end of 2007 the number of (depositary receipts for) ordinary shares repurchased under this programme was 91.7 million for a total consideration of EUR 2,793 million. At year-end 2007, 55.9% of the repurchase programme was completed. The repurchase programme is expected to run until June 2008.

## LISTINGS

The (depositary receipts for) ordinary shares ING Group are listed on the exchanges of Amsterdam, Brussels, Frankfurt, Paris, New York (NYSE) and the Swiss exchanges. The (depositary receipts for) preference shares are listed on Euronext Amsterdam by NYSE Euronext. Options on (depositary receipts for) ordinary shares ING Group are traded at the NYSE Euronext Amsterdam Derivative Markets and the Chicago Board Options Exchange.

### Authorised and issued capital

| in millions | Year-end 2007 | Year-end 2006 |
|---|---|---|
| **Ordinary shares** | | |
| – authorised | **720** | 720 |
| – issued | **534** | 530 |
| **Preference shares** | | |
| – authorised | **360** | 360 |
| – issued | **19** | 76 |
| **Cumulative preference shares** | | |
| – authorised | **1,080** | 1,080 |
| – issued | **–** | – |

### Shares in issue and shares outstanding in the market

| in millions | Year-end 2007 | Year-end 2006 |
|---|---|---|
| (Depositary receipts for) ordinary shares of EUR 0.24 nominal value | **2,226.4** | 2,205.1 |
| (Depositary receipts for) own ordinary shares held by ING Group and its subsidiaries | **126.8** | 53.8 |
| (Depositary receipts for) ordinary shares outstanding in the market | **2,099.6** | 2,151.3 |
| (Depositary receipts for) preference shares of EUR 1.20 nominal value | **16** | 63 |
| (Depositary receipts for) own preference shares held by ING Group and its subsidiaries | **10** | – |
| (Depositary receipts for) preference shares outstanding in the market | **6** | **63** |

### Prices depositary receipts for ordinary shares

| Euronext Amsterdam by NYSE Euronext in EUR | 2007 | 2006 | 2005 |
|---|---|---|---|
| Price – high | **34.69** | 35.95 | 29.75 |
| Price – low | **24.38** | 27.82 | 20.99 |
| Price – year end | **26.75** | 33.59 | 29.30 |
| Price/earnings ratio* | **6.2** | 9.4 | 8.8 |

* Based on the share price at year-end and underlying net profit per preference share for the financial year.

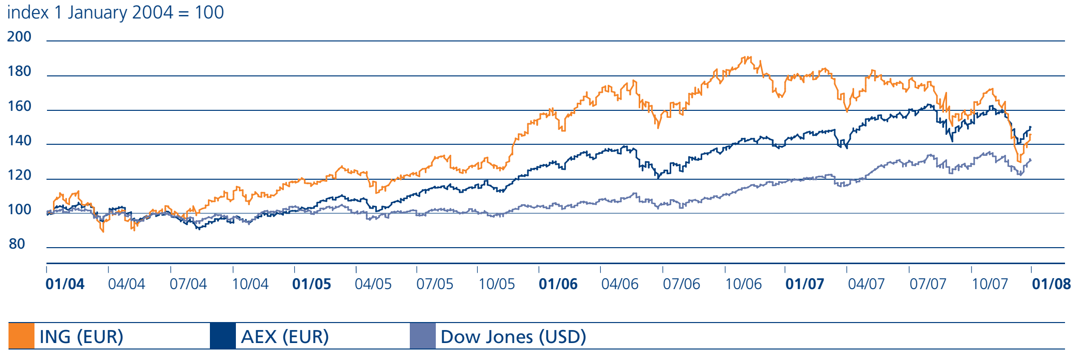
### Dividend history

| in EUR | 2007 | 2006 | 2005 |
|---|---|---|---|
| Interim dividend | **0.66** | 0.59 | 0.54 |
| Final dividend | **0.82*** | 0.73 | 0.64 |
| Total | **1.48*** | 1.32 | 1.18 |

* Proposed.

## FOUR-YEAR PRICE DEVELOPMENT ING DEPOSITARY RECEIPTS FOR SHARES

index 1 January 2004 = 100



## GEOGRAPHICAL DISTRIBUTION OF ING SHARES*

in percentages

| | |
|---|---|
| United Kingdom | 25 |
| United States and Canada | 24 |
| Netherlands | 18 |
| Belgium | 11 |
| Luxembourg | 7 |
| Switzerland | 5 |
| France | 5 |
| Other | 5 |
| Total | 100 |

* 2007 figures, based on information provided by several large custodians.

## SHAREHOLDERS WITH STAKES OF 5% OR MORE

Under the Dutch Financial Supervision Act, one holder of depositary receipts with an interest or potential interest of between 5% and 10% in ING Group was known as at 31 December 2007. This was AllianceBernstein Corporation.

## INVESTOR RELATIONS

In addition to financial press releases and quarterly financial publications, ING also publishes the magazine *ING Shareholder*. You can subscribe to the magazine through our Investor Relations section at www.ing.com. To be kept informed of press releases and other ING news, you can subscribe to the email service through our Investor Relations section at www.ing.com.

### Investors and financial analysts may contact:

ING Group,
Investor Relations (IH 07.430)
P.O. Box 810
1000 AV Amsterdam
The Netherlands
Telephone: +31 20 5415460
Fax: +31 20 5418551
Email: investor.relations@ing.com

**Main credit ratings of ING** [(1)]

| | Standard & Poor's | Moody's | Fitch |
|---|---|---|---|
| **ING GROUP** | AA– | Aa2 | AA– |
| **ING INSURANCE** | | | |
| – short term | A-1+ | P-1 | |
| – long term | AA– | Aa3 | AA– |
| **ING BANK** | | | |
| – short term | A-1+ | P-1 | F1+ |
| – long term | AA | Aa1 | AA |
| – financial strength | | B | |

[(1)] The Standard & Poor's, Moody's and Fitch ratings all have a stable outlook.

ING's long-term credit ratings are shown in the table above. Each of these ratings reflects only the view of the applicable rating agency at the time the rating was issued, and any explanation of the significance of a rating may be obtained only from the rating agency.

A security rating is not a recommendation to buy, sell or hold securities and each rating should be evaluated independently of any other rating. There is no assurance that any credit rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the rating agency if, in the rating agency's judgement, circumstances so warrant. ING accepts no responsibility for the accuracy or reliability of the ratings.

## IMPORTANT DATES IN 2008 AND 2009*

**Annual General Meeting of Shareholders**
Tuesday, 22 April 2008, 10:30 a.m.

**Record date for dividend entitlement**
Wednesday, 23 April 2008 (NYSE)
Monday, 28 April 2008 (NYSE Euronext)

**ING share quotation ex final dividend 2007**
Thursday, 24 April 2008 (NYSE Euronext and NYSE)

**Payment date final dividend 2007**
Monday, 5 May 2008 (NYSE Euronext)
Monday, 12 May 2008 (NYSE)

**Publication results Q1 2008**
Wednesday, 14 May 2008, 7:30 a.m.

**Publication results Q2 2008**
Wednesday, 13 August 2008, 7:30 a.m.

**ING share quotation ex interim dividend 2008**
Thursday, 14 August 2008 (NYSE Euronext and NYSE)

**Payment date interim dividend 2008**
Thursday, 21 August 2008 (NYSE Euronext)
Thursday, 28 August 2008 (NYSE)

**Publication results Q3 2008**
Wednesday, 12 November 2008, 7:30 a.m.

**Publication results Q4 2008/annual results 2008**
Wednesday, 18 February 2009

**Annual General Meeting of Shareholders**
Tuesday, 28 April 2009

**ING share quotation ex final dividend 2008**
Thursday, 30 April 2009

**Payment date final dividend 2008**
Thursday, 8 May 2009 (NYSE Euronext)
Thursday, 15 May 2009 (NYSE)

* All dates shown are provisional.

# Strategy
## Focusing the strategy to accelerate growth

## Key points

> Focus on banking, investments, life insurance and retirement services

> Provide retail customers with the products they need to grow savings, manage investments, and prepare for retirement

> Invest in bank distribution and high-growth markets

> Continue to improve business fundamentals and maintain strength in capital and risk management

In a very challenging environment in 2007, ING performed strongly, both on the commercial front and in the areas of risk management and capital allocation. We believe this illustrates the strength of our strategy which is to capitalise on changing customer preferences that are transforming the financial industry. We are accelerating the allocation of capital to high-growth areas by focusing on banking, investments, life insurance and retirement services. In 2007, we also returned capital to our shareholders through an attractive dividend and a significant share buy-back programme.

### STRONG PERFORMANCE CONFIRMS SOUND BUSINESS FUNDAMENTALS

In 2007, ING performed strongly in what has been a very difficult year for the financial sector. The environment was characterised by a weak dollar, a flat yield curve and notably the problems in the US subprime mortgage market which spread to the larger financial markets in the second half of the year. In this challenging environment, ING enjoyed good commercial performance. We achieved solid volume growth in banking, illustrated by an increase in client balances at ING Direct and Retail Banking. In our life insurance business, we witnessed strong growth in sales and value of new business across the board.

The turbulence in the financial markets has put a spotlight on risk management across the financial sector. ING has weathered the turmoil in credit markets with limited direct impact. All in all, we believe that our performance in 2007 demonstrates that the fundamentals underpinning our business are sound.

### FOCUSED STRATEGY GOING FORWARD

We believe customer preferences are changing and these changes are reshaping the financial industry. We have chosen to focus on where we believe our greatest opportunities lie as a financial services provider, given our strengths. Therefore, we narrow our strategic focus to banking, investments, life insurance and retirement services, thus providing retail customers with the products they need to grow savings, manage investments and prepare for retirement with confidence.

**Capitalising on changing customer preferences**

Customer preferences are changing and reshaping the industry. As more customers live longer they know they need to increasingly save enough to enjoy retirement comfortably. And across the globe, especially in emerging markets, people are becoming wealthier. As customers accumulate more wealth, this drives strong growth in total client balances. In particular, there is a growing demand for savings and investment products, irrespective of whether these products are provided by a bank or insurer. And with many products and services to choose from, customers expect strong investment performance from their financial services providers.

Against this backdrop, the life insurance sector is going through a paradigm shift from traditional to investment-linked products. And because of this shift, distribution is moving increasingly into the domain of banking. With the surge in technological developments, customers can access financial services faster and in many different ways. Customers increasingly obtain easy, direct access to financial products, and advice only when they want it. This has led to growth of direct distribution channels, as reflected in the success of Postbank and ING Direct.

**Building on our solid business capabilities**
ING has three important strengths driving our business. These are (1) high-performance product capabilities; (2) a strong distribution reach; (3) a leading retail financial brand.

Our high-performance product capabilities include vast experience in building savings products, mortgages, variable annuities, pensions and other investment products. With our full suite of products, we can accompany customers throughout their life cycle. We also have scale in each product category, and are one of the largest savings banks in the world when the balances from different business units – including those in Retail Banking and ING Direct – are aggregated. Our product manufacturing is supported by vast expertise and investment skills in our Investment Management businesses, and asset generation and transformation in our Wholesale Banking businesses.

We have a strong retail customer franchise and an extensive distribution reach, including a broad presence in developing markets. We are able to serve our 75 million customers through different distribution channels – our own online and banking channels, through tied agents, and via distribution agreements with other parties. We adapt our distribution model to the market and have a track record for building innovative bank distribution models in mature and developing markets. In certain markets, we have built a strong agent and broker distribution network.

ING has created one of the world's leading retail financial services brands. Increasing awareness for the ING brand, across the globe has again been a key priority over the last years. In 2007, the global sponsorship of the ING Renault Formula One team along with its first-ever global branding campaign was very successful. As a result of the F1 sponsorship, ING's brand awareness has increased significantly across the globe. And the activation of the sponsorship has generated business leads and new business.

**New strategic focus**
Capitalising on changing customer preferences and building on our solid business capabilities, we have chosen to sharpen our strategic focus to banking, investments, life insurance and retirement services:

- We want to provide retail customers with the products they need during their lives to grow savings, manage investments and prepare for retirement with confidence.
- We will build and invest more in bank distribution platforms.
- We will increasingly invest in high-growth markets.

As a result, ING will focus its product offerings on certain key products and business areas, including current accounts, savings, mortgages, mutual funds, pensions, life insurance, investment-linked insurance and variable annuities.

We want to further strengthen our product manufacturing capabilities, including in the field of asset management. Excellent asset management skills are crucial to the success of our strategy. We will further invest in strengthening our global capabilities and investment expertise to deliver first-class investment performance for our clients and to increasingly develop products which blend asset management, insurance and capital markets features. Our Wholesale Banking expertise is also fundamentally important. The essence of our business is to collect consumer deposits and redeploy them as investments in the economy. Wholesale Banking generates high-quality assets where we can invest retail deposits. Also, it provides us with many relevant skills in risk management as well as access to financial markets around the world. Furthermore, developments in recent months have again strengthened our belief that it is essential to be able to generate a good portion of our own assets to maintain a healthy profile of the company.

Another priority is to build and invest in bank distribution platforms. Banks fulfil many customer needs, covering the full range of products from liquidity to lending and investing. Banking is structurally well-positioned as it offers opportunities for early customer acquisition and maintaining customer relationships. Moreover, it is a rapidly growing industry in developing markets, with Turkey as an important example. There is also a steady and fundamental shift taking place towards online banking – already one of our key differentiators which we will continue to build on.

We will put more emphasis on developing markets in order to capture their fundamental long-term growth, supported by a strong home market to fuel that expansion. Starting from strong footprints in Asia, Central Europe and Latin America, we will accelerate our investments in these growth markets.

In the context of our strategic focus we will significantly invest in organic growth and add-on acquisitions. We will also accelerate our portfolio management, assessing our current business in line with the sharpened strategic focus.

**Business initiatives in 2007**
We have already stepped up the pace of our investment efforts in 2007 and started a major acquisition programme that gives us strategic positions in important growth markets, such as Turkey, South Korea, Thailand and Latin America. We acquired Oyak Bank in Turkey, for example, adding 1.2 million customers to our client base. We also acquired a significant stake in TMB, a retail bank in Thailand. In addition, we continued to invest in strengthening product manufacturing capabilities. We bought Latin American pension businesses, which gives us access to over 5 million customers in five attractive high-growth markets in that region. In South Korea, we built scale by acquiring full ownership of Landmark Investment Management, the 12th largest asset manager in that country. We also introduced new variable annuity products in Japan, the United States and Europe. And in the US, ING Direct's acquisition of NetBank added USD 1.4 billion in customer deposits.

# Strategy (continued)

We also sold several non-core businesses in 2007 including Regio Bank in the Netherlands. In Belgium, we divested our Broker and Employee Benefits insurance business as these businesses did not have critical mass, and we expect the bank distribution channel to become more dominant in the future with above industry average growth rates. ING will continue to sell its insurance products in Belgium through its own bank channels. Early 2008, we sold our non-core insurance business in Mexico in line with our strategy to focus our activities on banking, investments, life insurance and retirement services.

In mature markets, we increased efficiency and optimised our competitive position. In the Netherlands, we are bringing together ING Bank and Postbank under a single brand to better and more effectively meet the needs of our retail customers there. This is a major investment and demonstrates a strong commitment to the Dutch banking market. To respond to changing customer preferences in Belgium, we are also optimising the service and retail distribution model in that market. ING Belgium has developed a programme that will allow the bank to accelerate its growth by leveraging its direct channels with its branch network. And at Wholesale Banking, after having successfully sharpened the strategic focus and improved capital efficiency and returns, new initiatives for growth are geared towards the Benelux and Central Europe, and global franchises in Structured Finance, Financial Markets and Real Estate.

## CONTINUED EFFICIENT ALLOCATION OF CAPITAL

Successful execution of the strategy is underpinned by continued efficient reallocation of capital through redeploying the capital we generate in mature markets to high-growth business, or returning it to our shareholders. This process is supported by actively managing our portfolio of businesses.

In 2007, as a result of disciplined capital management and solid profitability of our businesses, we have been able to maintain a strong capital position. On balance, ING was able to widen its spare leverage by a third, further securing the capital base and providing maximum financial flexibility to pursue our renewed strategic objectives. A position that is even stronger under the new Basel II regime. ING employed its excess capital to fund acquisitions, pay dividends to shareholders and buy back shares. A EUR 5 billion buy-back programme was started in June 2007 and is expected to be completed by June 2008. By the end of 2007, 56% of the programme had been completed.

## SOLID RISK MANAGEMENT FULLY INTEGRATED

In recent years, ING has systematically invested to improve its risk management capabilities. We have built a strong risk management function and fully integrated risk management into the daily management of all business units and strategic planning, embedding a philosophy of sound risk management at ING. The turmoil in financial markets over recent months illustrated the importance of having sound risk management in times of stress. ING has weathered this market turmoil with limited direct impact. Moreover, risk management also functions as an enabler, working with the businesses to identify and execute business opportunities, lower the cost of funding and support strategic decisions.

## CONCLUSIONS AND AMBITIONS

In 2007, ING performed strongly in a challenging environment reflected in an excellent commercial development. Moreover, with risk management fully integrated at all levels, ING is well-insulated from the worst effects of the market turmoil.

Capitalising on changing customer preferences and building on our solid business capabilities, we have chosen to sharpen our strategic focus to banking, investments, life insurance and retirement services. We want to provide retail customers with the products they need during their lives to grow savings, manage investments and prepare for retirement with confidence. We will build and invest more in bank distribution platforms. We will increasingly invest in high-growth markets. In 2007, we already stepped up the number of initiatives that support this strategy. In 2008, we will continue along this path.

With this sharpened strategy, ING remains focused on creating value for its shareholders and rewarding them with a better total return on investment than the average of our peers in the financial sector over the longer term.

## ADDITIONAL INFORMATION

In the Report of the Executive Board, information is included about strategy, financial highlights, capital management, risk management, developments in ING's six business lines, as well as about asset management, human resources, branding and corporate responsibility. For additional information, reference is made to the section on corporate governance (pages 61-70), which is deemed to be incorporated by reference here.

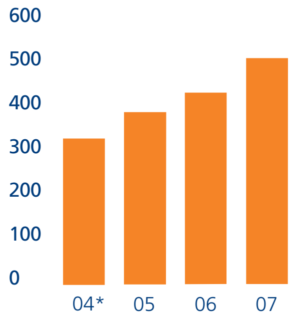
# Financial highlights
## Resilience in turbulent markets

In 2007, ING results showed resilience in turbulent markets with limited direct impact of the credit and liquidity crisis. Profits were boosted by capital gains on equities and low risk costs, mitigated by lower revaluations of real estate and private equity. ING delivered robust commercial growth and improved returns. Costs remained under control while we invested in new growth opportunities. ING proposes to increase total dividend by 12% to EUR 1.48 per share, to be paid fully in cash.

**CONTRIBUTION BUSINESS LINES 2007 UNDERLYING PROFIT BEFORE TAX**
in percentages

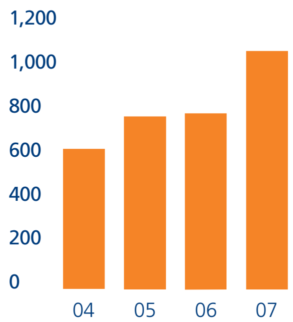
| | |
|---|---|
| Insurance Europe | 19 |
| Insurance Americas | 22 |
| Insurance Asia/Pacific | 6 |
| Wholesale Banking | 25 |
| Retail Banking | 22 |
| ING Direct | 6 |
| Total | 100 |

**BANKING: LOANS AND ADVANCES TO CUSTOMERS**
in EUR billion




* Opening balance sheet under IFRS, 1 January 2005.

**INSURANCE: VALUE OF NEW BUSINESS**
in EUR million




**GROUP RESULTS**

Total net profit rose by 20.1% to EUR 9,241 million. Underlying net profit, which is defined as total net profit excluding the impact of divestments and special items, rose by 19.4% to EUR 9,172 million, including the net gain on the sale of stakes in ABN AMRO and Numico of EUR 2,087 million. Earnings per share (EPS) rose to EUR 4.32 from EUR 3.57. Underlying profit before tax rose by 12.4%. The high tax exempt gains on equity investments resulted in a reduction in the effective tax rate from 19.2% in 2006 to 13.9% in 2007.

**Robust commercial growth**

Although the turmoil in credit markets in the second half of 2007 made the business environment even more challenging, the commercial growth remained robust, both in insurance as well as in banking. The life insurance business in developing markets showed strong sales, reflected in a rise of 57.3% in the value of new business and of 23.1% in new sales (annual premium equivalent 'APE'). ING Direct attracted almost 2.8 million new customers in 2007. Residential mortgages grew from EUR 69 billion, end of 2006, to EUR 97 billion, end of 2007. Total funds entrusted decreased EUR 4.4 billion due to a decrease in the UK of EUR 14 billion. At ING Direct UK measures are taken to reposition the business, among others targeting for less rate-sensitive clients. Growth in mature markets is shown in the Benelux, where loans and advances to customers increased by EUR 39 billion, of which EUR 12 billion came from the transfer of mortgages from Nationale-Nederlanden.

**Improved returns**

ING focuses on balancing growth and returns to maximise value creation. Efficient capital allocation and pricing discipline received continued attention. The underlying after-tax risk-adjusted return on capital (RAROC) of the Banking operations improved to 22.3% from 20.5%, reflecting lower tax charges. The internal rate of return on new life insurance sales improved from 13.3% in 2006 to 14.3% in 2007.

**Expenses under control**

Investing in profitable and sustainable future growth is a priority for ING. Operating expenses remained under control, with continued investments in new growth initiatives. Total operating expenses increased by 7.8% and underlying operating expenses (i.e. excluding the impact of divestments and special items) grew by 5.9%. The underlying cost/income ratio within the bank deteriorated to 65.2% from 63.5% in 2006, as a result of the investments in growth businesses. On the insurance side, expenses related to traditional life products increased to 14.3% from 13.3% in 2006, measured as a percentage of gross premiums, mainly due to investments in growth in Central Europe and Asia/Pacific. Expenses related to asset driven insurance products rose to 0.76% from 0.75%, as a percentage of assets under management.

**Attractive increase in dividend**

At the annual General Meeting of Shareholders on 22 April 2008, ING will propose a total dividend for 2007 of EUR 1.48 per (depositary receipt for an) ordinary share, up from EUR 1.32 in 2006. Taking into account the interim dividend of EUR 0.66 made payable in August 2007, the final dividend will amount to EUR 0.82 to be paid fully in cash. ING's shares will be quoted ex-dividend as of 24 April 2008 and the dividend will be paid on 5 May 2008 (NYSE Euronext) and 12 May, 2008 (NYSE) respectively.

# Financial highlights (continued)

**Strong capital position**
The capital position of ING Group remained robust during 2007. All major capital ratios met their target as at year-end 2007. The debt/equity ratio of ING Group increased to 9.53% compared with 9.01% at the end of 2006. The debt/equity ratio of Insurance ended the year at 13.63% slightly down from 14.15% at year-end 2006. The Tier-1 ratio of ING Bank stood at 7.39% at the end of 2007, down from 7.63%. The solvency ratio (BIS ratio for the bank) decreased from 11.02% to 10.32%. The Tier-1 ratio under Basel II as of 1 January 2008 is approximately 9.9% and the BIS ratio is approximately 13.8%. These numbers are preliminary as ING Bank will only report under Basel II as of the first quarter of 2008. The target Tier-1 ratio for ING Bank will remain unchanged at 7.20% under Basel II. ING looks increasingly at available financial resources (AFR) and economic capital (EC) employed when managing capital. The target is that ING Group AFR should be at least 120% of ING Group EC. AFR Group at year-end was EUR 49.7 billion compared to EC Group of EUR 36.0 billion after diversification, resulting in an AFR/EC Group ratio of 138%.

**Share buy-back**
ING's EUR 5.0 billion share buy-back is continuing on track and is expected to be completed by June 2008. At the end of December 2007, 55.9% of the buy-back had been completed. The shares that have been repurchased are held in treasury until shareholder approval is gained to cancel those shares.

**Divestments and special items**
Divestments resulted in a gain after tax of EUR 407 million in 2007 compared with a loss of EUR 85 million in 2006. The impact from operations from divested units on total profit after tax in 2007 was EUR 32 million, versus EUR 96 million a year earlier. Special items in 2007 of EUR 369 million were related to restructuring provisions in Wholesale and Retail Banking, the provision for combining ING Bank and Postbank and the hedge on the purchase price of Oyak Bank. The impact from divestments and special items is excluded in the underlying profit.

**INSURANCE OPERATIONS**
Total profit before tax from Insurance operations increased 32.9%. Underlying profit before tax (excluding the impact of divestments and special items) from insurance rose 27.1% to EUR 6,110 million due primarily to EUR 2,087 million gains on the sale of ING's stakes in ABN AMRO and Numico. Underlying profit before tax from life insurance increased by 48.3%. The life-insurance activities in the US, Central and Rest of Europe and Latin America showed strong profit growth, supported by increased sales, growth in assets under management and investment gains. The underlying profit before tax from non-life insurance declined 22.5%. In the Netherlands, the deterioration was mainly caused by pressure on premium levels as well as high one-off claims provision releases last year. Canada's result declined due to lower underwriting results and a decrease in investment gains.

Underlying gross premium income from life insurance policies increased 1.1%, or 8.1% excluding currency effects, mainly driven by the US, Asia and Central and Rest of Europe. Underlying gross premium income from non-life insurance policies decreased 2.1%, or 1.2% excluding currency effects, as lower premiums in Europe were only partly offset by higher premiums in Canada and Latin America.

Underlying operating expenses from the Insurance operations increased 5.7% to EUR 5,467 million, mainly caused by costs to support the ongoing growth of the business in US Wealth Management, Asia/Pacific and Central Europe.

**Embedded value and value of new business**
The embedded value of ING's life insurance businesses increased 17.1% before dividends and capital injections to EUR 32,460 million in 2007. After the dividend payment of EUR 5,468 million to ING Group, the year-end embedded value was EUR 26,993 million. Embedded value profit, an important measure of value creation, increased 41.4% to EUR 2,802 million. The value of new business increased 37.9% to EUR 1,113 million in 2007, with the largest contributions coming from the developing markets in Asia/Pacific and Central and Rest of Europe. The largest increases were in Central and Rest of Europe, where the Romanian second-pillar pension fund added EUR 150 million, and in the Americas, mainly in the US and in Mexico's pension business. New sales, measured in annual premium equivalent, rose 13.3% to EUR 7,320 million, while the internal rate of return improved to 14.3% from 13.3% in 2006.

**BANKING OPERATIONS**
Despite the market and credit turmoil, the results at ING's banking business continued to be resilient supported by commercial growth in all three business lines. Total profit before tax from Banking operations decreased 9.9%. Underlying profit before tax (excluding the impact of divestments and special items) decreased 1.7% to EUR 4,967 million as higher results at Retail Banking and the Corporate Line were offset by lower results at ING Direct and the Wholesale Banking product groups Financial Markets and Structured Finance. Income was up 3.5%, while operating expenses rose 6.1% primarily due to investments in growth. Risk costs remained low.

Underlying income increased 3.5% to EUR 14,614 million. The interest result declined 2.0% as volume growth was offset by the impact of flattening and inverse yield curves and by intensified competition for savings and deposits. Loans and advances to customers increased by EUR 88.5 billion, or 20.2%, to EUR 526.3 billion (balance sheet ING Bank NV). Customer deposits and other funds on deposits rose EUR 31.4 billion, or 6.3%, to EUR 528.2 billion. The total interest margin narrowed to 0.94% from 1.06% in 2006. Commission income rose 10.5%, driven by higher management fees, mainly from the investment management activities at ING Real Estate. Investment income was up 58.8% driven by higher capital gains on equities and higher rental income. Other income rose 4.0%.

Underlying operating expenses were up 6.1% to EUR 9,522 million due primarily to investments to support the growth of the business, notably at ING Direct, ING Real Estate and the Retail Banking activities in developing markets. Recurring underlying operating expenses in the mature businesses increased 2.6%. The underlying cost/income ratio deteriorated to 65.2% from 63.5% in 2006 as a result of the investments in growth businesses. The underlying net addition to the provision for loan losses increased to EUR 125 million from EUR 97 million in 2006. Risk costs were 4 basis points of average credit-risk-weighted assets, as gross additions to loan loss provisions of 23 basis points, were offset by 19 basis points in releases. Overall the loan portfolio remained healthy with limited inflow of new impaired files.

Returns remained high with the underlying risk-adjusted return on capital (RAROC) after tax at 22.3%, up from 20.5% in 2006, reflecting lower tax charges. The pre-tax RAROC was stable at 26.2%. In the RAROC calculations, actual risk costs of 4 basis points are replaced by 25 basis points in expected losses reflecting average credit losses over the economic cycle.

## ASSET MANAGEMENT

Assets under management increased EUR 36.9 billion (6.1%) to EUR 636.9 billion in 2007. Growth was driven by a net inflow of EUR 40.4 billion, where Insurance Asia/Pacific contributed EUR 14.2 billion, Retail Banking EUR 8.6 billion, Insurance Americas EUR 8.5 billion and ING Real Estate EUR 6.6 billion. Furthermore, changed asset prices of equity and fixed income securities contributed EUR 16.2 billion and the positive impact of acquisitions and divestments amounted to EUR 12.7 billion. Growth was offset by the negative impact of exchange rates (mainly US dollar) of EUR 32.5 billion. Growth was achieved for the greater part in third-party assets, which increased by 13.8% to EUR 460.1 billion by year-end 2007. Proprietary assets decreased 9.6% to EUR 176.8 billion, where net inflow and changed asset prices of equity and fixed income securities were more that offset by the negative impact of currencies and divestments.

## LOOKING AHEAD

ING's capital position is strong, particularly after the introduction of Basel II, and ING is entering 2008 in a position of strength with strong business fundamentals driving commercial growth. The operating environment is likely to remain challenging going forward, as the economic uncertainty and market volatility has not come to an end yet. Creating value for shareholders remains paramount, and ING has proven its commitment to enhance shareholder returns through an attractive increase in dividends and the ongoing EUR 5.0 billion share buy-back.

# Capital management

## Strong capital position and efficient capital allocation

ING seeks to maintain a strong capital position and to allocate capital efficiently. Together they help us to support growth, withstand financial stress and ultimately help to deliver shareholder value. In 2007, we enhanced our strong capital position thanks to strong profitability of the business and capital adequacy measures within capital management. ING employed excess capital to fund significant organic growth, for acquisitions, to buy back shares and pay attractive dividends to shareholders. On balance, ING was able to widen its spare leverage by a third, further securing the capital base and providing maximum financial flexibility to pursue strategic objectives.

**Capital base: ING Groep N.V.**

| in EUR million | Year-end 2007 | Year-end 2006 |
|---|---|---|
| Shareholders' equity (in parent) | **37,208** | 38,266 |
| + Group hybrid capital | **8,620** | 7,606 |
| + Group leverage (core debt) | **4,728** | 4,210 |
| Total capitalisation (Bank + Insurance) | **50,556** | 50,082 |
| –/– Revaluation reserves fixed income and other | **963** | 3,352 |
| –/– Group leverage (core debt) (d) | **4,728** | 4,210 |
| Adjusted equity (e) | **44,865** | 42,520 |
| Debt/equity ratio (d/(d+e)) | **9.53%** | 9.01% |
| **Economic Capital and Available Financial Resources** | | |
| EC ING Group | **36,000** | 35,500 |
| AFR ING Group | **49,715** | 48,774 |
| AFR/EC ratio | **138%** | 137% |

**Capital base: ING Verzekeringen N.V. (Insurance)**

| in EUR million | Year-end 2007 | Year-end 2006 |
|---|---|---|
| Adjusted equity (e) | **27,036** | 29,123 |
| Core debt (d) | **4,267** | 4,802 |
| Debt/equity ratio (d/(d+e)) | **13.63%** | 14.15% |
| Available regulatory capital (a) | **22,965** | 25,505 |
| E.U. required regulatory capital (b) | **9,405** | 9,296 |
| Capital coverage ratio (a/b) | **244%** | 274% |
| Buffer for equities and real estate (c) | **6,428** | 7,101 |
| Internal capital coverage ratio (a/b+c) | **145%** | 156% |
| **Economic Capital and Available Financial Resources** | | |
| EC ING Insurance | **23,199** | 22,410 |
| AFR ING Insurance | **22,710** | 27,200 |

**Capital base: ING Bank N.V.**

| in EUR million | Year-end 2007 | Year-end 2006 |
|---|---|---|
| Core Tier-1 | **23,374** | 20,058 |
| Hybrid Tier-1 | **6,397** | 5,726 |
| Total Tier-1 capital | **29,772** | 25,784 |
| Other capital | **11,792** | 11,445 |
| BIS capital | **41,564** | 37,229 |
| Risk-weighted assets | **402,727** | 337,926 |
| Tier-1 ratio | **7.39%** | 7.63% |
| BIS ratio | **10.32%** | 11.02% |
| **Economic Capital and Available Financial Resources** | | |
| EC ING Bank | **17,927** | 15,876 |
| AFR ING Bank | **31,733** | 25,784 |

### STRONG CAPITAL POSITION

The capital position of ING Group remained robust during 2007, as adjusted equity increased from EUR 42.5 billion to EUR 44.9 billion. Shareholders' equity decreased to EUR 37.2 billion from EUR 38.3 billion. Spare leverage, defined as the potential cash that can be raised at ING Group level if all capital ratios were on target, increased to EUR 4.8 billion from EUR 3.1 billion.

This increase was made possible due to net profit contributions from ING Insurance and ING Bank of EUR 5.6 billion and EUR 3.6 billion. Also, the ING Insurance target hybrid ratio has been increased from 15% to 25%. Spare leverage decreased due to dividends to shareholders, the share buy-back programme and the net balance of acquisitions and divestments.

All major capital ratios were within their target by year-end 2007. ING sets the targets to be consistent with the AA rating target that exists for ING Group, ING Bank and ING Insurance. The core debt ratio limit (core debt is debt which is on-lent as equity to subsidiaries) for ING Group is derived from the estimated diversification between ING Bank and ING Insurance.

**Core debt ratios**

| in percentages | Target year-end 2007 | Outcome 2007 | Target year-end 2006 | Outcome 2006 |
|---|---|---|---|---|
| Group core debt ratio | **10.0** | **9.5** | 10.0 | 9.0 |
| Tier-1 ratio Bank | **7.2** | **7.4** | 7.2 | 7.6 |
| Insurance core debt ratio | **15.0** | **13.6** | 15.0 | 14.2 |

Financings in the market throughout the year raised further senior debt and hybrid Tier-1 for ING Group, the latter on-lent on a mirrored basis to both ING Bank and ING Insurance. Also a successful lower Tier-2 transaction was concluded for ING Bank. ING Insurance did not issue senior unsecured debt in 2007.

Access to the international capital markets was hampered during the second half of the year because of the turmoil caused by the troubled mortgage market in the United States. In spite of this turmoil ING Group executed a very successful hybrid Tier-1 transaction in the US retail domestic market in October 2007, albeit at wider spreads than were available earlier in the year.

### BENEFITING FROM BASEL II

Much work was done during 2007 to finalise the preparations for Basel II, which creates guidelines that banks have to use to determine the minimum amount of capital they need to put aside to offset unexpected losses associated with financial and operational risks that they may face.

Basel II applies to ING Bank N.V., ING Investment Management B.V. and their legal entities. The Tier-1 ratio under Basel II as of 1 January 2008 is approximately 9.9% and the total BIS ratio is 13.8%. These numbers, although indicative as ING Bank will only report formally under Basel II as of the first quarter 2008, compare very favourably to the capital ratios under Basel I and are a reflection of the moderate risk in the ING Bank balance sheet, mainly as a result of ING Bank's large mortgage portfolio. It is the intention that over the coming years the capital ratios will be brought back down to their existing targets. The additional Tier-1 capital available under Basel II is approximately EUR 7 billion.

**Measures to manage capital**
ING increasingly looks at available financial resources and economic capital employed when managing capital. These concepts come from our internal risk management models. Economic capital (EC) is a measure for the totality of risks run in the company over a one-year time horizon and with a AA confidence interval of 99.95%. Available financial resources (AFR) equal market value of assets minus market value of liabilities, excluding hybrids issued by ING Group which is counted as capital.

At ING Bank the proxy for AFR is Tier-1 capital, in the absence of a full market value balance sheet for ING Bank plus the revaluation reserve equities. AFR should exceed EC for both ING Bank and ING Insurance. EC for ING Group is defined as EC ING Bank plus EC ING Insurance minus the diversification benefit (10% in the past and 15% going forward) plus any EC specifically allocated to ING Group. AFR Group equals AFR ING Bank plus AFR ING Insurance minus core debt ING Group. The target is that ING Group AFR should be at least 120% of ING Group EC. It is policy that any buffer should be able to be deployed with maximum flexibility and therefore be kept centrally.

During 2007 ING Bank submitted to the Dutch bank regulator, de Nederlandsche Bank (DNB) the pillar 2 internal capital adequacy assessment process filing, which contains an overview of the most important capital management policies, procedures and reports. This filing is the basis for the supervisory review of the capital adequacy of ING Bank.

The new Financial Supervision Law also defines the necessary supervision on financial conglomerates. Here also ING Bank has worked with the regulator to make sure ING meets all regulations.

## THE CAPITAL LETTER

The cornerstone of the capital adequacy assessment process at ING is the yearly Capital Letter, which contains an analysis of the capital position of ING, a review of the justification for the target capital ratios and an economic and business development forecast. It also assesses the capital needed to support the business going forward versus the expected availability of capital given profitability and the financial instruments at the disposal of capital management. The capital position of ING Group, ING Bank and ING Insurance is discussed according to the viewpoint of the various stakeholders: regulators, shareholders, rating agencies and according to the internal risk assessment. The Capital Letter also includes the results of recent stress tests and a contingency plan (for both good and bad developments). It gives an overview of the available 'toolkit' to manage capital at ING. The Capital Letter is produced annually in June to coincide with the start of the planning cycle for subsequent years. The document is not public information, but is approved by the Executive Board and shared subsequently with the Supervisory Board and the regulators.

## CAPITAL ADEQUACY

The main task of the Group capital management function is to monitor, manage and plan the capital adequacy of ING Group, ING Bank and ING Insurance and to execute all related capital markets transactions. The benefits of a centralised capital management function are that maximum financial flexibility is created to pursue strategic objectives and to withstand financial stress and that the different requirements of shareholders, regulators, rating agencies and internal economic capital models can be properly balanced.
At the beginning of each year, a funding plan and a securitisation plan are prepared describing all intended financings and other capital market transactions.

ING endeavours to employ its capital in the most optimal way. It is therefore important that business units receive the right incentives to only hold capital necessary to support the risks in their business and to upstream the remainder to ING Group. In turn they should be able to count on a capital injection if their business can grow profitably.

Free surplus is that part of available financial resources (capital) that exceeds economic capital employed. Many ING Insurance business entities need to hold more capital than economic capital due to regulatory and/or rating agency constraints. However, to the extent free surplus is not constrained, it is free to be employed elsewhere in the interest of furthering profitable growth. During 2007 in total EUR 5.8 billion of dividends were paid by ING Insurance Netherlands to the holding company of ING Insurance. As of 31 December, there remained tied-free surplus of EUR 3.5 billion and EU Solvency at 150% in ING Insurance Netherlands.

Significant work was put into the management of the corporate line Insurance during 2007. The corporate line contains capital management and general management items that are beyond the management control of the business units, such as capital funding, top-down hedges and special expenses not directly related to the business. A new foreign exchange translation risk policy was approved and also the new interest rate risk management policy was implemented. Capital Management executed in total EUR 6 billion of equity index option transactions during 2007 to protect the value of the ING Insurance equity stakes (also some of the equity positions of ING Bank were hedged on the corporate line of ING Bank).

In the course of selling life insurance policies ING Insurance Netherlands also sells mortgages. At the beginning of 2007 approximately EUR 17 billion of mortgages had accumulated within ING Insurance Netherlands, mostly at a mortgage subsidiary. This entity was transferred to ING Bank, where the assets can be funded more cheaply and the systems are in place to actively manage the prepayment risk. This transfer reduced the operating leverage of ING Insurance significantly. Subsequently, more mortgages were transferred directly from ING Insurance Netherlands to ING Bank, creating liquidity and thereby facilitating the implementation of the new asset allocation. In total EUR 12 billion of mortgages were transferred.

## SHARE TRANSACTIONS

It was foreseen that during 2007 significant excess capital would continue to build without further intervention. Therefore it was decided to proceed with a EUR 5 billion share buy-back to be spread out over a full year from June 2007 onwards. By the end of 2007, 90.7 million shares had been repurchased for a total consideration of EUR 2.8 billion. The full impact of the share buy-back, once it has fully run its course, will be to improve EPS by approximately 7%.

Also, after the repurchase of ING preference shares from Aegon during 2006, the ING preference shares of both Fortis and ABN AMRO were repurchased during 2007. With these transactions, all three major holders have now sold their ING preference shares back to ING Group.

# Capital management (continued)

Capital Management also routinely adjusted the delta hedge for employee options throughout the year. At the start of 2007 ING Group held 52.7 million shares as a hedge against employee options. At the end of 2007 this amount was 36.0 million. As a result of buy-backs, warrants and delta hedging transactions the number of shares outstanding in the market decreased by 52 million to 2,099 million.

At the end of 2006, 17.2 million warrants B were outstanding. These warrants entitle the holder to purchase two ordinary ING Group shares at a price of EUR 24.96 each. During 2007, 7.9 million of these warrants were exercised, leading to the issue of 15.8 million new shares. During the early days of January 2008 the last of the warrants were exercised, leading to further issuance of more than 18 million shares. No warrants were outstanding after 8 January 2008.

## CAPITAL MARKET TRANSACTIONS

In order to obtain regulatory capital relief under Basel I, ING Bank had two conduits, with own originated assets and also the senior positions of own originated asset securitisations, called Mane and Simba. These conduits funded these positions with short dated asset-backed commercial paper. The advent of Basel II made these conduits largely obsolete. As a result of the widening of spreads for this paper after the summer and of the fact that alternative sources of funding for ING Bank became much more competitive, ING unwound these conduits in the third quarter of 2007. With the unwind approximately EUR 6 billion of Basel I risk-weighted assets (RWAs) were added to ING Bank as of the end of the third quarter.

Already during the first half of 2007 Capital Management had started to execute internal securitisations to enhance ING Bank's already substantial liquidity buffer. The AAA rated senior positions of these securitisations can be used as collateral for liquidity. Thus EUR 29.3 billion of collateral was created during 2007.

## ACQUISITIONS AND DIVESTMENTS

For the first time in a number of years 2007 was a year with significant acquisition activity. Two major transactions were concluded: the acquisition of Oyak Bank in Turkey and the acquisition of the Latin American pension fund business of Santander. Total consideration for these two purchases was approximately EUR 2.5 billion.

ING Insurance bought the asset management entity Landmark in Korea, a further 5% of ING Life Korea from Kookmin Bank and the pension administrator AZL in the Netherlands. Further acquisitions at ING Bank included the internet broker Sharebuilder in the United States, lease operations in Eastern Europe and a stake in TMB in Thailand.

2007 was also a very active year for divestments: the broker business of ING Insurance Belgium was sold, as was the remaining stake that ING Insurance held in Goudse Verzekeringen. At ING Bank most of the trust activities were sold, and next to that also RegioBank and Nationale Borg in the Netherlands, as well as a factoring joint venture in Belgium. The stakes in both SulAmérica in Brazil and Bank of Beijing in China were partially diluted through an IPO.

## CAPITAL MANAGEMENT TRANSACTIONS IN 2007

In 2007, Capital Management has executed the following funding transactions:

For ING Groep N.V.
- USD 1,045 million hybrid Tier-1 capital in the US retail market, fixed rate
- USD 1,500 million hybrid Tier-1 capital in the US retail market, fixed rate
- EUR 1,750 million 10-year senior bond in the European institutional market, fixed rate

For ING Bank N.V.
- USD 2,000 million Lower Tier-2, Institutional Eurodollar market, floating rate

# Risk management
## Containing risk and adding value to the business

2007 was characterised by a great deal of turbulence in the financial markets, beginning with concerns over US subprime mortgages in early 2007 and then widening into a general banking liquidity crisis. The turmoil put a spotlight on risk management across the financial sector. The crisis had only limited impact on the profit and loss account through ING's investments in pressurised assets classes.

**Pre-tax P&L impact directly related to credit and liquidity crisis**

| in EUR million | 3Q | 4Q | 3Q+4Q |
|---|---|---|---|
| US subprime RMBS | –17 | –47 | **–64** |
| Alt-A RMBS | 0 | 0 | **0** |
| CDOs/CLOs | –15 | –36 | **–51** |
| Monolines | 0 | –66 | **–66** |
| Investments in SIVs, ABCP | 0 | –45 | **–45** |
| Leveraged Finance | –29 | 0 | **–29** |
| Total | –61 | –194 | **–255** |

**US subprime RMBS, Alt-A RMBS and CDO/CLO exposures and revaluations at year-end 2007**

| | Amortised cost* EUR billion | Market value EUR billion | Fair value in % | Pre-tax revaluation via equity EUR million |
|---|---|---|---|---|
| US Subprime RMBS | 3.1 | 2.8 | 90.1% | –307 |
| Alt-A RMBS | 28.4 | 27.5 | 96.7% | –936 |
| CDO/CLO | 2.0 | 1.9 | 93.4% | –134 |
| Total | | | | –1,377 |

* Purchase price +/- amortisations – cumulative impairments.

**Economic Capital break-down by risk category ING Bank**

| in EUR billions | 2007 | 2006 |
|---|---|---|
| Credit risk (including Transfer risk) | **7,503** | 7,557 |
| Market risk | **7,407** | 4,816 |
| Non-financial risk* | **3,017** | 3,503 |
| Total Banking operations | **17,927** | 15,876 |

* Non-financial risk includes operational risk as well as business risk.

**Economic Capital break-down by risk category ING Insurance**

| in EUR billions | 2007 | 2006 |
|---|---|---|
| Credit risk (including Transfer risk) | **1,021** | 1,411 |
| Market risk | **15,258** | 14,555 |
| Insurance risk | **3,293** | 3,110 |
| Non-financial risk* | **3,627** | 3,334 |
| Total Insurance operations | **23,199** | 22,410 |

* Non-financial risk includes operational risk as well as business risk.

### MANAGING THE MARKET TURMOIL

ING has integrated risk management in ING's daily business activities and strategic planning. ING has systematically invested in its risk management capabilities over recent years. ING's risk approach is reflected in the diversified business mix and the composition of the balance sheet.

A robust risk management organisation and a strong liquidity position helped ING manage the problems that occurred in the credit and other financial markets in 2007. It has been ING's policy to maintain a high quality and well diversified portfolio. To that effect ING has strict limits and investment policies in place which are defined in mandates for every portfolio. Investment and trading decisions are based on extensive internal research, and not only on published ratings. Some limits were at more stringent levels since early 2007, anticipating a potential downturn of the market.

ING applies conservative standards in mortgage underwriting and has not originated US subprime mortgages. Moreover, ING is not in the business of manufacturing subprime Residential Mortgage Backed Securities (RMBS) or Collateralized Debt Obligations (CDOs) nor has it purchased a material amount of US subprime backed CDOs/ Collateralized Loan Obligations (CLOs). ING's exposure to the US housing market is predominantly via highly rated RMBS investments.

As a result, ING's exposure to pressurised asset classes, e.g. subprime and Alt-A (RMBS) (those with a risk profile between prime and subprime), CDOs and CLOs, is of high quality and has not led to material impairments.

The total direct pre-tax negative impact on ING's 2007 profit and loss account was EUR 255 million (EUR 61 million in the third quarter and EUR 194 million in the fourth quarter). The direct impact is a result from exposures to these pressurised asset classes and leveraged finance in the third quarter, as well as monoline insurers, Structured Investments Vehicles (SIVs) and Asset-Backed Commercial Paper (ABCP) in the fourth quarter. Pre-tax revaluation for the pressurised asset classes (US subprime RMBS, Alt-A RMBS and CDOs/CLOs) at year-end 2007 was EUR –1,377 million. On an after-tax basis this runs through shareholders' equity in the balance sheet.

### ING has a high quality ABS portfolio

The US subprime RMBS, US Alt-A RMBS, CDO and CLO portfolios are part of ING's Asset Backed Security (ABS) portfolio, which is of high quality and well diversified due to strict limits and investment policies defined in mandates for every portfolio. The investments ABS portfolio, almost entirely available for sale, was EUR 84 billion at year-end.

The ABS portfolio comprises mainly AAA rated securities (89%) and AA rated securities (10%). Unrealised gains/(losses) relating to available for sale (fixed income) securities, including Mortgage Backed Securities (MBS), are taken to the revaluation reserve in shareholders' equity, unless there is evidence of impairment, in which case the negative revaluation reserve is recognised in profit or loss account. In addition, Loans and advances to customers, valued at amortised costs, contained EUR 13 billion European asset-backed products with market value around 100% and an average credit rating of AAA.

# Risk management (continued)

**Limited exposure to US subprime mortgages**
The US subprime RMBS exposure is of relatively high quality. ING has a very limited exposure to US subprime RMBS and does not originate subprime mortgages. Investment decisions have been based on extensive internal research. Exposure to US subprime RMBS amounted to EUR 2.8 billion at 31 December, 2007, representing 0.2% of total assets and was fair valued at 90.1% of its cost. The negative pre-tax revaluation on US subprime RMBS at 31 December, 2007 was EUR 307 million. Net impairments and trading losses combined amounted to EUR 64 million (EUR 17 million in the third quarter and EUR 47 million in the fourth quarter). At year end, 96.0% of the portfolio was rated AA or higher, and in the fourth quarter only EUR 31 million was downgraded by ratings agencies.

**High quality Alt-A portfolio**
Alt-A mortgage loans are regular residential mortgage loans in the US market which are frequently packaged into RMBS. Notwithstanding the widespread existence of Alt-A RMBS a single standardised definition does not exist.

At times, ING has generally applied a 'broad' definition to Alt-A RMBS. Under the broad definition of Alt-A RMBS, the applicable RMBS contains at least one of the following three characteristics: on average a Loan-to-Value ratio between 70%-100%, a FICO credit score between 640-730, and 'low documentation' (referring to reduced requirements regarding personal income and/or asset verification) of 50% of the debt holders in the portfolio or more.

ING's exposure under the broad definition amounted to EUR 27.5 billion at 31 December 2007, representing 2.1% of total assets. ING Direct's share of this exposure was EUR 23.6 billion. Note that ING Direct reports Alt-A RMBS under a so-called 'narrow definition'. In this instance a security qualifies as Alt-A RMBS if it meets all three criteria simultaneously. Hence, average FICO scores higher than 730, LTVs of less than 70% and 'low documentation' less than 50% are excluded from Alt-A. In accordance with the narrow definition, ING Direct's exposure amounted to EUR 9.7 billion at 31 December 2007.

On average, the ING Direct Alt-A RMBS portfolio is near prime and of high-quality with a loan-to-value ratio of 71%, an average FICO score of 723 and more than 99% of the portfolio is rated AAA. S&P's estimates average AAA Alt-A RMBS credit enhancement at approximately 7.5%, whereas ING Direct's Alt-A RMBS portfolio has a 12% average credit enhancement. ING Direct's average credit enhancement can absorb eight times the current pipeline losses in the underlying Alt-A mortgages.

The portfolio had a negative pre-tax revaluation of EUR 936 million at 31 December 2007. The rating agencies downgraded EUR 10 million of ING's Alt-A RMBS portfolio in the fourth quarter of 2007. There were no impairments or trading losses taken in respect of the Alt-A RMBS portfolio. ING continues to review its RMBS portfolio very closely, and performs structural monitoring activities at the level of the individual security.

**CDOs and CLOs**
At the year end, the Group's net exposure to CDOs and CLOs was EUR 1.9 billion, or 0.1% of assets. Net impairments and trading losses combined taken on CDOs/CLOs totalled EUR 51 million (EUR 15 million in the third quarter and EUR 36 million in the fourth quarter). At the end of the year, the portfolio was valued at 93.4% of cost, with a negative pre-tax revaluation of EUR 134 million. The revaluation reflects limited investments in CDOs backed by US subprime mortgages (EUR 15 million at year-end).

**Leveraged Finance**
ING's leveraged finance pipeline is limited and transactions are in various stages of syndication and negotiation. At the end of the year ING had a leveraged finance pipeline of EUR 2.3 billion or 0.2% of total assets, over 13 deals. Existing underwriting standards, which were tightened from the first quarter 2007 onwards, and leverage limits have resulted in negligible mezzanine and covenant-lite lending.

A small markdown of EUR 29 million was taken at the Wholesale Bank in the third quarter to reflect the decrease in fair value during the underwriting period.

**Monoline insurers**
ING Group has a limited exposure to monoline insurers. ING's direct exposure to monoline insurers is negligible. However, ING has some indirect exposure to monoline insurers as it has insured EUR 3.5 billion, or 0.3%, of assets with several monoline insurers, either through embedded guarantees ('wrapped bonds') or through credit derivatives. Changes in the monoline insurer's rating (and as a result the asset's fair value) impact the equity (unrealised losses) for wrapped bonds. Underlying wrapped bonds in the available for sale securities portfolio are monitored through the regular credit review process and were not impaired as of 31 December 2007. The rating of the monoline insurers impacted ING's profit and loss account in the fourth quarter by EUR 66 million, due to the downgrading of a monoline insurer, which resulted in EUR 630 million of underlying assets on the trading book of Wholesale Banking no longer being protected.

**Negligible liquidity impact**
ING has a strong balance sheet and a sound capital position. ING enjoys a favourable funding base with customer deposits providing 61% of total funding. Retail (36%) and corporate (25%) deposits are relatively stable sources of funding. Our funding costs remain low. The fixed income market recognises our sound balance sheet and favourable risk profile.

ING's approach to liquidity management requires a significant surplus of liquid assets, rigorously tested contingency plans and close monitoring of market conditions. A number of liquidity problems have appeared in the market due to the US subprime concerns, including challenges rolling over short-term Asset-Backed Commercial Paper (ABCP) in the secondary market, increased credit spreads and shorter terms.

Since the start of the market turmoil in August 2007, ING's Liquidity Crisis Committee has met on a regular basis in line with ING's liquidity policy. The Committee discusses ING's liquidity and funding profile and is chaired by the chief risk officer (CRO). Other members include the chief financial officer (CFO), all the main treasurers of ING Group, the head of Market Risk Management and the head of Corporate Communications and Affairs. The liquidity strategy and market conditions are monitored on a daily basis. Large buffers of liquidity were retained throughout 2007, and as a result, contingency funding plans, in place at all levels, were not required to be executed as ING's liquidity position remained sound during the year.

**Ongoing volatility in the financial markets**

As a result of ongoing and unprecedented volatility in the global financial markets in recent quarters, we have incurred negative revaluations on our investment portfolio, which have impacted our shareholders' equity. Furthermore, we have incurred certain impairments and other losses, which have impacted our profit and loss accounts. Such impacts have arisen primarily as a result of valuation issues arising in connection with our exposures to US mortgage-related structured investment products, including sub-prime and Alt-A Residential Mortgage-Backed Securities (RMBS), Collateralized Debt Obligations (CDOs) and Collateralized Loan Obligations (CLOs), monoline insurer guarantees, Structured Investment Vehicles (SIVs) and other investments. In many cases, the markets for such instruments have become highly illiquid, and issues relating to counterparty credit ratings and other factors have exacerbated pricing and valuation uncertainties. Valuation of such instruments is a complex process involving the consideration of market transactions, pricing models, management judgment and other factors, and is also impacted by external factors such as underlying mortgage default rates, interest rates, rating agency actions and property valuations. While we continue to monitor our exposures in this area, in light of the ongoing market environment and the resulting uncertainties concerning valuations, there can be no assurances that we will not experience further negative impacts to our shareholders' equity or profit and loss accounts from such assets in future periods.

## BUILDING A COMPETITIVE ADVANTAGE

The purpose of ING Risk Management is to build a sustainable competitive advantage by fully integrating risk management in ING's daily business activities and strategic planning. Assuring maintenance of solvency, credit ratings and liquidity implies that products and portfolios are structured, underwritten, priced, approved and managed appropriately and that internal and external rules and guidelines are complied with.

Fully integrating risk management in ING's daily business activities and strategic planning is further achieved through a transparent disclosure of ING's risks and a risk strategy that is consistent with the overall Group strategy and the risk appetite.

In recent years ING has systematically invested to improve its risk management capabilities. This has become necessary as investor demands have increased, regulation has become more sophisticated, technology has grown more complex and as secondary markets have continued to evolve. After years of targeted investments in people and technology, ING ended 2007 with around 4,500 employees dedicated to risk management.

In April 2007, ING made a strong commitment to risk management by appointing Koos Timmermans to the Executive Board as chief risk officer. It was decided to separate this function from the role of the chief financial officer because of the increasing complexity and importance of both the risk and finance functions in ING. Having Risk Management separately represented in the Executive Board ensures that risk is a key component of management decisions.

The risk appetite, or the willingness of the Group to take risks, is defined by the Executive Board and measured through three key measures: Earnings at Risk and Capital at Risk, which are measured in the 'Risk Dashboard', and Economic Capital. Business line managers try to maximise value relative to these measures, while Risk Management monitors and controls the actual risk profile against the Group's risk appetite.

ING has a risk governance framework in place to ensure its risk appetite is communicated and enforced throughout the Group. The framework contains three lines of defence: the business lines themselves, which have the primary responsibility for day-to-day management; Risk Management, which provides high-level policies, limits and risk oversight; and Corporate Audit Services, the internal audit department within ING Group, which provides an independent assessment of the design and effectiveness of internal controls over the risks to ING's business performance.

**The Risk Dashboard**

The Risk Dashboard, disclosed for the first time in September 2007, is a tool that enables the Executive Board to identify risk concentrations and potential risk mitigating actions. This tool gives an overview of risks inherent in all the banking and insurance businesses and facilitates monitoring the adherence of risk-taking with respect to the Groups' risk appetite. It thereby allows ING to take strategic decisions using comparable risk measures and to maximise efficient capital allocation. The tool is unique to ING and will be reported annually. A full disclosure of the Risk Dashboard is included in the Risk section of the Annual Accounts.

**Risk appetite measures**

ING defines its risk appetite through three different measures: Earnings at Risk, Capital at Risk and Economic Capital.

Earnings at Risk (EaR) is a measure of the potential reduction in IFRS earnings from expectations, assuming no mitigating management actions, during a moderate (i.e. '1 in 10') stress scenario. Internally this is compared to the next year's forecast IFRS earnings and as such provides an indication of the quality of earnings. The overall risk appetite level for ING, decreased to 31% (from 32% in 2006). This is due to the earnings increasing stronger than EaR. ING Bank's EaR dominates the overall ING Group EaR mainly due to credit and transfer risk. For further details on Earnings at Risk see the Risk section of the Annual Accounts.

Capital at Risk (CaR) is the potential reduction of the current net asset value (based on fair values) of the balance sheet over the next year relative to the expected value during a moderate (i.e. '1 in 10') stress scenario, and assuming no mitigating management action. The Capital at Risk figure tends to be dominated by ING Insurance and is mainly interest rate risk related to long-term client guarantees and equity risk. The overall risk appetite level for ING Group in 2007, measured as Capital at Risk/Available Financial Resources (AFR),

# Risk management (continued)

for ING Group increased to 21% (17% in 2006) as CaR increased while AFR decreased. For further details on Capital at Risk see the Risk section of the Annual Accounts.

Economic Capital (EC) is the amount of capital required to absorb unexpected losses in times of severe stress given ING's AA target rating. ING Group Economic Capital increased to EUR 36.0 billion in 2007 (2006: EUR 35.5 billion) taking into account the Bank-Insurance diversification benefit and a risk capital estimate allocated to the group on top of the reported bank and insurance Economic Capitals. ING Bank stand-alone Economic Capital rose 13% to EUR 17.9 billion due to business growth and the inclusion of Oyak Bank, while at ING Insurance stand-alone Economic Capital remained remained stable at EUR 23.2 billion (2006: EUR 22.4 billion). The slight increase was mainly the result of model refinements and the acquisition of pension business in Latin America.

ING Group's risk metrics cover the most important aspects in terms of different stress severities (non-extreme versus extreme situations) and performance measures where risk can materialise (value versus earnings). The Earnings at Risk and Capital at Risk metrics are important metrics from a shareholder point of view since they provide insight in the level of risk ING takes. From a debt-holder point of view Economic Capital is more important since it serves as the capital amount required to absorb losses in extreme circumstances.

## ING TAKES MEASURED RISKS

Taking measured risks is part of ING's business. Like other financial services companies, ING faces a number of risks in the areas of credit, interest rates, real estate, equity, insurance and liquidity. Beyond that, there are also operational, information and security risks associated with doing business.

Credit risk is the risk of loss from default by debtors (including bond issuers) or counterparties. ING seeks to maintain an internationally diversified loan and bond portfolio.

As ING is active across many countries and in different currency zones there are also inherent interest rate risks. There is a natural and structural diversification of the interest rate position, particularly in the euro zone and in the US. This is further supported by diversification across currencies and monthly hedging and rebalancing. Banking and insurance together also provide an inherent diversification benefit.

ING's Insurance and Banking operations are exposed to real estate risk in the event of a market downturn. But this exposure is mitigated due to the highly diversified portfolio of real estate assets. Concentrations within specific geographies are monitored and actively managed.

ING Real Estate, the world's largest real estate investment manager, is mostly exposed to real estate risk through financing, development and managing property funds. Real estate risk also diversifies the overall risk profile of the Group as there is a limited correlation between real estate risk and other types of risk.

Equity risk is mitigated from time to time by hedging processes, while insurance risk, which combines actuarial and underwriting risks (risks such as mortality, longevity, morbidity, adverse motor or home claims development, etc.) is managed by removing concentrations through reinsurance. The insurance businesses also exclude or limit business in some areas such as terrorism and health reimbursement.

Liquidity risk is the risk that ING or one of its subsidiaries cannot meet its financial liabilities when they fall due, at reasonable costs and in a timely manner. ING's balance sheet inherently supplies liquidity as a significant proportion of assets are held in cash or liquid market instruments and are capable of providing liquidity as required. ING has developed a liquidity management framework with a preferred order of generating liquidity.

ING is exposed to operational, information and security risks on a daily basis through its client relationships, product offerings, IT infrastructures and daily operations. Operational, information and security risks are managed through a common ING framework that identifies measures and monitors the risks and its mitigating controls in the ING businesses. In 2007 this framework has further matured and the responsible risk functions have been integrated into one functional line throughout ING.

## RISK MANAGEMENT CREATES VALUE

Risk Management benefits ING shareholders directly by providing more efficient capitalisation, lower costs of risk and funding, and support for growth. Together this results in the ability to generate more economic profit.

The cost of capital is reduced by working closely with rating agencies and regulators to align capital requirements to risks, thereby reducing capital. Funding costs are kept low by ensuring that the debt market gives ING benefit for our conservative risk profile. Risk costs are mitigated by minimising losses and encouraging the diversification of risk. Being spread out across different areas contributes to lower risk and capital requirements.

Individual business units benefit from being part of a globally diversified group. Risk Management helps them lower funding costs, make use of the latest risk management tools and skills, and lower strategic risk, allowing business units to focus on their core expertise. This ultimately makes our businesses more competitive in their markets.

Sound risk management also supports growth. Risk measurement allows ING to identify portfolios generating economic value. Risk management can help identify the most economically profitable areas as well those businesses that are underperforming and in some cases need to be sold.

## SOUND COMPLIANCE

Financial institutions continue to experience close scrutiny by regulatory authorities, governmental bodies, shareholders, rating agencies, customers and others to ensure they comply with the relevant laws, regulations, standards and expectations. Bank and Insurance regulators and other supervisory authorities in Europe, the US and elsewhere continue to oversee the activities of financial institutions to ensure that they operate with integrity and conduct business in an efficient, orderly and transparent manner. ING seeks to meet the standards and expectations of regulatory authorities and other interested parties through a number of initiatives and activities, including scrutinising account holder information,

payment processing and other transactions to support compliance with regulations governing money-laundering, economic and trade sanctions, bribery and other corrupt practices. The failure or perceived failure by ING to meet applicable standards in these areas could result in, among other things, suspension or revocation of ING's licenses, cease and desist orders, fines, civil or criminal penalties and other disciplinary action which could materially damage ING's reputation and financial condition. ING's primary focus is to support these objectives as good business practice through Business Principles and group policies.
ING Bank N.V. has been in discussions with its Dutch bank regulator De Nederlandsche Bank (DNB) related to transactions involving persons in countries subject to sanctions by the EU, the United States and other authorities. These discussions prompted ING Bank to engage in a review regarding transactions involving sanctioned parties. In connection with this review and related discussions ING Bank has undertaken to complete the global implementation of enhanced compliance and risk management procedures, and to monitor the implementation of such procedures on an ongoing basis, as instructed by DNB. ING Bank also remains in discussions with authorities in the US and in other jurisdictions concerning these matters, and it is not possible to predict at this time the outcome thereof.

One of the key priorities in 2007 was to work closely with business management to further embed the company-wide Financial Economic Crime Policy. An enhanced Financial Economic Crime policy has been rolled out globally, requiring the implementation of strict Know Your Customer and Customer Due Diligence programs as well as the use of technology for the screening of customers and transactions.

As a result of our frequent evaluation of all businesses from economic, strategic and risk perspectives, ING Bank N.V. has closed its representative office in Cuba and the Netherlands Caribbean Bank, which is now a 100% subsidiary, is being liquidated. In addition, ING has concluded that for business reasons doing business involving certain specified countries should be discontinued, which includes that ING will not enter into new relationships with clients from these countries while a process has started to discontinue existing relationships involving these countries. At present these countries include Myanmar, North Korea, Sudan, Syria, Iran and Cuba.

In addition a dedicated Sanctions Desk was established within Corporate Compliance in 2007 to help the businesses cope with the increasing amount of regulation and sanctions, such as the EU, UN and US Regulations on money laundering and terrorist financing and sanctions.

Also in 2007 ING continued to increase knowledge and understanding of compliance among its employees. The Executive Board stressed that ING's strategy of sustainable, profitable growth can only be achieved along with effective compliance management. Compliance support teams have been established to help business lines embed compliance within their activities and extensive programs have been initiated to increase compliance knowledge and understanding. These teams serve as a channel for education, coaching, communication and sharing good compliance practices.

The capability and capacity of the Corporate Compliance function have been increased, including a staff increase of 55% and the creation of a central team focusing on Financial Economic Crime and anti-money laundering policies and procedures.

A Compliance Programme Office was set up to support ING's continuing focus on building a culture where compliance is an integral part of 'how business is done'. To increase compliance awareness, a global communication programme was set up commencing with strong messages from the Executive Board.

### A PARTNER TO THE BUSINESS

The turbulence in the financial markets in 2007 underscored the need for sound risk management during times of difficulty. Risk management has evolved significantly since ING started in 2006 to strengthen the risk function. The change emphasises the role of Risk Management not only as a watchdog, but as an enabler and partner in generating value for shareholders.
Risk Management works with the business to identify and execute business opportunities, lower the cost of funding and support strategic decisions.

# Insurance Europe
## Solid performance with robust value creation

## Key points

> Solid financial performance in a challenging environment

> Robust value creation in Central Europe accentuated by successful start of Romanian pension fund

> Strong distribution footprint in mature Benelux market provides a competitive edge

> Active capital management increases capital efficiency

**Profit and loss account (underlying)**

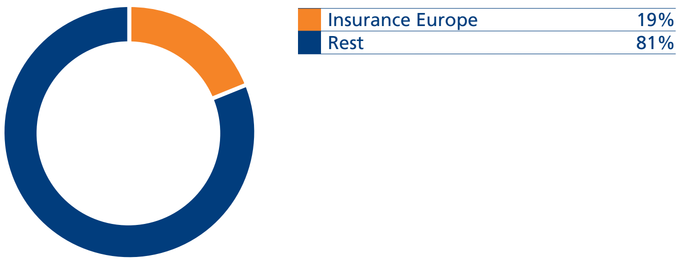
| in EUR million | 2007 | 2006 | change |
|---|---|---|---|
| Premium income | **10,253** | 9,854 | 4.0% |
| Operating expenses | **1,726** | 1,702 | 1.4% |
| Underlying profit before tax | **1,840** | 2,249 | –18.2% |
| Total profit before tax* | **2,300** | 2,362 | –2.6% |

* Total profit before tax is defined as profit before tax including divestments and special items.

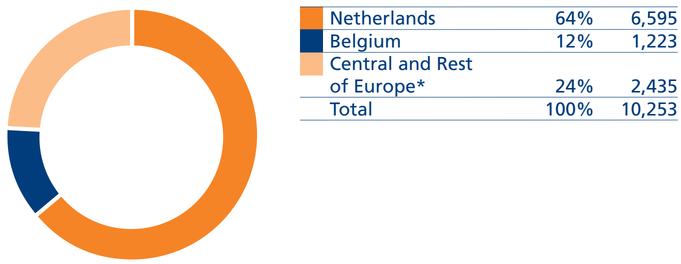
**Key figures**

| | 2007 | 2006 |
|---|---|---|
| Value of new life business (EUR million) | **400** | 219 |
| Internal rate of return | **15.8%** | 14.9% |
| Embedded value of life business (EUR million) | **14,156** | 16,103 |
| Economic capital (EUR billion) | **5.9** | 5.9 |

UNDERLYING PROFIT BEFORE TAX
in percentages




GEOGRAPHICAL BREAKDOWN OF PREMIUM INCOME
in percentages




* Bulgaria, the Czech Republic, Greece, Hungary, Poland, Romania, Russia, the Slovak Republic and Spain.

Insurance Europe is an important profit and value contributor to ING Group. It showed a solid financial performance in 2007, by improving efficiency and optimising distribution channels in the Benelux, by accelerating growth in Central Europe and by reinforcing ING's position as a specialist provider of investments and retirement services across Europe.

**FINANCIAL DEVELOPMENTS**
Insurance Europe's underlying profit before tax declined 18.2% to EUR 1,840 million in 2007 (life 15.7%, non-life 25.4%). Stronger life insurance results in Belgium and Central & Rest of Europe did not fully offset lower results in the Netherlands, which were impacted by lower gains and revaluations on real estate and private equity investments. Total profit before tax (including divestments) in 2007 slightly declined by 2.6% to EUR 2,300 million, due to the EUR 418 million divestment gain related to the sale of the Belgian broker and employee benefit business in September 2007.

Underlying premium income increased by 4.0% to EUR 10,253 million, mainly due to higher life premiums in Belgium and Central & Rest of Europe. Central Europe continued its strong growth in life premiums, even though in some markets the growth was slower than in 2006 due to volatile equity markets in the second half of 2007. In Belgium, life premium growth was driven by the success of investment products with high profit participation potential. Premiums in the Netherlands decreased slightly following re-pricing of immediate annuities as well as rate pressure in the non-life market.

Underlying operating expenses increased by 1.4%. The slight decrease in the Netherlands of 1.6% was more than offset by an increase in Central & Rest of Europe of 15.9%, largely explained by higher start-up investments for the life insurance operation in Russia and the second-pillar pension fund in Romania. Expenses in the Netherlands were tempered by ongoing staff reductions and last year's software impairments, as the release of employee benefits provisions in 2007 was matched by last year's releases.

The value of new business (VNB) increased strongly by 82.6% to EUR 400 million and new sales (APE) increased by 21.3% to EUR 969 million, particularly due to higher sales in Central & Rest of Europe. The successful launch of the Romanian second-pillar pension fund contributed EUR 150 million in VNB and EUR 108 million in new sales in 2007; excluding the new pension fund, VNB for the Central Europe region was up 31.5%.

Excluding a capital upstream from the Dutch insurance companies to the holding of ING Insurance, the embedded value of the life insurance activities in Europe increased by 21.3% to EUR 19,533 million because of the strong VNB growth and favourable equity returns that more than offset the divested business in Belgium. Including the capital upstream, the embedded value decreased by 12.1% to EUR 14,156 million.

**Country developments**
Underlying profit before tax in the Netherlands decreased by 24.4% to EUR 1,445 million, mainly due to lower gains and revaluations on real estate and private equity investments in 2007 as well as the material release of disability provisions in 2006, after the introduction of new long-term disability legislation.

In Belgium, underlying profit before tax increased by 8.5% to EUR 64 million, as a decline in the non-life business caused by weather related claims in early 2007 and strengthening of the claims provisions for disability, was more than offset by higher life results.

Despite EUR 23 million higher start-up investments in new businesses in Russia and Romania, Central & Rest of Europe's underlying profit before tax increased 17.7% to EUR 332 million. Profit growth was driven by the life business and related asset management activities. The higher life result was mainly due to strong sales throughout the region propelled by the accelerated growth strategy.

The Dutch life insurance sector is faced with complaints of policy holders concerning the cost and transparency of unit-linked life insurance products. Further details are included in the annual accounts on page 156.

**HIGHLIGHTS**
ING Insurance Europe operates in the mature Benelux market and the emerging markets in Central and Eastern Europe with a strong focus on life insurance and retirement services. Across the region, a number of trends affecting the insurance industry are becoming increasingly visible. First of all, as in many other parts of the world, the European population is living longer than any generation before. Consequently, insurers will increasingly need to focus on insuring longevity risk, providing solutions to help customers create and manage the capital needed to finance a long retirement. Second, the distinction between commodity and advisory products is becoming more apparent, with bank and direct channel distribution growing at the expense of the intermediary channel in commodity products. Third, increased transparency requirements and heightened competition, with some competitors adopting aggressive pricing strategies to capture market share, are putting pressure on premium volumes and margins.

Insurance Europe is addressing these trends by tailoring the specific strategies of its individual insurance companies to the maturity of the markets in which they operate. In the mature markets of the Benelux where there is moderate growth, ING focuses on improving efficiency and optimising distribution, whereas in the fast-growing markets of Central Europe, the focus is on accelerating growth. Across all regions, ING Insurance Europe is taking advantage of the opportunities created by ageing populations and is reinforcing its position.

These tailored strategies are raising Insurance Europe's growth profile. This is underpinned by active capital management within ING Group, where capital is being redeployed to those regions (high-growth markets), products (retirement services) and distribution channels (especially bank and direct) which offer the highest growth potential.

# Insurance Europe (continued)

**Optimising the Benelux insurance operations...**
In the Benelux region, ING is improving cost and capital efficiency, actively managing its business portfolio, enhancing customer satisfaction and leveraging its solid distribution power across the various distribution channels. These are fundamental factors in sustaining the profitability of the Benelux insurance operations.

…by improving cost efficiency…
Nationale-Nederlanden (NN) made substantial progress to improve its cost efficiency. It has reduced internal staff by 1,200 FTEs over the last three years. Important changes in regulations (such as the Dutch pension act) temporarily increased the number of external staff needed to meet expectations from customers and regulators, slightly mitigating the overall impact of the cost efficiency programme. In the coming years, large cost reductions can be further realised by standardising and rationalising the current IT applications, as a major part of the cost reductions are IT related.

…by improving capital efficiency…
To improve capital efficiency, the Dutch insurance companies paid EUR 5.8 billion of dividends to the holding company of ING Insurance in the course of 2007, of which EUR 5.0 billion was surplus capital. It is expected that these capital transactions will structurally reduce the pre-tax profit capacity of Insurance Netherlands by approximately EUR 250 million per year going forward. The surplus capital dividend was a direct consequence of an asset and liability management study which was conducted in the course of 2007. The study also resulted in a recommendation to change the strategic asset allocation by reducing the exposure to equities and Dutch residential mortgages, and increasing the share of long-term fixed income investments. In May 2007, NN started to cede its mortgages to ING Bank. The cessions of residential mortgages of NN and RVS to ING Bank will be finalised during 2008.

…by actively managing the business portfolio…
The business portfolio in the Benelux was actively managed in 2007 with the sale of the non-core broker and employee benefits business of ING Belgium to P&V Verzekeringen. ING will continue to sell life and non-life insurance products in Belgium exclusively through its proprietary retail bank channels (ING Bank and Record Bank). It is expected that this distribution channel will become more dominant in the future, and will experience above industry average growth rates. In the Netherlands, NN has decided to discontinue several industry pension fund contracts that have marginal returns, thereby freeing up economic capital and improving returns. At the same time, the add-on acquisition of AZL which was completed early 2007, strengthens ING's position in the Netherlands as an integrated services provider for pension funds. An integrated service offering, including fiduciary asset management and excellent administration capabilities, is critical to obtain mandates from company pension funds which are increasingly outsourcing activities.

…by enhancing customer satisfaction…
NN continues to make strong progress in improving customer satisfaction, as satisfaction levels increased in every segment in which NN operates, as measured by the annual Dutch Insurance Performance Survey.

…and by leveraging the solid distribution power
With access to brokers (NN), tied agents (RVS) and retail banks (ING Bank and Postbank), ING is well-positioned to take advantage of current trends such as increasing bank distribution and the strong distinction between commodity products and advisory products. As part of this multi-channel strategy, NN and RVS are partnering with the introduction of the employers distribution platform, offering personal financial advice to individual employees covered by NN's corporate contracts. RVS already interested more than 2,000 employers and started to generate around EUR 6 million of sales from this concept in 2007. Bank distribution is becoming increasingly important for standardised non-life products. This is evidenced by the successful launch by ING Bank Belgium of the sale of car insurance policies manufactured by NN, with more than 9,000 policies sold at the end of 2007. As a result of the reorientation of NN's captive distribution channel, its scope will change from personal to business clients with a focus on high-quality advice. Postbank Insurance continued to be successful with its strategy of focusing on internet sales, lowering costs through simpler operational processes and consolidating the strong position in the mortgage-related insurance market. For example, in the term life market, sales have accelerated by 60% in 2007. The improved Postbank home insurance product has led to a 50% increase in home insurance sales compared to 2006, contributing to 25% overall sales growth.

**Accelerating growth in Central Europe...**
Central Europe is enjoying sustained high economic growth, which together with the low life insurance penetration and favourable demographics, make it a growth market for life insurance and pensions. Insurance Central Europe achieved strong increases in the value of new business and new sales and continued to show steady growth in premiums, pension fund inflows and profit. Building on its first-mover advantage, at year-end 2007 ING had organically created an embedded value of EUR 3.9 billion since the start of its operations in Central Europe in the early 1990s. ING's continued strong performance in the region is based on the successful implementation of an accelerated growth strategy, based on four pillars: broadening the distribution base, extending the product range, establishing new greenfields, and increasing operational efficiency.

Tied agents are currently the main distribution channel in Central Europe. ING continued its programme to enhance the effectiveness of its tied sales agents, which is reflected in an increase in their productivity of over 20% in 2007. The sales force is primarily assessed on its value creation, persistency and retention of clients. At the same time, ING is broadening its distribution through partnerships with local brokers and banks. ING Hungary, for instance, showed successful sales of insurance-linked mortgages in cooperation with two local banks. In Greece, ING finalised an exclusive 10-year distribution partnership with Piraeus Bank, one of the country's leading banks. Direct distribution of simple, standardised products is developed selectively as a lead generator for more advice-sensitive products.

In 2007, further progress was made with extending the product range. In Romania, Hungary, Poland and Slovakia, basic protection products have been developed that also give ING access to lower income segments.

…and starting new operations

ING launched two greenfields in Central Europe in 2007: a life insurance company in Russia and a mandatory pension fund in Romania. The first life insurance policy was sold in Russia in July. Whereas the Russian life insurance market offers substantial potential, it is still at an early stage of development and will require a long-term effort. The first priority is to recruit and train a sales force of tied agents. In addition, ING is also looking for opportunities to conclude distribution agreements with banks. The Romanian government introduced mandatory private pension funds in September 2007. With the aim of capturing a large market share, ING Romania made a remarkable achievement by recruiting and training a large flexible sales force, bringing the total to about 40,000 distributors. These efforts clearly paid off with more than one million new clients at the end of 2007, outperforming all competitors by a considerable margin and resulting in a market share of over 30%.

Finally, ING Insurance Central Europe started a large-scale Lean Six Sigma programme, comprising 40 projects to improve operational efficiency and client service.

**Specialist provider of investments and retirement solutions across Europe**

ING Investment Management Europe has shown a strong increase in profit during the last few years. Despite outflows in the Netherlands, growth in 2007 came from organic sources in third-party distribution and proprietary business, especially by strong sales of Bank Slaski in Poland. Net results were positively influenced by the profitable top line growth. ING Investment Management is discussed in more detail in the Asset Management chapter on page 49.

ING also launched single premium variable annuities in Spain (end of March) and Hungary (July), which contributed EUR 173 million to the premium growth. These products are long-term savings products that combine the opportunity to benefit from the upside potential of equity investments with the security of an investment guarantee. This guarantee makes these products an attractive instrument for clients saving for their retirement.

## CONCLUSIONS AND AMBITIONS

ING Insurance Europe continued its solid performance in 2007, both in terms of profit and value creation. Looking ahead, the business will continue to respond to emerging trends in the insurance industry, in particular by addressing changing client needs, the move to a multi-distribution approach, more competition and the growing need for cost efficiency. In the Benelux, ongoing volume and margin pressure will require a continued focus on cost reduction to retain attractive pricing as well as improved customer satisfaction. ING will increasingly shift the emphasis towards life insurance and pensions and will, within its multi-distribution approach, expand bank distribution.

In Central Europe, ING aims to expand its leading position by executing its four-pillar accelerated growth strategy. The efforts to establish partnerships with banks and brokers will be intensified in 2008 and the tied agents sales force will be further professionalised. Products for the emerging middle class will be developed, as well as products to retain the assets of customers whose policies were written in the early 1990s. ING will closely look at the opportunities to sell life insurance and pension products in the large Turkish market leveraging on the recent acquisition of Oyak Bank in that country. In order to establish scale and benefit from the growing economies in Central Europe, ING will remain alert for opportunities to start more greenfield operations in the region and to possibilities for new distribution partnerships and add-on acquisitions.

Finally, in line with ING's focus on providing investments and retirement solutions across Europe, the roll-out of variable annuities will continue in both existing and new markets.

# Insurance Americas
## Making it easier to do business with us

## Key points

> Pre-tax profit up for fifth consecutive year

> US records solid results under challenging conditions

> Leading positions established in Latin America

> Growth to be driven organically but also supported through acquisitions

**Profit and loss account (underlying)**

| in EUR million | 2007 | 2006 | change |
|---|---|---|---|
| Premium income | **23,537** | 24,118 | –2.4% |
| Operating expenses | **2,519** | 2,490 | 1.2% |
| Underlying profit before tax | **2,059** | 1,992 | 3.4% |
| Total profit before tax* | **2,152** | 1,992 | 8.0% |

* Total profit before tax is defined as profit before tax including divestments and special items.

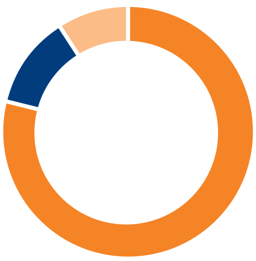
**Key figures**

| | 2007 | 2006 |
|---|---|---|
| Value of new life business (EUR million) | **270** | 167 |
| Internal rate of return | **11.8%** | 10.3% |
| Embedded value of life business (EUR million) | **10,633** | 10,272 |
| Economic capital (EUR billion) | **6.5** | 6.0 |

**UNDERLYING PROFIT BEFORE TAX**
in percentages

| | |
|---|---|
| Insurance Americas | 22% |
| Rest | 78% |

**GEOGRAPHICAL BREAKDOWN OF PREMIUM INCOME**
in percentages



| | | |
|---|---|---|
| US | 79% | 18,677 |
| Canada | 12% | 2,788 |
| Latin America* | 9% | 2,072 |
| Total | 100% | 23,537 |

* Mexico, Chile and Peru; not including ING's joint venture in Brazil because it is a minority interest.

Insurance Americas achieved growth in pre-tax profit and value of new business in 2007 for the fifth consecutive year, despite challenging market conditions. This strong performance was led by better results across all business lines in the US, and by very good results in Latin America life insurance. During the year, Insurance Americas continued to hone its strategy, focusing resources on higher-growth markets including those for investment products, life insurance and retirement services in the US and Latin America. Through the purchase of pension businesses in Latin America, ING has established a market-leading position to further expand its activities in the region.

**FINANCIAL DEVELOPMENTS**

Underlying profit before tax rose 3.4% to EUR 2,059 million during a period of difficult financial market conditions in the US and an adverse currency trend. The result was also impacted by lower non-life profits in Canada and Mexico following lower underwriting results. Excluding currency effects, underlying profit before tax rose 11% led by strong results in the US and Latin America.

Premium income at Insurance Americas fell 2.4% to EUR 23,537 million, although excluding currency effects, premium income grew 6.0% through higher life and non-life sales across all countries.

Premiums from life insurance increased 6.6%, whereas non-life premium income increased 3.0%, both excluding currency impacts. In the United States premiums grew by 6.7%, driven by higher variable annuity and retirement services sales, partially offset by lower premiums from fixed annuities. Record variable annuity production in the United States was led by strong sales of LifePay Plus, a withdrawal benefit rider introduced in August 2007. Life premiums in Latin America grew 3.8%, following higher group life business in Mexico as well as higher annuity sales in Chile, which more than offset lower sales in Mexico's annuity business due to weaker market conditions. In Canada, non-life premiums advanced 2.7% on an increase in the number of insured risks, partially offset by lower average premium rates. Non-life premiums in Latin America grew 3.4% through higher health premiums in Chile and Mexico, offsetting lower sales in Mexico's property and casualty business.

Operating expenses in the Americas increased 1.2% to EUR 2,519 million, or 9.2% excluding currencies. This expense growth was related to the acquisition of the pension and annuity businesses in Latin America, higher sales, strategic investments in technology and distribution as well as organic business growth, especially in the United States.

**Life insurance**

Life underlying profit before tax rose 19.1% to EUR 1,572 million or 29.9% excluding currency impacts. In the United States, underlying profit before tax increased 12.7%, to EUR 1,356 million, or 23.2% excluding currencies. Net investment gains, including the EUR 21 million gain on the disposition of a minority equity investment, contributed EUR 83 million to the profit growth in the United States. Interest related gains more than offset credit related losses and impairments related to the credit crisis. Results also included EUR 3 million in positive equity-related deferred acquisition cost (DAC) and reserve unlocking, a EUR 52 million decrease from the favourable unlocking in 2006. Excluding investment gains, underlying life profit before tax increased 5.5% to EUR 1,316 million, or 15.0% before currency impacts. Fee income growth driven by higher assets under management related to core retirement services and variable annuities as well as higher investment returns from alternative assets, were partly offset by increased operating expenses. Operating expenses in the United States grew 10.4% excluding currency impacts, driven by higher sales, the expansion of distribution capacity, growth of the business in-force, technology investments as well as higher reorganisation and benefits charges.

In Latin America life insurance, underlying profit before tax increased 84.6% to EUR 216 million, following higher underwriting results across the region and investment gains in Mexico. Latin America's operating expenses rose 19.0%, or 28.2% excluding currency impacts, primarily due to the integration of the new pension businesses and operating costs and business growth in Mexico.

The embedded value of the life insurance business in the Americas increased 3.5% to EUR 10,633 million, due to strong sales and favourable operational variances, despite unfavourable currency movements and negative financial variances reflecting adverse equity market performance in the second half of 2007. The value of new business increased 61.7 % to EUR 270 million, due to positive developments in both the United States and Latin America. Last year's value of new business was depressed by an increase in the discount rate, the impact of redundant reserves in the US individual life insurance business and assumption changes in Mexico. In the United States the value of new business increased 48.3 % to EUR 215 million, following product introductions and distribution initiatives related to the individual life and variable annuity segments as well as strong institutional sales in the second half of 2007. The value of new business in Latin America increased 154.5% to EUR 56 million, mainly due to higher volumes and returns in Mexico pensions, including EUR 10 million from acquired pension operations.

Insurance Americas' internal rate of return (IRR) climbed 150 basis points to 11.8%, representing solid improvements across the region. In the United States, individual life IRR improved significantly, benefiting from higher sales that enhanced the per unit cost efficiency as well as from the implementation of solutions that addressed the non-economic regulatory reserves.

**Non-life insurance**

Non-life underlying profit before tax in the Americas fell 27.4% to EUR 487 million, or 24.5% excluding currency impacts in 2007, with lower results in both Canada and Latin America. While organic business growth in Canada remained solid during 2007, profitability was down significantly against 2006. Lower underwriting results, reflecting the continuing softening of the underwriting cycle, and losses on investments contributed to the profit decline. Underwriting results decreased in 2007 because of deterioration in the automobile insurance business and higher property insurance losses. While investment activities generated higher interest and dividend income, disappointing capital market conditions resulted in investment losses on debt securities. ING Canada continues to outperform the property/casualty industry on combined ratios, top-line growth and Return on Equity (ROE). The business is the country's largest property/casualty insurer and has a strong reputation for effectively managing its business through the insurance cycle.

# Insurance Americas (continued)

Underlying profit before tax in Latin America decreased 74.2% to EUR 17 million, due to lower underwriting results in Chile and Mexico. Mexico posted EUR 39 million in pre-tax losses, mainly caused by higher fire- and weather-related claims and provision strengthening in automobile insurance. Unfavourable non-life results in Chile and Mexico were partly offset by strong results from the health business in Brazil.

As part of its wealth management transformation in Latin America, ING made two strategic divestments in early 2008. In January, ING announced the sale of its health insurance business in Chile to Said Group and Linzor partners, and in February 2008, ING announced the sale of its Mexican insurance operations to AXA.

Non-life operating expenses were EUR 790 million, representing a 2.6% increase excluding currency impacts, with increases in Canada partially offset by lower operating expenses in Mexico.

## HIGHLIGHTS

ING continued to transform its business profile in the region. Insurance Americas aims to be a leading provider of investment, life insurance and retirement services products across the Americas.

Insurance Americas continued its sharp focus on top and bottom-line growth by taking advantage of the product and distribution opportunities presented by the ageing of the US population and the increasing wealth in Latin America.

In 2007, ING's leading market position in retirement services and variable annuities resulted in both business lines contributing to 46% of US earnings. US Retirement Services is a market leader in earnings, number of retirement plans and participants. In US Variable Annuity, strong sales of new products and good retention rates together with enhanced distribution fuelled solid asset growth. Variable Annuity assets now stand at almost USD 50 billion. The Asset Management and Insurance businesses in the US both experienced a very strong 2007, with strong growth in mutual fund and institutional asset management sales, and a more than 49% increase in new life insurance sales from the launch of new universal life and term life products.

The results were achieved despite challenging credit and equity markets, the market turbulence caused by the fallout from subprime mortgages, and tough competitive conditions overall.

In the second half of the year, ING announced the acquisition of Banco Santander's pension businesses in Argentina, Chile, Colombia, Mexico and Uruguay for EUR 1.15 billion. These businesses, together with ING's existing Latin American pension operations, make ING the second-largest pension fund manager in Latin America. With this significant investment, ING has become a major player in the pension and wealth management markets of Latin America. ING will have EUR 40 billion in pension assets under management in the region, more than double the pre-acquisition assets.

### US Wealth Management moves from strength to strength

In the US, ING has achieved solid growth from strong positions in retirement services and variable annuity businesses and its broad distribution capacity.

ING is a top player in retirement services, providing defined contribution pension plans to small and medium-sized corporations, educational institutions, hospitals, and governments. While all retirement services segments are important, ING specifically focuses on the markets with the best growth potential: the small and medium size corporate 401(k) market and the education market, specifically kindergarten to 12th grade (K-12) teachers and staff.

In corporate markets, ING focuses on providing defined contribution retirement savings plans to companies with 500 or fewer employees, as this is the sector where most of the employment growth is likely to occur in the future. Also, this sector is under-penetrated with only 30% of employers in the sector having 401(k) retirement savings plans in place for employees.

The education market also offers ING excellent growth opportunities. Recent changes to regulations governing the marketing of retirement savings plans to teachers and other education staff, the first for almost 40 years, are likely to benefit ING. The new legislation, which becomes effective in late 2008, will put fiduciary responsibilities on educational institutions to ensure the retirement savings plans being offered to staff are the most competitive. It will mean that educational institutions are likely to require assistance in fulfilling their obligations to find the best plans, and the financial institutions that can help them with this will be the ones most likely to win business. ING has a strong reputation for retirement plan administration, infrastructure and capability.

Also, about 2.4 million teachers aged 50-plus will retire in the next 10 to 15 years and they will require products and advice to help them make the best use of their retirement savings. These teachers will be replaced with roughly the same number of younger teachers entering the education system who will need to set up retirement savings plans. These younger teachers are more likely to want access to investment products online, and ING is building the capability to serve both the aged 50+ retirees, and the 20-something new teachers.

Finally, auto-enrolment which was authorised by the Pension Protection Act of 2006 and which means employees are automatically put into a company pension scheme unless they opt out, will assist ING as well as other financial services companies in attracting new business.

### US variable annuity sales remain strong

Variable annuity sales received a major boost, hitting record levels in the second half of 2007, following the launch of ING LifePay Plus in August. ING LifePay Plus – a minimum guaranteed withdrawal benefit – has proven very popular among investors and financial advisers. Variable annuities continued to be a major driver of sales and net flows for US Wealth Management in 2007.

ING US Wealth Management has very broad, diversified distribution channels with access to more than 200,000 independent points of distribution, including wirehouses, independent broker/dealers, banks, employees, and direct to customers.

**US Insurance improves significantly**
US Insurance also recorded sharply higher sales and profits led by Individual Life which successfully launched several new universal and term life products. As a consequence, premium increased as did policies written. In 2007, the US Retail Life business wrote 83,344 policies, up from 30,930 policies in 2006. Higher policy count drives down average cost per policy, improving value for customers, and profitability for ING.

The strength of the ING brand name in the US continued to be a strong selling point with both distributors and end-customers. Additional investments in the ING brand in the second half of 2007 supported the sales growth experienced across the US businesses.

**ING Investment Management Americas**
ING IM Americas maintained strong asset management sales figures and launched new funds despite market challenges, particularly in the second half of the year. ING IM continued to increase its focus on improving portfolio performance in order to better serve both prospective and existing clients.

ING IM recorded strong investment performance from alternative investments, including private equities, limited partnerships and hedge funds, and its Institutional Markets division – renamed ING Financial Products in early 2008 – generated significant new business.

On the retail side, ING IM America's successful 'Going Global' campaign continued to attract significant inflows, with EUR 945 million in 2007. Several new funds expanded the international line-up including ING Asia Pacific Real Estate and ING European Real Estate, and two new closed-end funds, the ING Asia Pacific High Dividend Equity Income Fund and the ING International High Dividend Equity Income Fund. This brings total closed-end fund assets to EUR 3.3 billion. All new funds use ING's varied investment capabilities and regional expertise to create customised global solutions for investors.

**ING vaults into a leading position in Latin America**
Through the acquisition in Latin America, ING has picked up leading pension businesses in five countries. In Mexico, it boosted ING to the number-3 position in the industry, and ING also became the number-3 player in Chile. In addition, ING acquired top-5 positions in Argentina, Colombia and Uruguay. ING was already the number-one pension provider in Peru with slightly more than 35% market share. Altogether, ING is now the second largest pension fund manager in Latin America – a strong position from which to continue building its businesses.

The acquisition gives ING a sustainable, scaled platform in the Latin American region where attractive macroeconomic and demographic trends are driving increasing demand for pension, life insurance and personal financial products.

ING's pension expertise in the region, combined with the solid local management from the acquired pension companies, will enable a smooth integration while maximising growth opportunities.

**Awards for excellence**
In early 2008, ING in the US won a Process Excellence Award for the start up of its Six Sigma programme by the International Quality & Productivity Centre. ING's Six Sigma programme, designed to achieve greater operational efficiency, delivered USD 44 million in financial benefits from 100 projects completed during the year. These projects focused on capacity improvement, revenue generation and expense reduction.

Also in early 2008, ING in the US won a Catalyst award for initiatives taken to support and advance women in business. ING's Beyond Diversity: Building One ING Culture programme has led to a unifying culture within the workplace and has led to an increased number of women managers at the most senior levels of the business.

## CONCLUSIONS AND AMBITIONS
In 2007, ING achieved solid results in the US and established a strong foundation for growth in Latin America through the acquisition of the Latin American pension businesses.

ING will continue to focus on investing for growth in investments, life insurance and retirement services in the Americas. ING's market strength in key businesses puts it in a good position to achieve this goal.

In the US, the impending retirement of baby boomers is dramatically increasing their focus on saving for retirement. By 2020, two-thirds of the investable assets in the US will be controlled by baby boomers. The inter-generational transfer of wealth estimated to exceed USD 40 trillion creates major opportunities for financial service companies with scale.

Companies such as ING which have leading positions in the retirement services and variable annuities markets and which provide a broad array of risk management guarantees have a significant advantage. Increasingly, retirees and pre-retirees are looking for guarantees to protect their wealth.

Both top-line and bottom-line growth in the Americas will be driven organically, but with increasing emphasis on growth through acquisitions.

Key areas for acquisition are US retirement services, variable annuities and asset management, along with pensions and life insurance in Latin America.

ING will continue to focus on the needs of the customer, whether it's the end-customer, distributor, plan sponsor or partner. This will mean creating innovative product solutions on an accelerated timetable, and initiating and executing improvements to customer service and technology capabilities. In this way, we plan to deliver on our promise of making it easier for our customers and distributors to do business with ING.

# Insurance Asia/Pacific
## Well-placed to benefit from the region's growth

## Key points

> Asia/Pacific region continues to be a high-growth market

> Present in the right markets to secure profitable long-term growth

> Accounts for almost half of the Group's total value of new business

> Further strengthening of bank distribution

**Profit and loss account (underlying)**

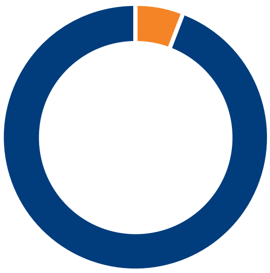
| in EUR million | 2007 | 2006 | change |
|---|---|---|---|
| Premium income | **12,632** | 12,136 | 4.1% |
| Operating expenses | **1,115** | 965 | 15.5% |
| Underlying profit before tax | **576** | 621 | –7.2% |
| Total profit before tax* | **576** | 636 | –9.4% |

* Total profit before tax is defined as profit before tax including divestments and special items.

**Key figures**

| | 2007 | 2006 |
|---|---|---|
| Value of new life business (EUR million) | **442** | 421 |
| Internal rate of return | **16.8%** | 16.8% |
| Embedded value of life business (EUR million) | **2,204** | 1,343 |
| Economic capital (EUR billion) | **7.0** | 7.5 |

### UNDERLYING PROFIT BEFORE TAX
in percentages



| | |
|---|---|
| Insurance Asia/Pacific | 6% |
| Rest | 94% |

### GEOGRAPHICAL BREAKDOWN OF PREMIUM INCOME
in percentages

| | | |
|---|---|---|
| Japan | 37% | 4,693 |
| Taiwan | 24% | 3,010 |
| South Korea | 29% | 3,607 |
| Australia/New Zealand | 2% | 275 |
| Rest of Asia* | 8% | 1,047 |
| Total | 100% | 12,632 |

* India, China, Hong Kong, Thailand and Malaysia.

With economic growth and wealth creation in Asia continuing to outpace other regions, Insurance Asia/Pacific is well-positioned to capitalise on opportunities for further growth. As a key value creator for ING, Insurance Asia/Pacific has a strong footprint in the region with a comprehensive product portfolio and multi-distribution capabilities.

**FINANCIAL DEVELOPMENTS**
Underlying profit before tax decreased by 7.2% to EUR 576 million in 2007 from EUR 621 million in 2006. Higher profits in South Korea and Australia were more than offset by a decrease in Japan. Excluding Japan, underlying profit before tax increased by 18.7%. During the year, Insurance Asia/Pacific continued to invest in ongoing expansion of its businesses, especially in the high-growth markets of China, India and Thailand.

On the income side, gross premium income increased 4.1% to EUR 12,632 million, as higher premiums in Australia, South Korea and Taiwan were partly offset by lower premiums in Japan. Double-digit growth rates in premium income were recorded in local currency terms in most of Insurance Asia/Pacific's other markets.

Assets under management increased by 17.9%, reaching EUR 99 billion by year-end 2007, driven by Japan, China, India and Taiwan. In Japan, ING Funds Japan secured a EUR 1.5 billion mandate on selected funds from Nomura securities. In Taiwan, assets under management for the investment-linked business more than doubled to EUR 1.4 billion from a year earlier due to the acquisition of ABN AMRO asset management business in the fourth quarter 2006.

Underlying operating expenses increased 15.5% to EUR 1,115 million, reflecting the increase of business volumes and the focus on building organisational capabilities and infrastructure, and investing in greenfield operations.

The value of new business (VNB) written by Insurance Asia/Pacific was EUR 442 million, up 5.0% compared with 2006, driven by Taiwan, Australia and Rest of Asia. South Korea and Japan recorded lower VNB. The 2007 figures reflect a change in VNB methodology for the greenfield business units in China, India and Thailand. This change removed start-up expenses from their VNB, which had a positive impact of EUR 16 million in 2007. The internal rate of return remained highly attractive at 16.8%, consistent with that in 2006. Despite lower financial variances and operating assumption changes, the embedded value of the life business increased to EUR 2,204 million at the end of 2007 from EUR 1,343 million in 2006.

**Country developments**
In Australia and New Zealand, underlying profit before tax increased 33.5%, or EUR 54 million to EUR 215 million in 2007 from EUR 161 million in 2006 driven by growth of funds under management, investment earnings and one-off gains of EUR 11 million. Life premium income rose by 19.6%, or EUR 45 million to EUR 275 million in 2007 from EUR 230 million in 2006, driven by new sales in life risk and personal investment products, along with favourable in-force business retention. ING Australia's innovative best-selling product OneCare, a yearly renewable term product offering lump sum and disability income benefits continues to command a leading market share. Operating expenses increased 14.4% due to higher volume-driven expenses such as investment management, a direct campaign and stamp duty costs.

In Japan, underlying profit before tax decreased by 84.6%, or EUR 132 million to EUR 24 million in 2007 from EUR 156 million in 2006 largely due to the impact of market volatility on its variable annuities business, and a EUR 24 million markdown in the assets backing the Corporate Owned Life Insurance (COLI) business related to a collaterized debt obligation (CDO). The total market for new Single Premium Variable Annuity (SPVA) business decreased due largely to the introduction of new regulatory requirements (Financial Instruments Exchange Law: FIEL) which increased compliance procedures for distributors of financial products such as mutual funds and SPVAs. The market was also negatively impacted by weakened consumer confidence due to ongoing market volatility. Despite these developments, sales of ING Life Japan's Smart Design 1-2-3 introduced in the second half of 2007 were strong and ING maintained its top-3 market position. Although COLI tax product sales continue to be impacted by new tax deductibility guidelines, ING is well positioned for a shift to more protection driven COLI products in that market. However overall, premium income declined by 5.0%. Operating expenses increased by 6.6%, mainly due to higher promotional and branding activities.

In South Korea, underlying profit before tax rose by 14.1%, or EUR 37 million, to EUR 300 million in 2007 from EUR 263 million in 2006, driven primarily by growth of investment-linked product sales and in-force premium, as well as a one-off recognition of EUR 10 million dividend on equity investment funds that were consolidated in the fourth quarter of the year. Premium income rose by 11.9%, or EUR 383 million to EUR 3,607 million in 2007 from EUR 3,224 in 2006, due mainly to sales of unit-linked products. Operating expenses rose by 29.1%, or EUR 57 million, to EUR 253 million in 2007 from EUR 196 million in 2006 as support for growing the business increased.

As in 2006, ING recorded zero profit for Taiwan in 2007 due to strengthening of reserves in what continues to be a low interest rate environment. A total charge of EUR 110 million was taken in 2007 to strengthen reserves, compared with EUR 182 million in 2006. In Taiwan, ING's strategic focus is to boost its sales and VNB by improving tied agency productivity and selling a higher proportion of the less capital intensive investment-linked products, supported by the higher margin accident and health riders. In line with this strategy, new sales increased by 56.8% to EUR 425 million from EUR 271 million in 2006. Value of new life business increased by 17.4% to EUR 182 million from EUR 155 million in 2006 with IRR at 20.0%.

In Rest of Asia, underlying profit before tax from life insurance increased to EUR 34 million from EUR 33 million in 2006, partly driven by Malaysia's new sales of its single premium investment-linked product. Greenfield operations in China, India and Thailand recorded losses as ING continues to invest for future growth and profitability in these markets. ING Vysya Life in India is continuing to increase its distribution reach including agency force and sales offices. ING's life insurance joint-ventures in China obtained regulatory approval to open branch offices in the provinces of Anhui and Jiangsu, establishing a presence in two more regions (adding to its current operations in 10 provinces) with a combined population of more than 136 million.

# Insurance Asia/Pacific (continued)

**HIGHLIGHTS**

Economic growth in Asia continues to outpace other regions as more wealth is created. Consequently, life insurance in Asia is expected to grow more rapidly than in other regions in the coming years, both to accommodate the wealth accumulation of aging populations and to provide savings plans for the rising working classes. Insurance Asia/Pacific is well-positioned to benefit from this long-term growth and build on its strong position in the markets in which it operates.

ING has a strong financial services franchise in the Asia/Pacific region. It is currently the second-largest international life insurer there, based on annual premium equivalent (APE), which is the sum of regular and annual premiums from new business plus 10% of single premiums on new business written during the year. At present ING has 12 life operations in 10 markets and commands leading positions in the larger, established markets of Australia, New Zealand, Japan, South Korea and Taiwan. ING is well-placed for growth in the large and medium-sized rapidly expanding markets of India, China, Malaysia and Thailand.

Based on assets under management, ING is a top-3 regional investment manager with operations in 13 markets. Insurance Asia/Pacific will continue to invest in growth, either through bolt-on acquisitions or organically. In 2007, ING Investment Management Korea merged with the recently acquired Landmark Investment Management, to become South Korea's 10th largest asset manager.

The shift in the market from fixed income products to investment-oriented products and the significant increase in distribution via banks present opportunities which ING can leverage on. In line with these developments, ING's strategic priorities remain geared towards strengthening its distribution channels, focusing on profitable new product offerings, expanding organisational capabilities, increasing operational efficiency, enhancing brand awareness and achieving scale in the asset management operations.

**Strengthening multiple distribution channels**

ING sells its life insurance products in the Asia/Pacific region via tied agents, banks, direct channels and several innovative alternative channels. The tied agency channel has been the strongest, but distribution through banks is growing fast. ING continually works to broaden its distribution methods and increase the efficiency of existing channels.

In Hong Kong, India, Malaysia, South Korea and Taiwan, ING has a strong tied agency force. ING Life Korea is the exemplary tied agency model in the region, with Taiwan catching up quickly. ING Life Korea's success is based on selective recruiting, excellent training and support, and continual performance monitoring of its financial advisers. In 2007, ING has further strengthened its tied agency force in Taiwan and India. In Taiwan, this has led to near record sales levels. In India an accelerated growth plan has led to a significant increase of life insurance branches and agents, to more than 270 and 51,000 respectively by the end of the year (versus 90 branches and over 26,000 agents at year-end 2006). As a result, ING has been able to increase its market shares in highly competitive markets.

In Australia, ING further strengthened its distribution network and added 139 new aligned advisers through the successful acquisition of Financial Services Partner Group (FSP Group). FSP Group is the third largest dealer group in Australia with over 250,000 client relationships. This acquisition positions ING Australia as the second-largest aligned adviser network in the country with just under 1,500 aligned advisers and yielding significant growth opportunities and cost and operational synergies.

**Bank distribution becoming a significant channel**

While tied agency is currently ING's strongest channel, we continue to develop third-party channels, in particular bank distribution. In Malaysia, ING recently signed an exclusive regional distribution agreement with Public Bank. Public Bank has an extensive distribution network of 241 branches across Malaysia and 15 commercial branches in Hong Kong. Sales through the Public Bank branches commenced in January 2008 with the launch of a three-year investment linked plan that provides life insurance coverage and capital protection. In India, distribution via ING Vysya Bank has been stepped up, and in Thailand an exclusive bank distribution agreement is being signed with the fifth largest bank, TMB, following ING's announced acquisition of a 30% strategic shareholding in the bank. ING offers a total solution provider approach to its bank partners, including marketing and organisational support. One of our greatest strengths is our understanding of both the banking and insurance businesses, and how the two can augment each other.

ING has sizeable equity interests in three banks – Bank of Beijing in China, ING Vysya Bank in India and TMB in Thailand – and has developed joint ventures and partnerships with a large number of other banks and securities houses in the region. The partnership with ANZ in Australia and New Zealand continues to be successful. In addition, new alliances have been forged with the China Construction Bank (Asia) in Hong Kong and Public Bank in Malaysia and Hong Kong. In South Korea, ING signed bank distribution agreements with the country's second and third-largest banks, Shinhan and Woori. In Japan, the second- largest life insurance market in the world, ING works together with over 40 banks and securities houses. The current number of ING's partnership banks in the region has increased to over 200 banks, with a total distribution network of over 16,000 branches. In 2007, we also completed the purchase of an additional 5.1% stake in ING Life Korea from our partner Kookmin Bank.

Alongside bank distribution and tied agents, ING continues to explore innovative alternative channels. In South Korea, for example, selling insurance via Tesco's hypermarkets has recently begun, and direct online sales of simple life insurance products such as OneCare express in Australia has also shown positive results. OneAnswer, ING's investment platform offering retail investment services also continues to experience rapid growth.

**Introducing new products**

Most markets are showing a shift to investment-oriented life insurance products. In Japan, the introduction of a new SPVA product, Smart Design 1-2-3, in September 2007 has been very successful and has enabled us to maintain market share despite the negative impact of the FIEL regulation. South Korea and

Taiwan showed increased sales of investment-oriented products and annuities. In Taiwan, ING's sales in investment-linked products in 2007 have increased because of a concerted effort to improve the productivity of our service. In New Zealand, the KiwiSaver pension product has been launched successfully and ING New Zealand has become the leading player in this segment with over 65,000 customers and 3,000 employers signing up for this voluntary retirement savings plan. In Australia, sales via ING Direct of ING Australia's life insurance product linked to a mortgage commenced during the latter part of 2007 and the initial results are promising.

**Expanding organisational capabilities**

Building and improving organisational capabilities, with particular focus on recruitment, management development and training, was an absolute priority in 2007. Along with the tremendous economic growth in Asia, the demand for talent is huge. Human resources remains a key priority, and ING is investing in improving and broadening long-term incentive programmes to attract and retain talent.

**Increasing operational efficiency**

On an operational level, ING aims to reap the benefits of scale through greater standardisation in key processes and systems. Regional roll-outs of standardised processing have started, along with a large number of efficiency projects. In line with Group risk and cost management, Insurance Asia/Pacific continues to improve operational risk management and cost management in the region. In Taiwan, for example, the focus on efficiency has stimulated profitable new business growth. Implementing ING Group's compliance policies also continues to be a high priority.

**Enhancing brand awareness**

Efforts to enhance brand awareness have been initiated and implemented successfully. ING reached an audience of almost 500 million people in the region with sponsorship of the AFC (Asian Football Confederation) 2007 Asian Cup and Formula One races in Australia, China, Japan and Malaysia. Both platforms generated valuable business leads and increased brand awareness levels were registered, especially in Malaysia, South Korea and Thailand.

**ING Investment Management in Asia/Pacific**

ING Investment Management (ING IM) is a leading asset manager in Asia/Pacific and manages both proprietary life portfolios as well as funds for third-party clients. In 2007, the focus has been on increasing scale. Recent acquisitions, such as Landmark Investment Management in South Korea, have helped create the right level of scale. The year also saw the opening of an office in Dubai, the United Arab Emirates. ING IM's initial focus will be on the six Gulf Co-operating Council countries of Saudi Arabia, United Arab Emirates, Kuwait, Oman, Qatar and Bahrain. Several new funds were successfully launched in multiple markets across the region during 2007. Fund performance was on track: over the one-year period to December 2007, 68% of ING funds outperformed their respective benchmarks on an asset-weighted basis. Investment management services in Asia/Pacific are discussed in more detail in the Asset Management chapter on page 50.

## CONCLUSIONS AND AMBITIONS

In 2007, Insurance Asia/Pacific delivered on its growth plans. Tied agents improved production, new significant bank distribution deals were concluded and sales revitalised. This resulted in 18.7% growth in underlying profit before tax excluding Japan where results were affected primarily by increased market volatility. Including Japan, underlying profit before tax decreased by 7.2% to EUR 576 million. The overall internal rate of return remained highly attractive at 16.8% and both APE and VNB increased. These financial accomplishments reflect successful execution of our strategy in the region.

Looking forward, the focus on investment-oriented insurance products continues to sharpen, as customer demand increases. Through customer segmentation, we will offer customers a growing suite of products geared towards their particular financial needs. The tied agency model remains important and we will continue to improve it. In addition, more initiatives will be taken to strengthen multi-channel distribution capabilities, through bank distribution, and direct and new alternative channels.

# Wholesale Banking
## Meeting clients' needs

## Key points

> Resilient results in challenging business conditions

> Generator of high-quality assets and important source of market and risk expertise

> Landmark deals illustrate services and capabilities

> Using capital efficiently to stimulate growth

### Profit and loss account* (underlying)

| in EUR million | 2007 | 2006 | change |
|---|---|---|---|
| Total income | **5,860** | 5,804 | 1.0% |
| Operating expenses | **3,576** | 3,400 | 5.2% |
| Additions to loan-loss provisions | **–115** | –121 | |
| Underlying profit before tax | **2,399** | 2,525 | –5.0% |
| Total profit before tax** | **2,261** | 2,481 | –8.9% |

* These numbers include the result from ING Real Estate which reports to Wholesale Banking. ING Real Estate is discussed in detail in the chapter on asset management together with ING Investment Management.
** Total profit before tax is defined as profit before tax including divestments and special items.

### Key figures (underlying)

| | 2007 | 2006 |
|---|---|---|
| After-tax RAROC | **20.3%** | 20.6% |
| Economic capital (in EUR billion) | **7.8** | 8.1 |

### UNDERLYING PROFIT BEFORE TAX
in percentages

| | |
|---|---|
| Wholesale Banking | 25% |
| Rest | 75% |

### BREAKDOWN UNDERLYING PROFIT BEFORE TAX
in EUR million

| | | |
|---|---|---|
| General Lending & PCM | 29% | 696 |
| Structured Finance | 17% | 409 |
| Leasing & Factoring | 9% | 220 |
| Financial Markets | 15% | 354 |
| Other | 2% | 56 |
| ING Real Estate | 28% | 664 |
| Total | 100% | 2,399 |

Wholesale Banking achieved resilient results in 2007 in what was a very challenging business environment and with financial markets experiencing significant turbulence. Profitable growth was achieved by concentrating on the needs of clients and on high value-added products, especially in the home markets. There was also a focus on reducing expenses, improving capital efficiency and stimulating growth. Wholesale Banking's position as a full-service Benelux bank, a specialist products provider and a growing force in emerging markets helped it perform well in unusually difficult business conditions.

**FINANCIAL DEVELOPMENTS**

Underlying profit before tax declined 5.0% to EUR 2,399 million. Higher profits were recorded in General Lending & Payments and Cash Management, Leasing & Factoring, ING Real Estate and Other Wholesale Products. Underlying profit from Structured Finance decreased 20.6% to EUR 409 million, including a markdown of EUR 29 million on the Leveraged Finance book in the third quarter of 2007. Financial Market profit declined 30.5% to EUR 354 million. The subprime crisis and related issues had a negative pre-tax impact on Financial Market profit of EUR 106 million in the fourth quarter of 2007.

Including the provisions booked as special items in 2007 and the impact of the divestment of Williams de Broë and Deutsche Hypothekenbank in 2006, total profit before tax decreased 8.9% to EUR 2,261 million. Total underlying income rose 1.0% to EUR 5,860 million driven by ING Real Estate and Other Wholesale Products, while income from Financial Markets activities declined 11.2%. Underlying operating expenses remained under control, rising 5.2% to EUR 3,576 million. Fast growing ING Real Estate contributed 2.8%-point to this increase. The underlying cost/income ratio increased to 61.0% from 58.6% in 2006.

Risk costs were again negative in 2007. The net release from the provision for loan losses was EUR 115 million compared with a net release of EUR 121 million in 2006. Gross additions remained low, reflecting the strong quality of the credit portfolio. The net release in 2007 equalled seven basis points of average credit-risk-weighted assets, unchanged compared to the net release in 2006.

The underlying risk-adjusted return on capital (RAROC) after tax from Wholesale Banking declined to 20.3% from 20.6% in 2006. Average economic capital decreased 4.6% to EUR 7.8 billion due to model refinements. All product groups are performing above ING's 12% return hurdle, with the exception of General Lending & Payment and Cash Management. The after-tax RAROC of this product group increased to 9.7% from 7.3% in 2006.

Efforts to increase efficiency will also continue, with an aim to reduce the cost/income ratio to 55% by 2010 while further increasing the risk-adjusted return on capital. A number of initiatives were started in 2007 to stimulate growth and reduce operating expenses. Provisions totalling EUR 139 million before tax were booked as special items which are excluded from the underlying results.

ING Real Estate's business portfolio increased by 18.2% to EUR 107.2 billion, driven by strong growth in the lending portfolio which increased 42.0% to EUR 32.1 billion. Underlying profit before tax from ING Real Estate rose 5.2% to EUR 664 million. Profit before tax of Investment Management increased 13.9% to EUR 156 million. The profit of the Investment Portfolio rose 31.2% to EUR 261 million reflecting higher realised gains and fair value changes on investments, while profit at the Finance activities increased 16.9% to EUR 214 million. Profit from Development declined to EUR 33 million from EUR 112 million in 2006 when profits included exceptionally high gains on the sale of completed projects. The after-tax RAROC of ING Real Estate decreased to 32.7% from 40.1% in 2006.

**HIGHLIGHTS**

Wholesale Banking plays an integral role in ING, attracting new business and generating profitable growth through a number of channels, including general lending, leasing and structured finance. Wholesale Banking also offers the Group key skills in balance sheet management, including funding and liquidity management. In 2007, Wholesale Banking deepened its client relationships, closed a number of landmark deals, reduced costs and improved returns through more efficient use of capital.

ING offers wholesale banking services to mid-corporates, corporates and financial institutions in more than 40 countries. In the Netherlands and Belgium, ING is a full-service bank with a wide range of products, from cash management to corporate finance. ING also offers an extensive range of services in Poland and Romania and other Central and Eastern European markets. In other countries Wholesale Banking has a product and client range that is more selective. In all areas, ING is trying to boost growth by offering a range of leading banking services and products.

Wholesale Banking has six units: General Lending & Payments and Cash Management (PCM); Structured Finance; Leasing & Factoring; Financial Markets; Other Wholesale Products, and ING Real Estate, the world's largest real estate investment manager. Structured Finance and Financial Markets are competitive internationally and are well-positioned for further growth. In Europe, ING is also a leader in PCM and Leasing.

**General Lending & PCM volumes growth**

Volumes increased in both General Lending and Payments & Cash Management over the year due to concerted efforts in the Benelux and growth initiatives in Central and Eastern Europe. The volume increases were largely offset by continued pricing pressure due to strong competition, with some of the pressure subsiding in the second half of the year.

General Lending is used as an entry product across all regions to attract customers and to cross-sell high-value products. It continues to focus on capital optimisation activities to increase value creation, including an 'originate-to-distribute' strategy, where originated loans are sold before reaching maturity.

Volumes in PCM rose due to bigger transactions and the renewal of key contracts. European companies have been directing increasing amounts of cash management business to just a few financial institutions, including ING, as scale becomes more important. Wholesale Banking is focusing on certain client segments such as large pension funds, health insurance companies, financial institutions and mid-corporates. ING won a number of sizeable cash services mandates in 2007 from large

# Wholesale Banking (continued)

institutional clients. Preparations were made for the creation of the Single Euro Payments Area (SEPA), which has taken effect from 28 January 2008, and ING has signed agreements with various clients to provide SEPA services for sizeable volumes. Consequently, the high level of investment in Payments & Cash Management will continue over the coming years.

**Robust demand for Structured Finance**
Structured Finance generally had a good year due to robust demand and solid revenue growth in most product areas. The one exception was Leveraged Finance where the markets came largely to a halt in the second half due to concerns about credit quality in the global credit markets.

The recent disruption in the markets increased funding costs and decreased institutional demand. Over the longer term, the disruption is expected to increase loan pricing in a way that will benefit structured finance. International trade and export finance volumes increased with our main multinational commodity clients. ING saw an especially strong performance across a number of other products, including asset-based finance, natural resources finance and telecommunications finance, which contributed significant transaction fees.

In leveraged finance, ING tightened its limits early in the year in anticipation of a slowdown. When credit markets became disrupted in August, ING had an underwriting pipeline of EUR 2.3 billion spread over 14 transactions. Since then, some of the deals have been syndicated out. The loan syndication market was also slow with a bigger tendency towards club deals that spread the risk, and the income, over a larger group of partners. There was also downward pressure on underwriting fees.

Structured Finance has ambitious plans to strengthen its market position. Staff numbers were boosted in 2007 to support several large initiatives and will be increased further in 2008 to support more growth. The new jobs include a project advisory team in natural resources in London, an increase in headcount at the syndicated loan team in the Netherlands and Central and Eastern Europe, an expansion of the aviation team and staffing a start-up office in Dubai.

**Solid growth in Leasing & Factoring**
Leasing & Factoring saw a large increase in volumes and income due to solid growth in general leasing despite pressure on margins, as well as efforts to cross-sell services to corporate clients. ING Lease maintained its number five position among European international leasing companies.

The General Leasing portfolio increased 18.3% to EUR 15.3 billion, thanks to expansion in the Netherlands, Italy, the UK and Central Europe. ING Car Lease's fleet grew, supported by growth in the Benelux and Central & Eastern Europe where efforts to target corporate clients are paying off. ING Lease is the market leader in the Netherlands and has intensified its cooperation with ING Bank's Dutch network. In the second quarter, Wholesale Banking sold its 50% stake in International Factors Belgium to KBC and transferred its clients to ING Commercial Finance Benelux NV, a newly formed company wholly owned by ING. Volumes in Factoring grew due to growth in the Netherlands and Belgium as ING focused on strengthening its position in its home markets.

In 2007, ING further integrated acquired companies Autoplan in France and Appleyard in the UK into ING Car Lease. Leasing launched commercial activities in Italy through General Lease and Car Lease.

In Central Europe, ING is active in leasing and factoring in six countries and achieved double-digit volume growth. The strongest growth was in Romania and Poland. ING Lease Ukraine was launched in early December and is fully operational from 1 January 2008. ING Lease reached an agreement to buy Citileasing in Hungary, adding EUR 150 million to the portfolio and making ING a top-10 player in that country.

**Boosting Financial Markets strengths**
Clients and products business held up well, in line with our aim to diversify away from proprietary risk businesses, including proprietary trading. Financial Markets continues to seek cross-selling opportunities across product areas and clients groups, including a new strategy to target emerging markets.

Financial Markets saw a drop in income due to much lower trading income in difficult trading conditions. Trading losses occurred in proprietary trading and in credit market activities due to concerns about sub-prime mortgages.

These losses were partially offset by a strong performance in the client-related businesses. ING offered hedging solutions to clients, due to interest rate and foreign exchange movements, and also booked strong results in developed markets in government bonds and in the treasury business. Financial Markets is also actively improving its mid-corporate coverage.

The emerging markets franchise is doing well, especially in money markets and foreign exchange. ING's strong position in the sovereign debt market was underscored by its appointment as joint book runner on Greece's benchmark 23-year inflation-linked bond. Financial Markets also helped issue a USD bond for the Trade and Development Bank of Mongolia, the first foreign currency issuance from that country.

During the fourth quarter, Financial Markets announced an ambitious three-year strategy to build on its successes in the clients and products function.

Fast-growing emerging markets are a key opportunity and we expect a large percentage of our top-line growth to be driven by expansion in these areas. Our aim is to be a top-5 player in our selected markets or products by taking advantage of our geographic footprint, strong brand recognition and commercial expertise and reputation.

At the same time, in developed markets, particularly in our home markets where we remain uniquely positioned, we will continue to provide core products and explore selective growth initiatives.

**ING Real Estate the global leader**
ING Real Estate had another year of solid growth, with assets under management increasing by 10% over the year, its loan portfolio growing by 42% and a development portfolio growing to EUR 3 billion. At the year-end, ING Real Estate's total portfolio was EUR 107.2 billion, up 18.2 % on 2006, and profit before tax increased by 5.2% to EUR 664 million.

With a diversified business model, ING Real Estate weathered the turmoil in the finance and real estate markets well. ING Real Estate Investment Management broadened its product offer, providing investors with new investment strategies and funds, Real Estate Finance diversified further internationally and Real Estate Development maintained its focus on Europe while growing its development pipeline. Turn to the Asset Management chapter, page 50, for further details.

**Winning a number of landmark deals**
Wholesale Banking completed a number of important deals in 2007 that illustrate its array of services and capabilities. Corporate Finance advised the Van Gansewinkel Groep in an auction process in January resulting in the sale of the company to the private equity firms CVC and KKR. In April, ING landed a mandate to advise Akzo Nobel with its EUR 1.6 billion share buy-back.

ING advised KPN on its acquisition of Getronics in July. Corporate Finance successfully advised KPN on four public offers for the Dutch IT company to an enterprise value of EUR 1.2 billion. Two months later, ING was one of three banks providing KPN with a EUR 1.25 billion loan for standby and general corporate purposes. The long-standing relationship with KPN was again confirmed when ING's Debt Capital Markets was chosen to be a joint bookrunner for a EUR 1.25 billion five-year bond.

In September, ING participated as one of four joint bookrunners in a EUR 2 billion deal for General Electric Capital Corp., the biggest euro-denominated transaction ever issued by GECC. ING also won several other large transactions, including a financing for an Indonesian integrated energy provider and a Ukrainian real estate company. ING rounded off the year with an important advisory mandate in December when it advised Vedior on the intended public offer by Randstad. Corporate Finance acted as joint adviser to Vedior in this important EUR 3.5 billion transaction, which would create the second largest human resources services company in the world.

**Containing operating expenses**
Wholesale Banking sought to contain expenses without impairing growth opportunities. Expenses rose in 2007 due to growth at ING Real Estate, higher compliance costs and investments in Structured Finance, Financial Markets, Leasing, as well as in PCM to prepare for SEPA. ING implemented a number of cost containment initiatives in 2007 to reduce operating expenses and to stimulate growth. Wholesale Banking has also been working on re-engineering the lending process, reducing the number of full-time equivalents and cutting support services.

In 2007, ING initiated GLOBE (Global Lending Operating and Business Environment), a major business transformation strategy aimed at improving business lending and streamlining the number of products offered to clients, reducing the cost of production and administration, enhancing control and compliance and improving the overall client experience.

**Investing capital for growth**
ING has been reallocating capital and making funds available selectively to protect and increase its revenue base. Wholesale banking has continued to invest in both existing and new products to improve returns and deliver profitable growth.

Growth initiatives – especially in Structured Finance, Financial Markets and Real Estate – will focus on areas where ING can make the best returns. These initiatives are expected to accelerate earnings and revenue growth, reduce the cost-income ratio and increases the risk-adjusted return on capital.

ING decided to transfer mid-corporate clients in its home markets from Wholesale Banking to Retail Banking with effect from 1 January 2008. The transfer will allow ING's domestic banking organisations in The Netherlands, Belgium, Poland and Romania to operate under a single management and a single brand. Wholesale Banking initiated a new corporate client coverage model to improve the quality of account management and to prioritise high value-adding products.

The rolling out of a single ING brand globally is an important differentiator for Wholesale Banking which will help to build and maintain strong client relations. New opportunities have been created in the home market after the takeover of ABN AMRO by a consortium of Fortis, Royal Bank of Scotland and Banco Santander. Our creation of a full-service bank in the Netherlands, operating under one brand, gives ING a strong position to gain market share.

**Prioritising regulation and compliance**
Wholesale Banking continued to invest in compliance to ensure we remain competitive and demonstrate to our clients that we have the highest possible compliance standards. We have focused on preparation for Basel II (the Revised International Capital Framework) and MiFID (the Markets in Financial Instruments Directive), and continue to ensure we apply the highest standards across all of our businesses and that we maintain an excellent reputation.

## CONCLUSIONS AND AMBITIONS
Although 2007 produced challenging business conditions, Wholesale Banking remained resilient and delivered good results by focusing on high value-added products, especially in the home markets. This was accompanied by a focus on reducing expenses, improving capital efficiency and actively stimulating growth. Wholesale Banking remains the largest contributor of profit within the Group and has a clearly defined focus and ambition to be a full-service Benelux bank, specialist products provider and to have key franchises in the emerging markets. Wholesale Banking also offers key balance sheet management skills.

Priorities have been identified to provide further growth and to retain and gain competitive advantages in a difficult business environment. Wholesale Banking seeks to increase efficiencies and to further improve the cost/income ratio. ING will allocate further capital to support growth in key product areas and to ensure it maintains returns at attractive level.

# Retail Banking
## Investing in efficiency and growth

## Key points

> Investment in integration of Postbank and ING Bank underlines commitment to Dutch market

> Acquisition of Oyak Bank gives ING solid platform in Turkey

> Continued strong growth in Poland, Romania and India

> Private Banking benefits from increasing wealth worldwide

**Profit and loss account (underlying)**

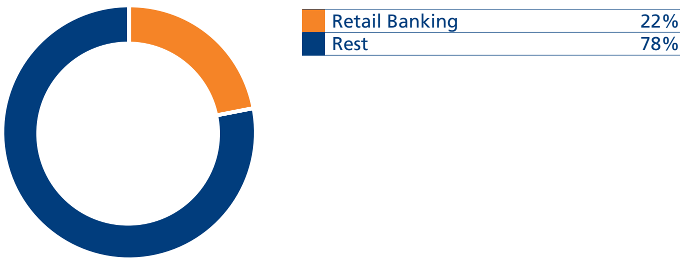
| in EUR million | 2007 | 2006 | change |
|---|---|---|---|
| Total income | **6,396** | 6,086 | 5.1% |
| Operating expenses | **4,162** | 3,990 | 4.3% |
| Additions to loan-loss provisions | **172** | 161 | |
| Underlying profit before tax | **2,062** | 1,935 | 6.6% |
| Total profit before tax* | **1,783** | 1,935 | –7.9% |

* Total profit before tax is defined as profit before tax including divestments and special items

**Key figures (underlying)**

| | 2007 | 2006 |
|---|---|---|
| After-tax RAROC | **39.5%** | 32.0% |
| Economic capital (EUR billion) | **3.9** | 4.1 |

**UNDERLYING PROFIT BEFORE TAX**
in percentages




**Breakdown of underlying profit before tax**

| in EUR million | 2007 |
|---|---|
| Netherlands | **1,548** |
| Belgium | **341** |
| Poland | **110** |
| Other* | **63** |
| Total | **2,062** |

* Mainly the retail banking operations in Romania, Ukraine, India (ING Vysya Bank), Private Banking Asia and Americas, ING Card, ING Trust, the ING participations in Bank of Beijing, TMB and Kookmin Bank.

Retail Banking performed well in 2007, especially in key product areas of mortgages and savings. Important steps were taken to improve efficiency in the mature markets and to enter high-growth markets in Central and Eastern Europe and Asia. In a financial services environment characterised by consumer power, rapid technological change and globalisation, Retail Banking aims to set the standard in convenience banking around the world.

## FINANCIAL DEVELOPMENTS

Underlying profit before tax from Retail Banking rose 6.6% to EUR 2,062 million as strong growth in most products helped offset the impact of challenging market conditions as inverse yield curves persisted and competition intensified for retail savings. Total profit before tax decreased 7.9% as 2007 included EUR 310 million in restructuring provisions, of which EUR 299 million for combining Postbank and ING Bank in the Netherlands. This was in part offset by a gain of EUR 32 million on the sale of RegioBank.

Underlying income increased 5.1% to EUR 6,396 million as a result of strong growth in almost all products. The impact of composition changes, like the mortgage portfolios that were transferred from ING Insurance, the sale of RegioBank as well as the transfer from a SME portfolio in Poland from Wholesale Banking to Retail Banking was limited. Excluding these composition changes and the EUR 44 million gain on Banksys in Belgium in 2006, the increase was 4.7%.

Total underlying operating expenses increased 4.3% to EUR 4,162 million driven by investments to grow the business in Poland, India, Romania and the Private Banking activities in Asia. The underlying cost/income ratio slightly improved to 65.1% from 65.6%. The addition to the provision for loan losses rose to EUR 172 million from EUR 161 million in 2006, due to higher risk costs in the Netherlands mainly related to a specific SME portfolio. The addition as a percentage of average credit-risk-weighted assets declined slightly to 16 basis points down from 17 basis points in 2006, due to strong business growth.

The underlying risk-adjusted return on capital (RAROC) after tax from Retail Banking improved to 39.5% from 32.0% in 2006. Higher risk-adjusted results combined with reduced economic capital led to this increase. The after-tax RAROC's of all regions improved. Average economic capital declined 4.2% to EUR 3.9 billion. Methodology refinements in line with Basel II compensated for strong business growth and the transfer of portfolios.

### Country developments

Underlying profit before tax from Retail Banking in the Netherlands rose 9.8% to EUR 1,548 million driven by volume growth in almost all products. The residential mortgage portfolio in the Netherlands grew by 16.8% to EUR 116.1 billion, supported by the EUR 11.5 billion transfer of portfolios from ING Insurance, partly offset by the sale of RegioBank. Excluding these changes, underlying profit before tax rose 8.1%, with income up 3.8%. Operating expenses declined 0.4% due to efficiency improvements and lower compliance costs. Risk costs increased to 20 basis points of average credit-risk-weighted assets from 17 basis points in 2006.

In Belgium, underlying profit before tax declined 28.7% to EUR 341 million due to 6.6% lower income and 3.4% higher expenses. The decline in income was next to a EUR 44 million capital gain on the sale of Banksys shares in 2006, mainly caused by margin pressure, as competition intensified, while customers shifted from variable savings to lower margin term deposits. Average retail balances grew by 10%. Operating expenses increased 3.4% partly caused by the impact of allocation refinements and some one-offs. Risk costs decreased from a net addition of eight basis points of average credit-risk-weighted assets in 2006 to a net addition of six basis points in 2007.

Underlying profit before tax of ING Bank Slaski's retail banking activities in Poland jumped 124.5% to EUR 110 million driven by strong volume growth and the shift of SME companies from Wholesale Banking to Retail Banking. Excluding this shift, profit before tax rose 94.7%. The adjusted underlying income rose 31.0%, partly offset by 18.1% higher expenses due to strong business growth and investments in the franchise distribution network. Net releases from the loan loss provisions increased to EUR 12 million compared with a net release of EUR 5 million in 2006, reflecting the significant strengthening of credit risk management in Poland.

The other retail banking activities posted an underlying profit before tax of EUR 63 million compared with a loss of EUR 2 million in 2006, mainly due to higher results in India and from the Private Banking activities in Asia as well as the high dividend received from Kookmin Bank. This was partly offset by higher investments in the greenfield franchises in Romania and Ukraine.

ING Private Banking benefited from the economic growth in Asia. The Private Banking activities in Asia are of increasing importance and now comprise almost 30% of the Private Banking result and 20% of the asset base. Total assets under management of Private Banking increased 14.9% to EUR 68.0 billion, while underlying profit before tax, which is included in the regional results, grew by 8.7% to EUR 263 million.

## HIGHLIGHTS

Retail Banking operates in the mature markets of the Benelux and in the fast developing countries of Central and Eastern Europe and Asia. A number of trends are evident, the first of which is how technology is transforming the distribution of retail financial services in all markets. The internet, for example, is becoming, or already has become, the primary distribution channel for simple, commoditised products. Secondly, ageing populations, especially in mature markets, are creating a need for products suited to people in the later stages of their lives. Thirdly, the middle classes are growing rapidly in emerging economies which is stimulating demand for financial services.

ING is responding to these trends. In mature markets ING is consolidating businesses to improve cost efficiency and is optimising its distribution channels. In high-growth markets ING is leveraging the strengths of its products, services and distribution expertise. All these efforts contributed to an expansion of our business franchise as we have been able to broaden our customer base, number of branches and profit. This is especially the case in high-growth markets like Romania, Poland and India.

# Retail Banking (continued)

**Efficiency key in mature markets**
In the Benelux, ING is concentrating on becoming more efficient and moving towards an 'internet first, advice when needed' model. Improved customer service by delivering simple and fair-priced products, creating better prospects for further growth and enhanced efficiency are the key objectives of the new Dutch and Belgian retail strategies. By doing this, ING is better equipped to respond to the challenges of the competitive and economic environment.

### Major growth initiative in the Netherlands
In May 2007, ING announced that Postbank and ING Bank will join forces to create a leading Dutch retail bank with more than 8 million retail and 600,000 business customers. By combining the activities of both banks, ING will improve services and maintain a strong focus on cost-effective execution. It will operate under the ING brand from 2009 and will be based on the successful direct banking model of Postbank with enhanced access to the professional advice capabilities of ING Bank.

It is expected that the integration will have a positive impact on earnings from 2009 onwards. The number of full-time employees (FTEs) will be reduced by 2,500 over a five-year period. The intention is to help people from work to work as much as possible.

Internet banking is growing fast in the Netherlands. Three million internet clients use Postbank's web facilities regularly. In 2007, 440,000 new internet clients were registered. Research indicates that on average, clients use the online banking services three times a week. ING Bank's internet site, Mijn ING Bank.nl, also attracted more customers in 2007: 150,000 new clients were added, bringing the total to 350,000.

Access to Mijn Postbank.nl suffered occasional disruption in 2007 but substantial investments are made to improve access and functionality in 2008 and 2009.

To strengthen its position in the mortgage market, Postbank launched mass media campaigns promoting ways for customers to reduce their monthly mortgage payments. The campaigns were successful and resulted in a substantial 16% increase in leads through Postbank's direct channels. ING Bank started positioning campaigns to underline its advice capabilities.

After the introduction of Postbank shops in Nijmegen and Rotterdam, a third was opened in The Hague. The easy accessibility and the advanced self-service equipment that enables all kinds of transactions are the key characteristics. People can obtain face-to-face advice or do their banking online in these shops, and research shows that customer satisfaction is high. The shops, which attract an average of 300 customers a day, are intended to meet the growing demand for advice on complex products and sensitive financial issues. The shops won a prestigious international retail design prize.

### Optimising retail distribution in Belgium
In line with the new Dutch retail strategy, ING Belgium is to implement a new branch service concept that focuses more on internet banking and automated cash services. The network of 794 branches will be transformed into 242 full-service branches and 552 smaller outlets with automated self-service cash functions and online banking access. It is expected that this will improve operational efficiency, enhance customer advice and increase profit by more than EUR 100 million in 2012. The number of FTEs will be reduced by 850 through natural attrition over a five-year period. An example of how ING Belgium is capitalising on the popularity of direct banking was the launch of the ING Lion Account, an internet-only current account and the first free-of-charge offer from a large bank in Belgium. By the end of 2007, 18% of all new accounts opened were Lion Accounts.

Another example is the introduction of the car insurance website www.ingauto.be. Clients can calculate their premium and take out their car insurance online within a few minutes. The number of people using the online Home'Bank increased substantially (up by about 20% in 2007 compared with 2006). About 50% of Belgian customers now bank online.

Record Bank, ING's second bank in Belgium, offers savings and investment products via banking agents, and loans through various channels. In 2007, Record Bank fully benefited from its successful integration of various smaller business entities it has acquired over the past years.

**Focus on fast-developing markets**
ING is well positioned in the key Central European markets of Romania and Poland and the important Asian markets of China and India. The strategy is to expand in Central and Eastern Europe and Asia and to enter selected high-growth countries by acquiring a partial or full stake in a bank or by starting up a greenfield. ING focuses on entering countries with a large population and strong GDP growth, like Turkey and Thailand, because these are the drivers for expansion of the financial services market.

The intention over the next three years is to increase the contribution that high-growth markets make to total retail banking profit. This will entail substantial investment. Initiatives are taken to prepare the business for the increasing demand for direct and simple products.

In Poland, ING Bank Slaski is developing a network of partner outlets to boost distribution. These outlets are based on ING's Romanian Self'Bank model, a branch concept that focuses on internet banking and automated cash functions. At the end of 2007, ING Bank Slaski's network consisted of just over 400 branches, including 75 franchise outlets, 29 of which were opened that year. ING Bank Slaski managed to strengthen its position in retail deposits, achieving a 9.4% market share by the end of the year. ING Bank Slaski is key distributor of ING investments funds in Poland. At the end of 2007, its market share of mutual funds was 5.8%. ING Bank Slaski also intends to increase its market share of local currency mortgages. It began piloting an online mortgage via brokers, Kredyt Hipoteczny Express, characterised by automated processes and fast decision-making.

In Romania, the concept of self-service banking has proved successful. The number of Self'Bank outlets now stands at 148 since the concept was launched in September 2004. 230,000 new customers were added in 2007, breaking the target of 500,000 total customers by the end of the year.

In India, ING has a 44% stake in ING Vysya Bank. The strategic focus in 2007 was to increase branch productivity and accelerate the acquisition of new customers by rolling out new branches and cash machines. The number of internet customers increased from 90,000 to 145,000. ING Vysya Bank obtained approval from the Reserve Bank of India to open 56 new branches and to install 100 off-site cash machines. The bank is growing faster than the retail banking market as a whole; for example, the overall deposits market grew by 12.8% while ING Vysya Bank's deposits grew by 14.1%.

In China, ING had a stake of 19.9% in Bank of Beijing until September when Bank of Beijing made a spectacular debut on the Shanghai stock exchange. ING did not participate in this listing. Nonetheless, with a diluted stake of 16.07%, ING still remains the largest single shareholder. As a result of the listing the market value of ING's investment increased ten-fold to approximately EUR 2 billion. Bank of Beijing will use the capital to fund nationwide expansion. In 2007, branches were established in Tianjin and Shanghai. Other achievements were the launch of a credit card in close cooperation with ING Card and enhanced distribution of ING Insurance products.

### New growth initiatives

In 2007, ING took some important growth initiatives. One was the acquisition of Oyak Bank in Turkey, which will be re-branded under the ING brand. ING acquired 100% of the shares for an amount of EUR 1.9 billion and a price-to-book ratio of 2.75 on shareholders' equity as at year-end 2007. Turkey is the 17th largest economy in the world by GDP and economic growth is expected to continue. Oyak Bank has a market share of approximately 3%. It offers a full range of banking services with a focus on retail banking. The bank has 1.3 million retail customers, serves 13,500 small-to-medium sized businesses and has 365 branches throughout Turkey. Oyak Bank will provide ING with a platform to distribute insurance, asset management and retirement products. ING plans to expand the network to 450 branches and to invest in other distribution channels.

Ukraine is also an attractive country for retail banking. Its economy has been growing rapidly and a substantial increase in GDP per capita is expected. ING has started preparations to implement the Self'Bank concept copying the Romanian model. The aim is to have around 20 branches operational by mid-2008.

One of the big growth markets in Asia is Thailand. In December 2007, ING finalised the acquisition of a 30% stake in TMB for approximately EUR 460 million. This transaction enables ING to extend its footprint in the fast growing Asian market. TMB is one of the leading banks in Thailand with approximately EUR 14 billion in total assets, over 5 million customers and 472 branches. It offers a wide range of products and services with a large retail deposit base and a lending focus on the small-to-medium enterprise and corporate sectors.

## PRIVATE BANKING

ING Private Banking is well positioned to capitalise on the global growth in personal wealth. The mix between onshore private banking operations (Belgium and the Netherlands) and offshore (Switzerland and Asia) provides ING with a strong platform to benefit from the worldwide potential. Onshore businesses are centred in the Benelux where ING is able to capitalise on both retail and wholesale distribution models. For the developing markets dedicated teams have been set up. ING Private Banking is growing rapidly, with all regions contributing to that growth.

### Europe

The Benelux business benefited from the European savings directive which prolonged the effect of Belgian fiscal amnesty in 2006. In Belgium, ING has been able to capitalise on both its retail and wholesale distribution models. The Swiss business is performing well. The private banking activities are a platform for expanding in Central and Eastern Europe.

### Asia

Asia has become the largest profit growth contributor for Private Banking. Population growth and wealth per capita is growing faster than in Europe. In India and China onshore private banking operations are built on the existing retail and wholesale operation of ING Vysya Bank and Bank of Beijing. ING will continue to redeploy capital to accelerate organic growth.

ING Private Banking aims to grow rapidly its assets in the next five years. The objective is to become one of the top-20 players globally by continuing to expand through increasing brand awareness, improving customer loyalty and promoting new innovative investments platforms.

## CONCLUSIONS AND AMBITIONS

Retail Banking performed well in 2007, especially in its key product areas of mortgages and savings. It undertook important initiatives to enhance efficiency and to drive growth. The new Dutch and Belgian strategies are focused on increasing efficiency and reducing costs to secure long term profit growth and executing these strategies will be an important focus for 2008.

ING decided to transfer mid-corporate clients in its home markets from Wholesale Banking to Retail Banking with effect from 1 January 2008. The transfer will allow ING's domestic banking organisations in the Netherlands, Belgium, Poland and Romania to operate under a single management and a single brand.

ING expanded in Central and Eastern Europe and Asia, gaining momentum in Poland and Romania and starting preparations to open a new operation in Ukraine. The acquisition of Oyak Bank in Turkey gives ING a strong platform in this important market. The 30%-stake in TMB in Thailand enables ING to extend its footprint in the fast growing Asian market, including in Private Banking. With respect to Private Banking, ING performed well, in particular in Asia.

The ambition is to increase the contribution of the growth markets to overall retail banking profit in the next three years. ING will continue to screen opportunities for greenfields or acquisitions.

# ING Direct
## Making banking simple

## Key points

> Milestone reached of more than 20 million customers worldwide

> Total client retail balances production up EUR 35 billion to EUR 310 billion

> Continued investments to support geographical growth and expand product offering

> Mortgages firmly embedded as second core product

**Profit and loss account (underlying)**

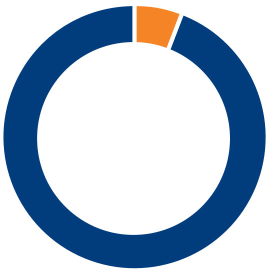
| in EUR million | 2007 | 2006 | change |
|---|---|---|---|
| Total income | **2,196** | 2,233 | –1.7% |
| Operating expenses | **1,598** | 1,482 | 7.8% |
| Additions to loan-loss provisions | **68** | 57 | |
| Underlying profit before tax | **530** | 694 | –23.6% |
| Total profit before tax* | **530** | 691 | –23.3% |

* Total profit before tax is defined as profit before tax including divestments and special items.

**Key figures (underlying)**

| | 2007 | 2006 |
|---|---|---|
| After-tax RAROC | **14.3%** | 11.8% |
| Economic capital (EUR billion) | **2.8** | 3.2 |

**UNDERLYING PROFIT BEFORE TAX**
in percentages



| | |
|---|---|
| ING Direct | 6% |
| Rest | 94% |

**Underlying profit before tax**

| in EUR million | 2007 | 2006 | change |
|---|---|---|---|
| Canada (1997) | **0** | 62 | n.a. |
| Spain (1999) | **55** | 55 | |
| Australia (1999) | **84** | 86 | –2.3% |
| France (2000) | **46** | 34 | 35.3% |
| United States (2000) | **78** | 85 | –8.2% |
| Italy (2001) | **49** | 43 | 14.0% |
| Germany (2002) | **367** | 332 | 10.5% |
| United Kingdom (2003) | **–120** | 19 | n.a. |
| Austria (2004) | **–9** | –22 | n.a. |
| Japan | **–22** | – | n.a. |
| Total | **530** | 694 | –24% |

ING Direct continued to invest in building the business and expanding its product offering. The company faced a challenging year, given the interest rate environment, strong competition and required repositioning of ING Direct UK, all of which impacted profit. Total client retail balances were up EUR 35 billion (excluding currency effects), bringing the total balance to EUR 310.1 billion, driven by a record own-originated mortgages production of EUR 29 billion.

## FINANCIAL DEVELOPMENTS

ING Direct continued to invest to enhance commercial growth through geographical expansion and the roll-out of new products, despite challenging market conditions. Yield curves remained flat or inverted in all currency zones, while competition for deposits intensified as many banks faced tighter liquidity and increased funding costs on the wholesale markets. In this environment underlying profit before tax declined 23.6% to EUR 530 million, compared with EUR 694 million in 2006. Including the impact of the divestment of Degussa Bank, which was sold at year-end 2006, total profit before tax decreased 23.3%.

Total underlying income declined in 2007 by 1.7% to EUR 2,196 million due to an 8.1% lower interest result. The interest margin narrowed to 0.75% from 0.89% in 2006 as a result of higher central bank rates in the euro, British pound and Australian currency zones and the intensified competition for retail funds. The total client retail balances in 2007 grew EUR 28 billion (or EUR 35 billion excluding currency effects) to EUR 310.1 billion at year-end. This includes EUR 5.3 billion from add-on acquisitions in the fourth quarter. Commission income increased due to further growth in off-balance sheet funds. Investment and other income was up EUR 104 million, supported by higher gains on the sale of bonds and loans and increased net trading income. This was in part offset by an EUR 29 million impairment on asset-backed commercial paper in Canada in the fourth quarter of 2007.

Total operating expenses increased by 7.8% to EUR 1,598 million, reflecting higher staff numbers to drive the growth in mortgages and payments accounts, preparations for the launch of ING Direct in Japan (EUR 22 million start-up costs), the consolidation of Sharebuilder in the US, as well as costs for repositioning the UK business. The underlying cost/income ratio increased to 72.8% in 2007 from 66.4% in 2006.

The operational cost to client retail balance ratio, which excludes marketing expenses, rose to 0.37% compared with 0.36% in 2006. The number of full-time staff increased to 8,883 from 7,565 a year earlier.

The addition to the provision for loan losses increased to EUR 68 million from EUR 57 million reflecting the increased volume of the mortgage portfolio. The addition was 9 basis points of average credit-risk-weighted assets, up from 7 basis points in 2006.

The underlying risk-adjusted return on capital (RAROC) after tax improved to 14.3% from 11.8% in 2006, due to lower tax charges supported by a tax asset in Germany. The pre-tax RAROC decreased to 17.7% from 19.4% primarily due to a lower risk-adjusted profit, outweighing the 14% decline in average economic capital to EUR 2.8 billion from EUR 3.2 billion in 2006 as a result of improvements in RAROC methodology.

### Country developments

ING Direct's overall profit was driven by the business units in Germany, Australia, US, Spain, Italy and France. In Germany, profit before tax increased 11% to EUR 367 million from EUR 332 million in 2006. France and Italy posted increases of 35% and 14% to EUR 46 million and EUR 49 million, respectively. Profit before tax in Spain remained unchanged at EUR 55 million, while profit before tax in Australia declined slightly by 2% to EUR 84 million. In the US, profit before tax was EUR 78 million, a decline of 8% compared with 2006. In the UK, ING Direct posted a pre-tax loss of EUR 120 million compared with a profit of EUR 19 million in 2006, mainly caused by a 39% net outflow of funds entrusted from rate-sensitive customers. Profit before tax in ING Direct Canada declined partly due to lower interest results caused by an impairment of EUR 29 million on ABCP investments in the fourth quarter of 2007.

## HIGHLIGHTS

Launched as an innovative financial-services company in 1997, ING Direct celebrated its tenth anniversary in 2007 as the world's leading direct bank. It is the leading direct bank in each of the nine countries in which it operates. The aim is to become the world's most preferred consumer bank.

In all of its activities, ING Direct focuses on making banking simple for customers by offering a range of straightforward and transparent banking products at low costs, combined with excellent service delivered through direct channels. The low-cost base is maintained by the use of standardised, state-of-the-art IT systems and the absence of a branch network.

The ING Direct brand has been firmly established in all nine countries and currently the aided brand awareness exceeds 80% at most of its operations. A recent survey showed that on average 91% of our customers are likely to recommend ING Direct to friends, relatives and colleagues.

### Value creation

ING Direct continued to invest in long-term value creation in 2007, with growth being generated in three ways: an increase in customers at existing operations, geographical expansion and serving a broader range of customer needs. ING Direct developed the business in four major product categories: savings (the entry product), mortgages (a stable product line providing healthy margins), payment accounts (which serve to 'deepen' the customer relationship) and investment products (a good complement to savings).

In what was a challenging interest rate environment, ING Direct focused more on mortgages and less on savings growth, but savings will remain the main customer acquisition product.

### Geographical expansion

ING Direct USA extended its activities to new cities in 2007: Miami, Seattle and Houston. The company was already active in New York, Philadelphia, Boston, Los Angeles, San Francisco, Baltimore, Washington, Phoenix, Atlanta and Chicago. Further geographical expansion in the US is anticipated.

Preparations are being made for ING Direct to launch in the EUR 4.9 trillion Japanese savings market. ING Direct obtained a preliminary banking licence from the Japanese regulatory authorities in 2007 and is in the process of obtaining a banking licence.

# ING Direct (continued)

**Add-on acquisitions in US and Germany**
Organic growth was complemented by the purchase in September of NetBank, the US's oldest internet bank, for USD 14 million, which gave ING Direct an additional 104,000 customers with USD 1.4 billion in deposits. NetBank offers attractive prospects and cost synergies to our US business unit. The purchase in November of the online brokerage business of the US ShareBuilder Corporation for USD 220 million added 744,000 customers and USD 2 billion in assets under management.

ING-DiBa Germany bought a EUR 3.9 billion mortgage portfolio and customer rights from Hypo Real Estate Bank AG. The Munich-based bank's portfolio includes 39,000 private customers with an average outstanding amount of EUR 110,000 per customer.

**Further develop four major product categories**
ING Direct accelerated its growth investments to a total of EUR 354 million to further support the growth of the business at the expense of short-term profit. Investments in mortgages, now firmly embedded as our second core product after savings, will continue, as well as in payment accounts and investment products.

## Mortgages
The own-originated mortgages production reached a record high, with a net growth of EUR 29 billion (excluding currency effects), bringing the total residential mortgages portfolio – including bought pools – to EUR 97 billion at the year-end. ING Direct reached more than 50% of all funds entrusted outstanding in residential mortgages issued by ourselves directly or through intermediaries in 2007. Own-originated mortgages yield a better margin than bonds or mortgage pools purchased from other financial institutions.

ING Direct is now the largest retail mortgage provider in Germany in terms of new business and has become a major provider in the US for the first time. Throughout our business units, we have simplified our procedures – aiming for high quality and fast service as these are big differentiators in a competitive environment. An example is the launch of an online tool – the 'Unmortgage Application Tracker' in Canada that allows mortgage prospects to track the exact status of their applications. Another example is Germany, where all paperwork for mortgages has been minimised as part of the 'Simplify ING-DiBa programme'. This programme makes the application process simpler and in many cases we are able to reach a decision on mortgage applications in as little as three hours.

The new 'Rata Costante' – a mortgage refinancing with fixed instalments and a variable term offered by ING Direct Italy – invites customers to switch from their current mortgage provider to ING Direct. This product was introduced following a change in legislation by the Italian government and has positioned ING Direct as a mortgage expert.

ING Direct Australia was voted second-best mortgage lender by brokers.

## Payment accounts
Payment accounts were launched in Spain and the US and re-introduced in the third quarter in Germany, resulting in 598,000 new accounts and bringing the total to 853,000 accounts at year-end. Payment accounts are an important product category as they deepen relationships with customers and offer opportunities to cross-sell additional products. ING Direct plans to launch payment accounts in three other countries in 2008.

## Investment products
ING Direct extended its retail investment product range in 2007. ING Direct France and ING Direct UK launched guaranteed investment products in August, following the success of earlier launches in Spain and Germany. In the US, ShareBuilder was acquired to accelerate the growth of our brokerage and investment product offering.

For the third consecutive year, the leading German financial magazine Focus-Money named ING-DiBa 'Best Investment Fund Bank', for its market-leading discounts on investment fund fees.

**ING Direct UK**
UK savers are more rate-sensitive than in other countries due to the wide availability of rate comparison tables and an active consumer press. The Bank of England's interest rate increases as from August 2006 were not immediately fully translated into ING Direct UK's customer rates, which meant they became less attractive to people with high balances. Consequently, ING Direct UK suffered savings outflows of EUR 11 billion, excluding currency effects. It took several management, pricing and marketing actions to reverse the trend and reposition the business. The customer rate on the ING Direct Savings Account was increased closer to the Bank of England rate and direct marketing initiatives were intensified to retain balances and win back and acquire new customers. As a result, outflows were reduced from EUR 5.1 billion in the third quarter to EUR 0.6 billion in the fourth quarter. These measures created short-term losses which will continue at decreasing amounts in 2008 as the financial assets will reprice over time. A new chief executive officer was appointed on 1 January 2008.

**Making banking simple**
At ING Direct, being simple and straightforward is important. Customers appreciate 'simplicity', as well as competitive rates. The aim is to always take the customer's perspective to ensure simplicity in all of our products, processes, services and systems. Our ambition to become the world's most preferred consumer bank will increase our size and complexity. To ensure that we continue to see the customer's point of view, it was decided to introduce 'Customer Advocate' roles, one in each business unit. The Customer Advocate's job is to act in favour of customers, make it easier for them to interact with us, find out what they want and how we can best continue to meet their needs.

## People are key
Banking is first and foremost a people's business and our employees are therefore key in executing our strategy. Significant time and effort are put into maintaining the culture and the quality of our workforce, which increased from 7,565 FTEs at year-end 2006 to 8,883 FTEs at the end of 2007. One of the tools we use to maintain our strong company spirit is our Business Management Programme, which more than 600 managers have attended. The course provides a shared understanding of the key success factors, including the company's culture and strategy, and builds cross-company networks.

### International mobility

Giving staff the opportunity to work in different countries is part of ING Direct's human resources strategy. We offer short-term assignments (maximum three months) and long-term (one to three years) assignments. Both long- and short-term assignments have been steadily increasing in number and are expected to rise further in 2008.

### State-of-the-art IT systems

Internet security is one of the most important issues for our customers, so we strive to minimise risks and use proven technology. We share best practices to optimise the development cycle. Strong IT is crucial for the business and ING Direct is always looking to achieve industry-leading reliability and provide flawless service to end-users to remain competitive. In 2007, the business continued to invest in systems to ensure that they are highly secure, in addition to being flexible and cost-effective.

### Industry recognition

Our efforts have been recognised by the market: ING-DiBa Germany was voted 'Best Bank in Germany' by the business magazine Euro; ING-DiBa Austria's customer service was ranked in the top three in a major Austrian survey; and ING Direct Australia was rated number one in the national Global Customer Satisfaction survey.

## CONCLUSIONS AND AMBITIONS

ING Direct has been operating for ten years with continued strong commercial growth. It faced a challenging year in 2007. The flat yield curve environment, strong competition and required repositioning of ING Direct UK affected its profit. Excluding the UK and growth investments, profit rose by 7%.

Growth remains the underlying theme of our vision to become the world's most preferred consumer bank. In this respect, good progress was made. In 2007, 2.8 million new customers were welcomed, bringing the total to more than 20 million worldwide.

ING Direct continued to invest in building the business and expanding its product offering and will continue to pursue its growth strategy in a challenging market environment by further building the business – in the US, for example, where we still see much potential – and by product line – savings, mortgages, payment accounts and investment products. In the product area we will concentrate most on expanding the mortgage business, payment accounts and investment products.

Payment accounts will be rolled out in three more countries in 2008, with continued growth in Germany, Spain and the US.

The competitive environment for savings is expected to continue, as other banks intensify their efforts to compete for retail deposits to fund their lending business, so we will make sure that adequate savings rates and proper asset and liability management, closely aligned with our pricing strategy, will be maintained going forward.

ING Direct will continue to take a customer-centric approach as this will give us the best possible chance of achieving our vision of becoming the world's most-preferred consumer bank.

**Number of clients, total funds entrusted, residential mortgage portfolio, off balance sheet funds**

| Clients in thousands funds entrusted residential mortgage portfolio and off balance sheet funds in EUR billion and market rankings at end of November 2007 | Clients 2007 | Clients 2006 | Funds entrusted 2007 | Funds entrusted 2006 | Residential mortgage portfolio 2007 | Residential mortgage portfolio 2006 | Off balance sheet funds 2007 | Off balance sheet funds 2006 | Market rankings* 2007 |
|---|---|---|---|---|---|---|---|---|---|
| Canada | **1,526** | 1,491 | **13.9** | 12.3 | **13.2** | 9.5 | **0.2** | 0.2 | **7th**** |
| Spain | **1,624** | 1,455 | **12.9** | 13.0 | **6.5** | 4.8 | **1.9** | 1.5 | **9th**** |
| Australia | **1,316** | 1,414 | **12.0** | 11.2 | **18.3** | 15.4 | **–** | – | **6th** |
| France | **716** | 626 | **12.9** | 12.3 | **–** | – | **1.5** | 1.2 | **9th***** |
| United States | **6,524** | 4,629 | **41.3** | 36.0 | **17.9** | 12.5 | **1.8** | 0.3 | **17th** |
| Italy | **937** | 792 | **14.2** | 14.0 | **3.3** | 1.8 | **0.4** | 0.4 | **7th*** |
| Germany | **6,124** | 5,703 | **58.5** | 57.2 | **35.9** | 25.0 | **12.9** | 11.0 | **6th** |
| United Kingdom | **1,137** | 1,099 | **22.3** | 36.3 | **1.9** | 0.1 | **–** | – | **11th** |
| Austria | **357** | 302 | **3.5** | 3.5 | **–** | – | **0.0** | 0.0 | **7th** |
| Total | **20,262** | 17,511 | **191.5** | 195.9 | **97.0** | 69.0 | **18.8** | 14.6 | |

* Market ranking in retail funds entrusted in local banking market at year-end.
** Ranking at end of November 2007.
*** Ranking at end of September 2007.

# Asset management

## Key points

> Total assets under management, which include ING Investment Management, ING Real Estate and ING Private Banking, grew 6.1% to EUR 637 billion

> One of the world's top 20 asset managers on a total AuM basis

> Another year of solid growth for ING Real Estate

> Rapid expansion of ING Private Banking

**ASSETS UNDER MANAGEMENT BY BUSINESS LINE**
in EUR million

| | | |
|---|---|---|
| Insurance Europe | 24% | 154.5 |
| Insurance Americas | 33% | 213.2 |
| Insurance Asia/Pacific | 16% | 98.7 |
| Wholesale Banking | 11% | 67.4 |
| Retail Banking | 15% | 93.8 |
| ING Direct | 1% | 9.3 |
| Total | 100% | 636.9 |

**ASSETS UNDER MANAGEMENT BY CLIENT CATEGORY**
in EUR million

| | | |
|---|---|---|
| Insurance policy holders | 19% | 122.4 |
| Institutional clients | 24% | 153.3 |
| Retail clients | 18% | 116.4 |
| Private banking clients | 11% | 68.0 |
| Proprietary | 28% | 176.8 |
| Total | 100% | 636.9 |

Successful execution of ING Group's strategy requires a world class asset manager. Asset management is a core competency of ING which includes three key businesses: ING Investment Management (ING IM, our principal asset manager), ING Real Estate and ING Private Banking. ING IM gives ING a significant global presence through its broad offerings of a diversified mix of products with strong performance. In 2007, ING IM made a significant contribution to ING Group's overall results. ING Real Estate recorded another year of strong growth and ING Private Banking continues to attract new customers.

## FINANCIAL DEVELOPMENTS

Assets under management increased EUR 36.9 billion (6.1%) to EUR 636.9 billion in 2007. Growth was driven by a net inflow of EUR 40.4 billion, mainly through Insurance Asia/Pacific, which contributed EUR 14.2 billion, Retail Banking EUR 8.6 billion, Insurance Americas EUR 8.5 billion and ING Real Estate EUR 6.6 billion. Furthermore, changed asset prices of equity and fixed income securities contributed EUR 16.2 billion and the positive impact of acquisitions and divestments amounted to EUR 12.7 billion. Growth was offset by the negative impact of exchange rates (mainly US dollar) of EUR 32.5 billion. Growth was achieved for the greater part in third-party assets, which increased by 13.8% to EUR 460.1 billion by year-end 2007. Proprietary assets decreased 9.6% to EUR 176.8 billion.

## ING INVESTMENT MANAGEMENT

ING IM's goal is to become a top-10 global asset manager. The mission is already under way across all three regions – Europe, the Americas and Asia/Pacific – which are delivering a wide range of innovative investment solutions to ING's vast network of internal and external clients. Our strategy focuses on distributing these successful investment strategies globally. This will be achieved by working closely across regions to leverage both scale and investment expertise, while bringing the best of our manufacturing expertise efficiently to clients wherever in the world they are located. Additionally, where we see opportunities we develop alternative investments and structured solutions.

ING IM's key priorities are to achieve above market growth in our assets under management by further strengthening partnerships with ING businesses and developing third party business opportunities. The business also strives to increase investment performance for our clients and to maximise the use of ING's risk management skills. We are expanding our IT infrastructure capabilities. We will focus both on organic growth and acquisition opportunities.

### Sound investment performance

In 2007, ING IM has delivered sound investment performance. On a three-year basis, 77% of mutual fund assets performed above their benchmark. Compared to peers, 60% of the funds ranked in the first or second quartile as measured on a three-year basis.

Additionally, 14 funds received 5 stars and 53 funds received 4 stars from Morningstar ratings agency; the highest and second highest ratings a fund can receive. These 5- and 4-star rated fund assets represented EUR 21.4 billion or 35% of total ranked mutual fund assets. ING IM increased its third party assets by EUR 23.2 billion, bringing the total to EUR 232.2 billion.

ING continued to have success with its strategy of leveraging its strong global investment capabilities to provide regional opportunities for both retail and institutional customers. Client demand for yield has increased as rates dropped around the world. In Europe, ING IM experienced inflows of EUR 172 million into its Total Return Bond strategies. Close cooperation between ING IM Europe and ING IM Asia/Pacific created net inflows of about EUR 2.2 billion in several fixed income related mandates in Japan. The global manufacturing of some of ING IM's fixed income flagship investment strategies has generated regional and cross-regional sales of EUR 4.3 billion. In every region, ING IM has benefited from a strong global product offering combined with a good local customer-centric focus.

The growth in alternative asset classes combined with the needs of ING IM's clients has led to a continued focus in this area during the year. Pomona Capital, ING IM's private equity firm, introduced its first Fund of Funds in Asia/Pacific.

ING IM also stands to gain from the expanding global wealth management activities of ING. In addition to scale and cost benefits from having a large proprietary portfolio, strategies that have been developed from effective pension risk management, such as asset liability management and liability driven investing, and with variable annuities, expertise can be translated for use within the institutional and retail third party product and distribution channels.

### Europe

ING IM Europe witnessed strong organic growth in its third party assets during the year helped by continued sales of solidly performing existing product, new product launches and the trend towards open-architecture. Our Central European operations continued to generate strong sales of EUR 1.25 billion driven by ING Bank Slaski in Poland. We entered a new market through ING Group's acquisition of Oyak Bank in Turkey.

As for products, we saw continued interest in our higher yielding strategies with good inflows driven by a strong three-year track record. There was also renewed interest in our Money Market offering. Also in 2007, ING IM Europe created the Multi-Asset Group. The objective of this group is to enhance investment opportunities across asset classes. The Multi-Asset Group launched the ING Opportunity Aandelen Fonds, which successfully generated sales of EUR 147.9 million. The objective of this fund is to increase yield through superior allocation of assets within asset classes using several different strategies (style, size, regions).

To enhance our scale and market strength in the European pension business, ING IM and Nationale-Nederlanden completed their acquisition of AZL, an independent Dutch provider of pension fund management services.

# Asset management (continued)

**Americas**
ING IM Americas continued to grow through existing areas as well as in targeting new opportunities with significant growth potential. ING IM Americas maintained strong asset management sales figures and launched new funds despite market challenges, particularly in the second half of 2007.

Taking advantage of growth in the post retirement market and investors need for income in retirement, the Multi-Asset Structured & Solutions Group added two more target date funds to a suite of 'in-retirement' solutions for plan participants. On the retail side, ING IM America's successful 'Going Global' campaign continued to attract significant inflows, adding EUR 945 million. Several new funds expanded the international line-up including the ING Asia Pacific Real Estate and the ING European Real Estate funds, and two new closed-end funds, the ING Asia Pacific High Dividend Equity Income Fund and the ING International High Dividend Equity Income Fund. The launch of these two funds brings total assets in ING IM's closed-end fund assets to over EUR 3.3 billion. All new funds use ING's varied investment capabilities and regional expertise to create customised global solutions for investors.

ING IM's Institutional Markets business saw business volume increase as spreads widened and market conditions turned more favourable during the second half of the year.

With the Santander pension deal, ING in Latin America gained EUR 3.3 billion in assets under management.

**Asia/Pacific**
ING IM Asia/Pacific saw continued strong organic growth in assets in every country in which it operates, driven by inflows from institutional and retail clients and by market performance. ING IM maintained its position as a top-three investment manager in the region.

In China, assets under management for ING's 33.3% equity in the China Merchant Fund Company rose to EUR 2 billion on strong inflows. In India, assets under management increased to EUR 1.74 billion in 2007 from EUR 1.22 billion in 2006, a substantial increase of about 141%. In Taiwan, ING IM won several institutional onshore equity mandates worth EUR 257 million.
In Australia, ING IM added EUR 203 million in enhanced cash management products through institutional investors. In Hong Kong, net inflows totalled EUR 385 million in fixed income, equity and real estate investment funds during the year.

The successful launch of Global Yield Maximiser, with assets under management of EUR 102 million at the end of 2007, reflected close cooperation between ING IM Australia and ING Private Banking in Asia. The launch of the China Access Fund was also successful and raised EUR 80 million during the IPO. The joint venture with China Merchant Bank proved fruitful with a Core Value fund launch which raised EUR 1.55 billion. ING Funds Malaysia set another industry record when its ING Baraka Capital Protected Fund raised EUR 106.4 million, far surpassing its initial issue of EUR 42.4 million and thus making it the country's largest closed-end capital protected fund.

To build scale and market position, ING IM acquired the full ownership of Landmark Investment Management Company Ltd (Landmark) in Korea on 30 August 2007 and subsequently completed the merger with ING Investment Management Korea Ltd on 1 October. This created the 10th largest asset management company in Korea, managing assets of EUR 8.27 billion at year-end.

**Prizes and awards**
ING IM Americas again received the Best Shareholder Relations award for a non-US closed-end fund family, from a panel of leading Wall Street closed-end fund analysts. ING IM was also voted third most reputable international fund manager in the US for the emerging mass affluent in the Financial Reporting Council's *2007 International Investment Manager Report*.

In Europe, the ING (L) Renta Funds Emerging Markets Debt HC was awarded the Best Fund Five Years – Sector Fixed Income Global Emerging Markets in the S&P Switzerland 2007 awards. The ING (L) Invest European Food & Beverages was named the Best Fund over past Five Years Equity – Sector Non-Cyclical Consumer Goods and Services in the Lipper Awards Luxembourg and Switzerland, and Best Fund in 1 Year – Sector Consumer Goods in the S&P Switzerland 2007 Awards.

**Goals and ambitions**
ING IM is a core competency of ING and has strong growth opportunities throughout the world. We will continue to use our global capabilities and investment talent to service both our internal and external clients with world-class investment performance. The partnership with other parts of the organisation means ING will be in an excellent position to increasingly develop products which blend asset management, insurance and capital markets to meet the demands of both institutional and retail clients. This will put ING at the forefront of a significant growth trend.

**ING REAL ESTATE**
ING Real Estate had another year of solid growth, with assets under management increasing by 10% over the year, despite the weaker dollar, its loan portfolio growing by 42% and a development portfolio growing by 17%. At the year-end ING Real Estate's total business portfolio was EUR 107.2 billion up 18.2% on 2006 and profit before tax increased by 5.2% to EUR 664 million.

After a sustained period of double-digit returns from real estate, 2007 marked a turning point in the market, with returns from core real estate reverting to more normal levels. The benefits of a well diversified business became especially apparent in the second half of 2007, which saw lower, but still positive, growth from real estate investments and volatile stock markets starting to impact on listed real estate holdings. At the same time, ING Real Estate Finance took advantage of these changed market circumstances which resulted in strong profit growth.

**ING Real Estate Investment Management**
ING Real Estate Investment Management expanded its product range to incorporate value-added and opportunistic investment strategies as well as new funds such as the China Opportunity Fund and Iberian Value-Added Fund. It continued to be acquisitive. Among a number of notable transactions were the purchase of the Apple 2 hotel portfolio in the US and the acquisition of two

retail assets in Japan. In early 2008, a transaction had been concluded with ABP Pension Fund, in respect to the KFN office portfolio, following which the KFN EUR 1.6 billion Dutch office portfolio will be held by two ING Real Estate funds. Performance and customer service remained a central theme: 69% of funds outperformed their benchmarks on an asset-weighted basis. Eleven new funds were launched in 2007 in response to investors' needs, and during the year 150 new investors and 23 new separate accounts were gained.

**ING Real Estate Finance**

ING Real Estate Finance had a very strong year, growing its loan portfolio, increasing income, and continued very low risk costs. It achieved further international diversification while remaining market leader in the Netherlands. Almost half its loan portfolio is now international, up from 35% last year. Market conditions in the latter part of the year were positive and ING Real Estate Finance took advantage of the dearth of lenders in the real estate markets to grow its portfolio. During the year it also embarked on a comprehensive change programme to ensure that it remains at the forefront of real estate lending.

**ING Real Estate Development**

ING Real Estate Development maintained its focus on Europe while strengthening its position as an area developer. Major regeneration and inner city projects in Amsterdam, Hamburg and Hull were progressed, projects that require strong relationships and a shared vision across a wide group of stakeholders. It also concentrated on building sustainability and enhancing its research capabilities. It continued to expand its activities, opening a Romanian office in 2007 and acquiring Geo-de, a Lyon-based small French developer, in January 2008.

**Ambitions**

ING Real Estate anticipated that 2007 would be the last year of exceptional performance for real estate but demand from investors and borrowers remains robust and, while growth may moderate, with a diverse business model ING Real Estate believes it is well-placed to weather the current turmoil in property markets.

## ING PRIVATE BANKING

ING Private Banking is well positioned to capitalise on the global growth in personal wealth. ING Private Banking is growing rapidly. In 2007, growth came from all regions. Private Banking posted a 8.7% increase in underlying profit before tax to EUR 263 million. The increase was driven by strong growth in assets under management, especially in Asia.

ING Private Banking aims to grow rapidly its assets in the next five years. The objective is to become one of the top-20 players globally by increasing brand awareness, improving customer loyalty and promoting new innovative investments platforms.

For more information on Private Banking see the Retail Banking chapter on page 40.

# Human Resources
## Focus on strong leadership and employee engagement

## Key points

> Top leaders' performance evaluated on both business and leadership objectives

> Increased international mobility

> Enhanced profile in international recruitment market

> Young talents are catalysts in building international bridges across businesses

There is increasing evidence to prove the link between strong leadership, employee engagement and shareholder value. Corporations with staff-oriented managers and committed workers are the most successful, which is why ING places much importance on having a professional and business driven Human Resources function. In 2007, HR focused on further improving leadership capabilities and enhancing employee engagement.

### LEADERSHIP AND TALENT MANAGEMENT

As a company that is eager to grow and with the 'war for talent' being intensified, ING has invested considerably in enhancing its attractiveness as an employer of choice on a global scale. The ING Employer Brand, introduced in 2006, was activated across borders and business lines during 2007. The number of graduates applying to ING increased, as did the number of people looking at careers pages on ING websites. In various key markets and in Europe in particular, ING moved up considerably in the 'best employer' benchmarks.

Additionally, ING's profile has been enhanced by empowering our graduate recruits around the world, through initiatives such as the ING International Graduate Programme (IIGP). In 2007, the IIGP centred on the theme 'Unleash your talents' and involved 173 talents from more than 30 countries. Many of the participants were involved in projects across borders to share knowledge within the company in support of the international staff mobility policies introduced in early 2007. Such initiatives have helped attract and retain key talents in the company and improve the brand awareness that has been extended considerably by the Formula One (F1) sponsorship.

Global Human Resources (HR) is moving towards a globally shared method of identifying and developing talents. An Enhanced Talent Definition was introduced in 2007 to assess individuals' performance, potential and ambition. This was supported by the ING Business School, which continued to focus on ING's strategic themes and is in the process of shifting its focus from individual skills training to optimising team and business performance.

### EMPLOYEE ENGAGEMENT

Leadership behaviour that drives employee engagement was the focal point of HR's strategy in 2007. Consequently, the performance evaluation of ING's top 200 managers now includes their leadership behaviour as well as the many other traditional performance measures, such as ability to meet business objectives. This provides a clear signal to everyone that ING takes people management seriously.

**International mobility**

As the need for international mobility within ING increases, so does the need for current and potential senior leaders to take on more flexible assignments. From 1 January 2007, three international mobility policies came into effect, covering various types of assignments. Internal assignments have increased by 50% in the past three years.

### Involvement in acquisitions and divestments

In 2007, a number of acquisitions and divestments took place. HR was closely involved in these processes. ING welcomes new colleagues and believes it is very important when merging companies to ensure that company cultures are also merged to create a shared direction. HR intends to further develop its capabilities in this area.

### Diversity in practice

Diversity is another key element in our talent development. ING wants its staff to reflect its broad customer base – in terms of ethnic, cultural, and other make-ups – to better understand customer needs. Various programmes were established in 2007, including HR diversity goals. ING's Diversity Council has developed new mentoring programmes and supports different diversity networks.

In 2007, three diversity teams were given the task of achieving specific high-impact goals within 100 days to help ING strengthen its global leadership ranks. The three teams created initiatives to stimulate diversity at higher levels and to exchange people between headquarters and regions.

### Measuring and improving performance

ING continued to implement its Winning Performance Culture (WPC) across the organisation in its objective to support ING's business targets. WPC was introduced in 2005 and is the standard ING has set for itself for the kind of company it wants to be. ING aims at a culture in which the company's shared values, beliefs and practices create and sustain superior business performance. Also in 2005, a WPC scan was introduced. This is an online assessment that produces a snapshot-in-time of ING and the essential elements of ING's performance culture. It is a survey to measure the gap between the Winning Performance Culture ING wants to instil and the actual state of the culture.

In 2007, the scope of the WPC scan was extended, resulting in the participation of over 37,000 employees. Overall, the WPC has increased the focus on employee engagement. The scan made it clear that ING's employee engagement is higher than typically seen in global organisations. Particular strengths highlighted were employee/job fit, belief in the future of the organisation, feeling valued and trust in senior leadership. However, areas for improvement included internal communications, recognising individual achievement and career advancement opportunities. The results were communicated across all businesses which led to training and change initiatives running in almost every business. Global HR and Group Internal Communications joined forces to translate the WPC framework into tangible behaviours that are being communicated with greater intensity. Examples include 'Set challenging and connected goals' (shared direction), 'Take responsibility and make things happen' (performance execution) and 'Engage, challenge and develop our people in the right way' (human capital).

### Enhancing HR basics

To support ING's business objectives, Global HR focused on improving several basic activities in 2007, including IT services and management information in particular. In IT, HR is increasingly sharing its systems and processes across its various operations. There was a breakthrough in accessing the ING Learning Centre, a shared online platform used for educational purposes, which can now be accessed worldwide. As for management information, Global HR has been tapping into the HR systems of all the different business lines and gathering data.

HR is also boosting its readiness for more acquisitions and divestments to ensure it is involved and can add value at all stages. In addition, HR is getting more involved in compliance risk management.

### Steps to improve staff employability in the Netherlands

Measures to improve the personal development and employability of ING staff working in the Netherlands were added to the collective labour agreement in the middle of 2007. ING is the first Dutch employer to do this. This agreement with the trade unions entailed a special budget being assigned by ING to help staff improve their employability.

## CONCLUSIONS AND AMBITIONS

Global HR is focused on supporting ING's business targets, with leadership development and employee engagement remaining high on the agenda. To maintain our profile as an employer of choice for talented people, ING is working to enhance its Employer Brand. Global HR will continue to promote people-oriented leadership, as business success can only be achieved through people, and to drive for excellence through constant process evaluation and improvement.

# Branding
## Building brand and driving business

## Key points

> Building one global ING brand

> First-ever global advertising campaign to further build awareness

> F1 marketing programmes unify ING businesses world-wide and generate significant new business

> Ongoing ambition to make it easier for our customers to manage their finances

ING is building one of the strongest retail financial services brands in the world, with 75 million clients in over 50 countries. Fundamental to our branding approach is increasing awareness for the ING brand across the globe. In 2007, ING's first year as title sponsor of the ING Renault Formula One (F1) Team has helped propel the company's visibility around the world, increase awareness and generate business.

### BUILDING A LEADING FINANCIAL SERVICES BRAND

Consumer trends indicate that consumers are getting older, wealthier, and increasingly becoming more responsible for financing their own retirement. At the same time, the current environment has made clear what consumers do want from a financial services company: a partner they can trust, expertise, and an easy experience overall.

ING wants to fill this void: in 2007 we began to refine and develop 'easy to deal with' as the key differentiating factor for ING. Already in the last decade we have made significant progress in moving ING from being a 'house of brands' to a valuable global brand in financial services. In 2007 we focused on activating our brand across the world with one consistent look and feel – one logo, one dominant corporate color (orange), and one global advertising campaign. We are becoming a differentiated, global 'branded house': one company, one brand. In line with this, in 2007 the important decision was taken to bring the Dutch retail banking businesses under the single ING brand starting next year.

These initiatives have been instrumental in helping ING build customer loyalty. It enables us to distinguish ourselves from our competitors, attract the best employees and create one common culture.

### F1 SPONSORSHIP: FLAGSHIP BRANDING INITIATIVE

ING's inaugural year in Formula One in 2007 inspired the company's first-ever global advertising campaign. Strong TV, print, and on-line advertising, the title sponsorship of the ING Renault F1 Team, and on-track branding helped increase brand awareness among the target audience, which rose from 69% to 74% in selected ING markets. The most significant awareness growth occurred in Central and Eastern Europe and in Asia – key regions for ING's growth strategy. Additionally, the data also indicate a 25% increase in positive perceptions of ING and that, among non-customers, 29% expressed an intention to take up financial services from ING within one year.

Business units have discovered the importance of F1 branding efforts to generate revenues and commercial growth. In all, 42 business 'activations' took place, including ING Direct F1-themed promotions that brought in more than 100,000 new accounts, F1-themed credit cards, and retail promotions that netted tens of thousands of new business leads.

### GLOBAL BRAND AMBITION

It is our ongoing ambition to make it easier for our customers to manage their finances, further building on 2007 customer ratings showing that ING outperforms competitors on 'easy to deal with'. We aim to further improve accessibility, increase the speed of our processes and make the information we share with our customers as clear and transparent as possible.

# Corporate responsibility
## Another step forward

## Key points

> ING becomes carbon neutral

> Green electricity used in offices in US and the Netherlands

> Successful 'ING Plant a Tree' campaign

> Internal lending guidelines made public

> Chances for Children programme exceeds expectations

Corporate responsibility (CR) is an integral part of ING's business. We want to pursue profit on the basis of sound business ethics, respect for key stakeholders and in full compliance with laws, regulations and ethical standards. As a global provider of financial products and services, ING plays an important role in society and strives to meet the financial and social expectations of its stakeholders. We have an impact on society and the environment both directly through our operations and indirectly through the provision of financial services. In 2007, another step forward was taken to achieve our objectives in the four areas to which our CR strategy applies: the social and environmental impact of our products and services, our people, community benefits and direct environmental impact.

### CLIMATE CHANGE

Climate change is widely considered to be one of the greatest threats facing the planet. ING believes that it has a role to play in dealing with this challenge. In February 2007, ING signed the 'Joint statement by the Global Roundtable on Climate Change; the Path to Climate Sustainability'. This Global Roundtable was an initiative of the Earth Institute at Columbia University in the US and convened more than 100 high-level stakeholders and experts to explore areas of potential consensus on the core scientific, technological and economic issues critical to shaping public policies on climate change. ING has been a member since its launch in 2004.

**Carbon neutral**

ING pledged to take action across its business operations and became 'carbon neutral' in 2007, further diminishing its direct impact on the environment. By reducing and/or compensating its global carbon emissions, ING succeeded in bringing its net $CO_2$ emission to zero by energy efficiency measures, by purchasing green energy and by extending our current offset programme.

Most of our business units have started to implement or improve energy efficiency programmes. Furthermore, in the US, the Netherlands and several other countries, ING switched to green electricity for all its offices. This means that a substantial part of the energy used by ING in 2007 came from renewable sources, such as wind and water power. The remaining $CO_2$ emissions were compensated for by the planting and rehabilitation of 600 hectares of degraded tropical rainforest in Malaysia.

**'ING Plant a Tree'**

A global environmental awareness programme called 'ING Plant a Tree' was implemented to involve employees in the promotion of a cleaner environment. This was a result of the growing interest from ING staff around the world in environmental issues. The campaign makes the joint commitment of staff to environmental care even more tangible. On 18 March 2007, the Global ING Plant a Tree campaign was launched in Malaysia by the CEO. Selecting Malaysia for the kick-off was a logical step: ING already supports a tree-planting programme in one of the country's tropical rainforests to compensate for the company's global $CO_2$ emissions. A toolkit was developed to help business units to set up their own ING Plant a Tree campaign.

# Corporate responsibility (continued)

**Australian Green Team**
In line with the ING Plant a Tree campaign, various business units have started initiatives to raise awareness about environmental care and to reduce ING's environmental footprint. In March 2007, ING's Green Team in Australia, a group of volunteers that represent the Australian business units, participated in The Australian Conservation Foundation's Earth Hour by turning off all the lights in ING's Sydney building for an hour. This was followed up by a learning session on climate change, presented by one of Al Gore's Climate Project teams.

**Best in class**
In 2007, ING was honoured 'Best in class' for addressing climate change in a report released by the Carbon Disclosure project (CDP). ING was again included in the Climate Leadership Index (CLI), which comprises 68 of the FTSE-500 companies that lead in their responses to climate change.

**Sustainable products**
ING is fully aware of the social and environmental impact of its products and services. However, certain trends, such as climate change and ageing populations, not only present risks, but also opportunities for ING. Therefore, ING has developed a wide range of sustainable products and services which in 2007 included new offerings from ING Car Lease, ING Real Estate, ING Investment Management and other business units, all of which have realised that sustainability can lead to new business. Specific examples of such offerings are socially responsible investment (SRI) funds and services, microfinance and Ecolease for car leasing. ING's portfolio of sustainable assets under management increased to EUR 2,792 million.

ING Real Estate recognises the need to invest in construction projects that reduce the adverse effects of the built environment and is committed to a future where sustainability is second nature to every asset we develop, own and manage. The main drivers for sustainability are lower costs for energy, waste disposal and water consumption, and tenant and investor demand for more sustainable building solutions. Several of ING Real Estate's business units are strongly committed to integrating sustainability into their business activities.

ING Real Estate in Australia has shown a profound commitment to sustainability, employing strategies and participating in activities and programmes to reduce the environmental footprint of the assets owned and managed by the Funds of ING Real Estate. An example of this commitment is the ING Office Fund (IOF) in Australia. The IOF continued to be rated using the Australian Building Greenhouse Rating scheme (ABGR); it implemented action plans for energy, water and waste, such as installed water flow restrictors, dual-flush toilet systems and low flow tap-ware in a number of buildings, resulting in a water saving equivalent to 500 backyard pools. Furthermore, a waste minimisation and recycling programme saw 1,300 mature trees saved through diversion of paper waste from landfill and installed reduced energy consumption by approximately 20%.

**Lending policies now public**
Over the past few years, ING has developed a strong framework of corporate responsibility policies to guide our conduct. The most important are the ING Business Principles. They apply to the entire ING Group, its subsidiaries and business units and to every employee worldwide. Based on the ING Business Principles, a range of in-depth policies are put in place to guide our day-to-day activities. Examples are ING's Human Rights Statement, Environmental Statement and the Whistleblower procedure for complaints and irregularities.

In our business lines, Environmental and Social Risk (ESR) policies are used to manage financial and reputational risk and to help our clients be more socially and environmentally responsible. For this purpose, ING Investment Management has adopted the Global Voting Policy and the ING Defence Policy. It also offers its customers sustainable asset management services. For the same reasons, Wholesale Banking has adopted a wide range of policies guiding its client engagements.

Examples of ESR policies are the Forestry & Plantations Sector Policy, the policy on Human Rights and Environmental Compliance and the Animal Testing Policy. The Equator Principles form a prominent part of the ESR policies and are a benchmark for the financial industry to manage environmental and social risk in project financing. These principles were introduced in June 2003 and revised in 2006. About 50 banks and financial institutions adopted the Equator Principles. Any project that falls within the scope of the principles undergoes a risk assessment on its possible socio-environmental risks. Our internal guidelines for lending products were made public in 2007 and are accessible through the ING website.

**How does ING invest customers' money?**
Certain environmental, ethical and social principles are applied when ING invests money on behalf of its customers. A website was launched in 2007 which goes into more details on this. It was developed to explain ING's point of view on ethical, environmental and social issues. The website intends to give an accessible and easy to understand overview of what ING stands for and how we invest our customers' money. See www.ingandyourmoney.com.

**Training staff**
Making responsible business decisions must be embedded in the behaviour of our employees. Corporate responsibility is therefore part of our general staff education programmes and our leadership development curriculum. For example, one day in the 'ING International Graduate Programme', a three-week learning event for recently hired graduates across all business lines, was dedicated to the topic of corporate responsibility. CR is also included in the introduction course for all new Wholesale Banking staff. Approximately 80% of teams involved in transactions and/or engagements that are subject to ING's Environmental and Social Risk policies have participated in a special CR training programme. We also teach corporate responsibility as part of several programmes at the ING Business School. In 2008, ING aims to further develop its CR training programme and extend it to several business units worldwide.

## COMMITMENT TO COMMUNITY
ING is involved in the communities in which it operates and we feel it is important to contribute to society in a positive way. To improve the financial situation of the most needy people, we believe structural help is most effective. We also believe that engaging employees in community development improves our corporate culture and performance.

The ING Chances for Children programme (CfC) is company-wide and is aimed at providing funds for elementary education in Brazil, Ethiopia and India for a year through UNICEF. Its aim is to improve children's prospects by providing them with an education. At the beginning of 2007, the target was set to send 115,000 children to school. This figure equals the number of staff employed by ING worldwide, as we encourage each employee to sponsor one child financially. This initiative was received with enthusiasm and at the end of 2007 around 125,000 children could be sent to school for a year. ING supports the initiatives of its staff by doubling their donations and by giving them time off to work as volunteers.

Many employees like to contribute to society as volunteers. In addition to the CfC programme, ING has various programmes which involve staff in community initiatives. These initiatives go beyond providing time and expertise: they show commitment and support. Some examples of voluntary work are the building of houses in the Philippines, the cooperation with schools in the Netherlands, delivering meals to elderly people in the US and the collection of toys for orphans in Mexico.

ING's microfinance activities form another example: in India, for instance, ING Vysya Bank provides credit to poor people who cannot get a loan through ordinary financial institutions. This enables people to support their families and it has positive effects on the local economy. We cooperate with Oikocredit, one of the world's largest non-commercial microfinance institutions, and ING specialists are encouraged to provide their expertise and to work for local projects for a number of weeks.

Finally, ING cooperates closely with authorities and financial institutions to share knowledge in the financial field with countries that can make good use of our expertise; donations are given to various charities worldwide; in the Netherlands, ING is the main sponsor of the Rijksmuseum, the Royal Concertgebouw Orchestra and the Society for the Preservation of Nature; and business units throughout the company have started initiatives for their own communities.

## CONCLUSIONS AND AMBITIONS

ING will continue to develop its corporate responsibility strategy and to embed it even more within ING and in the behaviour of its employees. We aim at developing more sustainable products. New initiatives and developments in the area of CR will be updated regularly on our corporate website (www.ing.com/cr).

## MEASURING PERFORMANCE

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

**Key Performance Indicators [1]**

| | Year-end 2007 | Year-end 2006 |
|---|---|---|
| **Equator Principles** | | |
| Number of projects reviewed | **85** | 46 |
| **Sustainable assets under management** (in EUR million) | **2,792** | 2,206 |
| **Customer satisfaction index [2]** | **71,2%** | n/a* |
| **Economic value generated** (in EUR million) | | |
| Total assets | **1,312,510** | 1,226,307 |
| Capital and reserves | **37,208** | 38,266 |
| Total income | **76,587** | 73,621 |
| Profit before tax | **11,043** | 9,940 |
| Net profit | **9,241** | 7,692 |
| Personnel expenses: salaries | **5,696** | 5,492 |
| Personnel expenses: other | **2,565** | 2,426 |
| **Employee engagement index [3]** | **77%** | n/a* |
| **Diversity** | | |
| % of women in the international management council | **10.2%** | 7.3% |
| **ING Chances for Children** | | |
| Number of children provided with access to education | **124,634** | 52,000 |
| **Green energy** | | |
| KWH (in thousands) of electricity purchased by ING that is derived from renewable resources | **259,780** | 102,000 |

(1) The Audit Firm Ernst & Young has audited the 2007 KPIs and has reviewed the 2006 KPIs.
(2) Satisfaction scores are based on the American Customer Satisfaction Index (ACSI) methodology, adapted for the financial services market and based on a combination of questions related to overall satisfaction, customer delight and ideal provider. This score is not weighted by market.
(3) ING engagement index is the percentage of ING employees that have indicated that they are proud to work for ING. The research is done by Kenexa (April 2007).
* n/a = not available.

**AMSTERDAM, 17 MARCH 2008**

**THE EXECUTIVE BOARD**

# Report of the Supervisory Board

The Supervisory Board and the Executive Board met through regular and additional meetings in 2007 and discussed various important issues including strategy. Committees of the Supervisory Board discussed a range of subjects on which the Supervisory Board received advice, the main ones being the quarterly results, risk management, the external auditors tender, IT, corporate governance and human resources.

## GENERAL

The Supervisory Board met nine times in 2007. Only four members were absent once during the year. The Audit Committee held six meetings, while the Remuneration and Nomination Committee met three times and the Corporate Governance Committee twice. No committee members were absent at those meetings.

The Supervisory Board Knowledge Day was held, which was a full day of presentations and discussions on several important subjects, including structured finance and variable annuities. In cooperation with the Dutch Authority Financial Markets (AFM) a workshop on compliance was organised for the Knowledge Day.

### Supervisory Board meetings

The strategy of ING was a frequent topic for the Supervisory Board meetings, especially the growth strategy in the light of increasing consolidation among Europe's financial institutions.

In January 2007, the Supervisory Board held its annual full-day meeting on ING's strategy and medium-term plan including the related risks. The medium-term plan addresses the plans of the business lines and the financial targets for each of them and for the Group as a whole. The Supervisory Board discussed ING's ambition to concentrate on value creation and growth, and to improve the performance culture from good to excellent, realising that the external environment might be less favourable than in 2006. The medium-term plan was discussed in detail and approved by the Supervisory Board. In this meeting, the feedback of investors on ING's performance over 2006 was also discussed.

In February the 2006 annual figures were discussed, including the related reports from the external auditors. In this meeting the draft agenda of the annual General Meeting of Shareholders was also discussed and approved.

At the end of 2006 and in the first months of 2007, a possible combination of ING's businesses with those of ABN AMRO was discussed. Exploratory talks were held but did not lead to fruition.

The quarterly figures of 2007 were discussed in May, August and November respectively. The results in each quarter were good, despite the turmoil in financial markets in the second half of the year. The results for the second, third and fourth quarter also included a large capital gain, mainly due to the sale of the ABN AMRO and Numico shares.

In January and May, ING's Dutch retail banking approach was tabled for the Supervisory Board meeting. One integrated bank will combine the best of ING Bank and Postbank. The Supervisory Board extensively discussed the business case, the potential reduction of employees and the IT implications. The Supervisory Board approved the proposal. In May the share buy-back programme was also discussed and approved, and the annual General Meeting of Shareholders was evaluated.

In May and November the assessment of the Executive Board of the adequacy and effectiveness of the risk management and control systems of ING as well as the significant changes thereto were discussed.

The management of Nationale-Nederlanden gave a presentation to the Supervisory Board in the August meeting about the development of Nationale-Nederlanden and the main challenges lying ahead. An updated ING Insider Regulation as well as the ING Regulation on Financial Instruments was also approved in this meeting. These regulations were updated due to changes in Dutch legislation.

The proposed change of the audit structure was discussed in the 2007 annual General Meeting of Shareholders. Accordingly, both Ernst & Young and KPMG were invited to tender for the financial auditing of ING Groep N.V. and all of its subsidiaries. The external auditor selection was discussed in the Supervisory Board meeting of October, following preparatory meetings of the Audit Committee in August and September. Although both Ernst & Young and KPMG are fully qualified firms to audit ING Groep N.V. and all of its subsidiaries, the Supervisory Board decided to nominate Ernst &Young as the sole external auditor from 2008, for appointment at the 2008 annual General Meeting of Shareholders.

Upon request of the Supervisory Board the restructuring of IT systems within ING in the Netherlands was discussed in the November meeting. The Supervisory Board discussed the IT plans also in the context of the integration of Postbank and ING Bank in the Netherlands. The updated charters of the Executive Board and Supervisory Board were also approved in this meeting.

During the regular internal meetings of the Supervisory Board, the auditor tender process was discussed as well as the succession of the chairman of the Supervisory Board. The peer group selection for assessing Executive Board remuneration and the remuneration proposals for the Executive Board were also reviewed.

At the annual internal meeting of the Supervisory Board in November the functioning of the Supervisory Board, its committees and its individual members and the conclusions to be drawn therefrom were discussed. This was done in the light of the Supervisory Board Profile and the composition of the Supervisory Board. Furthermore, the functioning of the Executive Board and the performance of the individual Executive Board members were discussed.

**Audit Committee meetings**
The Audit Committee met six times to discuss the annual and quarterly results (four meetings) and the annual and semi-annual US GAAP results (two meetings). Management letters of the internal and external auditors on internal control were discussed. Ernst & Young and KPMG both prepared a tender proposal for the financial auditing of ING Groep N.V. and all of its subsidiaries on the basis of selection criteria approved by the Audit Committee.

Both external auditors gave a presentation to the Audit Committee in September. In October the Audit Committee provided its advice to the Supervisory Board. Other important subjects in 2007 were Compliance and IT risk. Presentations were given on these topics, as well as on the EU Directive on markets in financial instruments (MiFID) and on the financial markets crisis. Other topics discussed in the meetings were risk, governance, capital management and the share buy-back programme. The volatility of the results in Japan and the adequacy of reserve levels in Taiwan were frequently discussed during the meetings.

**Remuneration and Nomination Committee meetings**
In January, new candidates were nominated for appointment to the Executive Board and the Supervisory Board by the annual General Meeting of Shareholders in 2007. The Remuneration and Nomination Committee discussed the future composition of the Supervisory Board and its committees in its meetings. The search for new Supervisory Board candidates continued.

The 2006 performance of the short-term and long-term incentives of the Executive Board members was discussed on the basis of the group performance criteria and the individual targets. The proposal to the full Supervisory Board regarding the variable remuneration for 2006 was approved. The Executive Board compensation structure for 2007 was discussed as well as the adjustment of the compensation and performance peer group, following the takeover of ABN AMRO.

**Corporate Governance Committee meetings**
The Corporate Governance Committee discussed the agenda for the 2007 annual General Meeting of Shareholders, which included a proposal for amendment of the Articles of Association. It reviewed an updated version of the Executive Board Charter and the Supervisory Board Charter, including updated charters for the Supervisory Board committees. The main change was the introduction of special rules for ad-hoc committees. The updated charters have been published on ING's website. The committee also discussed the possibility of introducing electronic voting during the General Meeting of Shareholders for shareholders not attending the meeting. It concluded that electronic voting cannot be introduced at the 2008 annual General Meeting of Shareholders. The Committee endorsed the recommendations to closely monitor the developments regarding electronic voting.

**Composition of the Executive Board**
In April 2007, Cees Maas, vice-chairman and chief financial officer, retired from the Executive Board. The annual General Meeting of Shareholders approved the appointment of John Hele and Koos Timmermans as chief financial officer and chief risk officer respectively. The first term of appointment for four years of Eric Boyer de la Giroday and Eli Leenaars will end after the 2008 annual General Meeting of Shareholders. They are nominated for reappointment for another four-year term. Information on the members of the Executive Board is provided on pages 65-66.

# Report of the Supervisory Board (continued)

**Retirement of Cor Herkströter**
Cor Herkströter was appointed a member of the Supervisory Board in 1998 and became chairman in 1999. He was an important sparring partner for the chairmen of the Executive Board during a period of strong growth which included several major acquisitions. His own experience as a CEO was of great value in the Supervisory Board's decision-making process and in developing ING's growth strategy. He was very committed to the company's interests and contributed strongly to its successful development in a changing environment. He built the Supervisory Board into a strong team that could both challenge and support the Executive Board. Both the Supervisory Board and the Executive Board are grateful to Cor Herkströter for his significant and valuable contribution to ING over the years and for the way he chaired the Supervisory Board for more than eight years.

**Composition of the Supervisory Board**
Paul van der Heijden retired from the Supervisory Board after the annual General Meeting of Shareholders in April 2007. Cor Herkströter and Luella Gross Goldberg both agreed to stay on longer to allow for a more gradual succession, although both would have retired at reaching the age of 70 in 2007. Claus Dieter Hoffmann and Wim Kok were reappointed as members of the Supervisory Board. Henk Breukink, Peter Elverding, and Piet Hoogendoorn were appointed as new members. Karel Vuursteen succeeded Paul van der Heijden as a member of the Remuneration and Nomination Committee and Corporate Governance Committee in April 2007.

Cor Herkströter retired as member and chairman of the Supervisory Board on 1 January 2008. Jan Hommen succeeded Cor Herkströter as chairman of the Supervisory Board and Wim Kok succeeded Jan Hommen as chairman of the Audit Committee, both on 1 January 2008. For this reason Wim Kok will not retire in 2008, but in 2009. Luella Gross Goldberg will retire at the annual General Meeting of Shareholders in 2008 having stayed on one year longer.

**Retirement of Luella Gross Goldberg**
Luella Gross Goldberg joined the Supervisory Board in 2001. At that time she was a member of the Board of Directors of ReliaStar, a US insurance company that had been acquired by ING. Luella Goldberg was the first Supervisory Board member from the United States and brought with her a valuable insight into the American markets. She also contributed substantially to the Remuneration and Nomination Committee knowing the reality in the US in the field because of her knowledge of US compensation structures and levels and understanding of European sensitivities. Both the Supervisory Board and the Executive Board would like to thank Luella Goldberg for her commitment and contribution to ING during the past years and the way she performed her role on the Supervisory Board.

The Supervisory Board nominates four candidates for appointment: Joan Spero, Harish Manwani, Aman Mehta and Jackson Tai. More information can be found in the convocation for the 2008 annual General Meeting of Shareholders, available on the ING Group website (www.ing.com).

For the proposed appointments approval has been obtained from the Dutch Central Bank.

Information on the members of the Supervisory Board is provided on pages 67 – 69.

Currently, only one Supervisory Board member (Piet Hoogendoorn) qualifies as 'non-independent' as defined in best-practice provision III.2.1 of the Dutch Corporate Governance Code. Mr. Hoogendoorn is considered to be not independent because of his position with Deloitte Touche Tohmatsu until 1 June 2007, considering the important relationship between Deloitte Touche Thomatsu and ING.

**Annual accounts and dividend**
The Executive Board has prepared the annual accounts and discussed these with the Supervisory Board. The annual accounts will be submitted for adoption to the annual General Meeting of Shareholders as part of the Annual Report. The proposed dividend for 2007 is EUR 1.48 per (depositary receipt for an) ordinary share. Taking into account the interim dividend of EUR 0.66, the proposed final dividend amounts to EUR 0.82, payable in cash.

**Appreciation for the Executive Board and ING employees**
The Supervisory Board would like to thank the Executive Board members for the strong performance in 2007. The Executive Board focused especially on the growth strategy of ING. The risk management policies of the Executive Board members have proved to be of great value in the challenging circumstances on the financial markets in the second half of the year. The Supervisory Board would also like to express its appreciation to the 125,000 employees of ING who each serve the interests of customers, shareholders and other ING stakeholders.

**ADDITIONAL INFORMATION**
For additional information, reference is made to the section on corporate governance (pages 61 – 70) and the Remuneration Report (pages 76 – 86), which are deemed to be incorporated by reference here.

**AMSTERDAM, 17 MARCH 2008**

**THE SUPERVISORY BOARD**

# Corporate governance

This chapter discusses the application by ING Groep N.V. ('ING Group') of the Dutch Corporate Governance Code (the 'Tabaksblat Code') and provides information on capital and control, the Executive Board, the Supervisory Board and the external auditors.

## RECENT DEVELOPMENTS

### New legislation

The Netherlands implemented the EU Takeover Directive in 2007. Under the implementation act, Dutch listed companies may opt to be unprotected against takeovers. If companies want the 'unprotected regime', they must state in their Articles of Association that either (1) the implementation of anti-takeover measures should be subject to approval of the General Meeting of Shareholders or (2) that a shareholder with an interest of 75% or more as a result of a public bid may change the supervisory board and the executive board shortly after completion of the bid.

ING Group already has an anti-takeover device: the right of the ING Continuity Foundation to acquire cumulative preference shares. This has been in place since 1991 and there is currently no reason to consider changing this device.

### Shareholder participation

The 2007 annual General Meeting of Shareholders produced a turnout of 36.7% of the (depositary receipts of) ordinary shares, which was the first time the 35% threshold for reconsidering the position of the Stichting ING Aandelen (the 'Trust Office') was passed. A major reason for this high turnout was a change in the law which permitted the record date for a General Meeting of Shareholders to be set at 30 days (rather than seven days as used to be the case) before the meeting. The record date is the date on which a shareholder must own shares or depositary receipts in order to vote at the General Meeting of Shareholders. For the 2008 annual General Meeting of Shareholders, ING Group will again set the record date at 30 days (the maximum allowed) before the meeting.

### Electronic voting

Following a resolution adopted at the 2007 annual General Meeting of Shareholders, the Articles of Association were amended to allow shareholders and depositary receipt holders who do not attend a General Meeting of Shareholders in person to participate nevertheless in the decision making by means of real-time electronic voting by internet ('E-voting'). An investigation was made into whether an internet application to enable E-voting would be available. Such an application would require multi-layer security measures for access control, identification and validation, as well as a solid technology against hostile activities. Regrettably, it turned out that there is no such internet application available. Furthermore, it was discovered that an internet application meeting these technical requirements would still not enable an efficient cross-border E-voting process considering the lack of cross-border legislation on E-voting and the fact that shares or depositary receipts are currently held through securities custodians in various jurisdictions.

### Dialogue with shareholders

In 2007, investors were allowed to ask questions about items on the agenda for the annual General Meeting of Shareholders, and they will be allowed to do so in 2008. Shareholders and holders of depositary receipts can visit the website of ING Group (www.ing.com) to submit their questions and they will be answered on the same website.

# Corporate governance (continued)

**Elimination of preference A shares and preference B shares**
Following the repurchase of the depositary receipts of the preference A shares held by Aegon in 2006, the depositary receipts of the preference A shares held by Fortis and ABN AMRO were also repurchased in 2007. The preference A shares underlying the repurchased depository receipts were all cancelled by February 2008.

ING Group intends to eliminate the remaining six million preference A shares by either repurchasing or redeeming such shares or the depositary receipts thereof, and this will be discussed at the 2008 annual General Meeting of Shareholders (agenda item 15). If approved, this will result in the cancellation of all preference A shares. All ING Group shares then outstanding will have voting rights proportional to their economic value as recommended under section IV.1.2 of the Dutch Corporate Governance Code.

As ING Group sees no need to issue preference A shares or preference B shares in the near future, such shares will be eliminated from the Articles of Association and the conditions of administration. A proposal to amend the Articles of Association accordingly will be submitted at the 2008 annual General Meeting of Shareholders.

## CORPORATE GOVERNANCE CODES

**In compliance with the Dutch Corporate Governance Code**
In its corporate governance structure and practices, ING Group uses the Dutch Corporate Governance Code (Tabaksblat Code or the Code) as reference. The ING Group corporate governance structure described in the document 'The Dutch Corporate Governance Code – ING's implementation of the Tabaksblat Code for good corporate governance' was approved by the General Meeting of Shareholders on 26 April 2005. As a result, ING Group is considered to be in full compliance with the Tabaksblat Code, although it does not apply all best-practice provisions of the Code in full. The document is available on the website of ING Group (www.ing.com) and has been expanded with an update of ING's implementation of the Tabaksblat Code since 2005. The following deviations from the Tabaksblat Code are reported for 2007:
- Michel Tilmant, being appointed as an Executive Board member before 1 January 2004, remains appointed for an indefinite period of time and retains his agreed exit arrangement, which exceeds one year's salary (best-practice provisions II.1.1. and II.2.7), as existing contractual arrangements cannot be changed unilaterally;
- existing rights for severance payments with respect to Executive Board members who were already employed by ING prior to their appointment to the Executive Board, are taken into account. As a result thereof, their exit arrangement as Executive Board members may exceed the maximum mentioned in the Code (best-practice provision II.2.7);
- Executive Board members may sell shares awarded to them without financial consideration within the five-year retention period in order to cover the wage tax which is to be withheld over the vested award (best-practice provision II.2.3), so as to avoid the total wage tax being withheld in the month of vesting exceeding the gross salary payment of that month;
- performance criteria for variable remuneration are disclosed only to the extent that this information is not share price sensitive or competition-sensitive (best-practice provisions II.2.3, II.2.10 and II.2.11);
- Executive Board members may obtain banking and insurance services from ING Group subsidiaries in the ordinary course of their business and on terms that apply to all employees. These may include services in which the granting of credit is of a subordinate nature, e.g. credit cards and overdrafts in current accounts (best-practice provisions II.2.8, II.3.2. and II.3.3). These exceptions are based on a lack of materiality;
- if a Supervisory Board member does not meet the independence criteria of the Code, the Supervisory Board may decide to still consider such member to be independent in order to take into account specific circumstances, such as family and employment relations (best-practice provision III.2.2), so as to allow for situations of non-independence that are not material;
- the legally required second candidate on a binding nomination for appointment to the Supervisory Board does not need to meet the independence criteria of the Tabaksblat Code nor the requirements of the Supervisory Board profile (best-practice provisions III.2.2. and II.3.1), in view of the contemplated abolition of this legal requirement;
- Jan Hommen, who was appointed in the 2005 annual General Meeting of Shareholders as a Supervisory Board member, had more than five positions as a supervisory board member with other Dutch-listed companies until May 2007 (best-practice provision III.3.4). He was appointed chairman of the Supervisory Board, effective 1 January 2008. As of this date, the number of his board memberships exceeds the number of five. This was approved by the Supervisory Board in view of the fact that Jan Hommen is planning to give up his chairmanship of the Supervisory Board of TNT N.V. as soon as a suitable replacement in a position to take over has been found. In any case, Jan Hommen plans to resign from the supervisory board of TNT N.V. at its 2009 General Meeting of Shareholders.
- under special circumstances the Supervisory Board may deviate from the general rule that a member of the Supervisory Board may not be re-appointed for more than two subsequent four-year terms (best-practice provision III.3.5);
- ING Group established a combined Remuneration and Nomination Committee instead of a separate remuneration committee and a nomination committee (best-practice provision III.5.1);
- the Remuneration and Nomination Committee is being chaired by the chairman of the Supervisory Board (best-practice provision III.5.11) so that he can be involved in this important subject directly and at an early stage;
- in the case of a transaction with a family member that entails a conflict of interests according to the Code, the Supervisory Board may decide that no conflict of interests exists if the relationship is based on a marriage that is now over, (best-practice provision III.6.1) to allow for situations where the family relationship no longer exists;
- transactions with Supervisory Board members or persons holding at least 10% of the shares of ING Group in which there are significant conflicting interests will be published in the annual report, unless (i) this conflicts with the law, (ii) the confidential, share-price sensitive or competition-sensitive character of the transaction prevents this and/or (iii) the information is so competition-sensitive that the publication could damage the competitive position of ING Group (best-practice provision III.6.3 and III.6.4);

– Supervisory Board members may obtain banking and insurance services from ING Group subsidiaries in the ordinary course of their business and on terms that are customary in the sector. These may include services in which the granting of credit is of a subordinate nature, e.g. credit cards and overdrafts in current accounts (best-practice provisions III.7.4). These exceptions are based on a lack of materiality;
– the voting rights of the Preference A shares are based on their nominal value (best-practice provision IV.1.2) as these voting rights cannot be changed unilaterally;
– if a notarial report is drawn up of the General Meeting of Shareholders, shareholders will not have the opportunity to react to the minutes of the meeting (best-practice provision IV.3.8), as this would be in conflict with the laws applicable to such notarial report.

Deviations from the Tabaksblat Code by the Trust Office are reported in the Trust Office's own report (see page 71).

### NYSE Requirements

Under the New York Stock Exchange's ('NYSE') listing standards, ING Group as a foreign private issuer must disclose any significant ways in which its corporate governance practices differ from those followed by US domestic companies under the NYSE listing standards. An overview of what we believe to be the significant differences between our corporate governance practices and NYSE corporate governance rules applicable to US companies is available on the website of ING Group (www.ing.com).

## CAPITAL AND SHARES

### Capital structure, shares

The authorised capital of ING Group consists of ordinary shares, preference A shares, five series of preference B shares and cumulative preference shares. When we refer to shares, we mean both our ordinary shares and our preference shares, unless otherwise specified. Currently, only ordinary and preference A shares are issued, while a right to acquire cumulative preference shares has been granted to the ING Continuity Foundation (see page 73). Of the issued share capital 97% consists of ordinary shares and 3% of preference A shares. The purpose of the cumulative preference shares is to protect the independence, the continuity and the identity of ING Group against influences which are contrary to the interests of ING Group, its enterprise and the enterprises of its subsidiaries and all stakeholders (including hostile takeovers). The ordinary shares and the preference shares are used solely for funding purposes. The shares, which are all registered shares, are not listed on a stock exchange.

### Depositary receipts

Over 99% of the issued ordinary and preference A shares are held by the Trust Office. The Trust Office issues bearer depositary receipts in exchange for these shares. The depositary receipts are listed (see page 8 for an overview of the listings). The depositary receipts can be exchanged, without any restrictions, for the underlying shares. An administrative fee may be charged for this.

The board of the Trust Office comprises six members who are independent of ING Group. No ING Group employees or Supervisory Board members are on the board of the Trust Office. The board of the Trust Office appoints its own members, without any requirement for approval by ING Group.

The board of the Trust Office reports on its activities through an annual report, which has been included on pages 71 – 72 of this annual report.

### Issue of shares

ING Group's authorised capital is the maximum amount of capital allowed to be issued under the terms of its Articles of Association. New shares in excess of this amount can only be issued if the Articles are amended. An amendment has to be passed by notarial deed, and this in turn requires a declaration of no objection to be issued by the Minister of Justice. For reasons of flexibility, the authorised capital in the Articles of Association of ING Group has been set at the highest level permitted by law.

Share issues are to be decided by the General Meeting of Shareholders, which may also delegate its authority. Each year, the General Meeting of Shareholders is asked to delegate authority to the Executive Board to issue new ordinary shares or to grant rights to take up new ordinary shares, both with and without a right of first refusal for existing shareholders. The powers delegated to the Executive Board are limited:
– in time: powers are delegated for a period of 18 months;
– by number: ordinary shares may be issued up to a maximum of 10% of the issued capital, or 20% in the event of a merger or takeover;
– in terms of control: resolutions by the Executive Board to issue shares require the approval of the Supervisory Board.

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

### Transfer of shares and depositary receipts and transfer restrictions

Shares are transferred by means of a deed of transfer between the transferor and the transferee. To become effective, ING Group has to acknowledge the transfer, unless ING Group itself is a party to the transfer. Pursuant to the Articles of Association, there are no restrictions for the transfer of ordinary shares, preference A shares and preference B shares, whereas transfer of cumulative preference shares is subject to prior approval of the Executive Board.

There are no restrictions for the transfer of depositary receipts pursuant to the Articles of Association or the conditions of administration.

ING Group is not aware of the existence of any agreement under which transfer of ordinary shares or preference A shares, or depositary receipts for such shares is restricted.

### Repurchase of shares

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

# Corporate governance (continued)

- for the ordinary shares not lower than one eurocent and not higher than the highest stock price on the Euronext Amsterdam by NYSE Euronext on the date of the repurchase contract or the preceding day on which this stock market is open;
- for the preference A shares not less than one eurocent and not higher than 130% of the amount, including share premium, that is paid on such a share, or 130% of the highest stock price on the Euronext Amsterdam by NYSE Euronext either on the date on which an offer for the preference A shares is made or on the date of the purchase contract or the preceding day on which this stock market is open.

**Shareholders' structure**
Details of investors who have reported their interest in ING Group pursuant to the Dutch Financial Supervision Act (or the predecessor of this legislation) are shown on page 9. ING Group is not aware of investors with an interest of 10% or more in ING Group.

## VOTING ON SHARES AND DEPOSITARY RECEIPTS

**Voting rights on shares**
Each share entitles the holder to cast a vote at the General Meeting of Shareholders. By Dutch law, voting rights are proportional to the nominal value of the shares. This means that by law, each ordinary share (and, when issued, each preference B share), having a nominal value of EUR 0.24, gives the right to one vote, while each preference A share (and, when issued, each cumulative preference share), having a nominal value of EUR 1.20, gives the right to five votes. On the other hand, the Tabaksblat Code (section IV.1.4) seems to imply that, if such shares are issued, the voting rights on preference shares issued for financing purposes should be proportional to their stock price.

At 31 December 2007, the market prices for the ordinary shares and the preference A shares were EUR 26.75 and EUR 2.94, respectively. Following the elimination of the A preference shares intended by ING Group, section IV.1.4. of the Tabaksblat Code will be applied. Pursuant to the Articles of Association, no restrictions with respect to voting rights on any class of shares of ING Group exist. ING Group is not aware of any contract under which voting rights on any class of its shares is restricted.

**Voting on depositary receipts**
Although the depositary receipts do not formally have any voting rights, holders of depositary receipts, in practice, rank equally with shareholders with regard to voting. The Trust Office will, subject to certain restrictions, grant a proxy to a holder of depositary receipts for ordinary shares or preference shares, respectively, to the effect that such holder may, in the name of the Trust Office, exercise the voting rights attached to the number of its shares of the relevant category that corresponds to the number of depositary receipts of the relevant category held by such holder of depositary receipts. Holders of depositary receipts may vote as they see fit. Holders of depositary receipts not attending a meeting can also issue binding voting instructions to the Trust Office. The Trust Office has made it easier for votes to be cast in this way by putting arrangements in place for proxy voting and E-voting. The restrictions under which the Trust Office will grant a voting proxy to holders of bearer receipts are:

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

The Trust Office has discretion to vote in respect of shares for which it has not issued proxy votes to holders of depositary receipts and has not received any voting instructions. Under the Conditions of Trust the Trust Office is required to promote the interests of all holders of depositary receipts, irrespective of whether they attend the General Meeting of Shareholders, also taking into account the interests of ING Group, the businesses of ING Group and its group companies and all other ING Group stakeholders in voting such shares, so as to ensure that all these interests are given as much consideration and protection as possible.

The depositary receipts and the Trust Office structure outlined above would prevent a small minority of shareholders, which coincidentally may form the majority in the meeting, from taking decisions purely to suit themselves in the absence of other parties at the General Meeting of Shareholders.

**Intention to abolish ING Trust Office**
It is the intention of the Executive Board and the Supervisory Board to abolish the Trust Office and depositary receipts once the number of votes on ordinary shares and depositary receipts of ordinary shares, including proxies and excluding the votes which are at the discretion of the Trust Office at a General Meeting of Shareholders is at least 35% of the total votes that may be cast for three consecutive years. In 2005, 26% of total votes were cast, which increased to 28% in 2006 and to 36.7% in 2007. The Executive Board is committed to achieving the 35% requirement and will encourage depositary receipt holders, particularly institutional investors, to participate in voting at the General Meeting of Shareholders.

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

**Proposals by shareholders/holders of depositary receipts**
In view of the size and market value of ING Group, proposals to put items on the agenda for a General Meeting of Shareholders can be made by shareholders and holders of depositary receipts representing a joint total of 0.1% of the share capital or representing together, on the basis of the stock prices on the Euronext Amsterdam by NYSE Euronext, a share value of at least EUR 50 million. Given the period of notice required for proxy voting, proposals have to be submitted in writing at least 50 days before the date of the meeting. Properly submitted proposals will be included on the agenda for the General Meeting of Shareholders.

## EXECUTIVE BOARD

### Appointment and dismissal

Members of the Executive Board are appointed by the General Meeting of Shareholders from a binding list to be drawn up by the Supervisory Board. This list shall mention at least two candidates for each vacancy, and if not the list will be non-binding. The General Meeting of Shareholders may declare the list non-binding by a majority resolution supported by at least one-third of the issued capital.

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

Members of the Executive Board may be suspended or dismissed at any time by a majority resolution at the General Meeting of Shareholders. A resolution to suspend or dismiss members of the Executive Board that has not been introduced by the Supervisory Board needs the support of at least one-third of the issued capital.

### Function of Executive Board

The Executive Board is responsible for the management of the company, which includes being responsible for achieving the company's aims and for the company's results, as well as for determining the company's strategy and policy. It also includes the day-to-day management of the company and its business lines (Insurance Europe, Insurance Americas, Insurance Asia/Pacific, Wholesale Banking, Retail Banking and ING Direct). The organisation, powers and modus operandi of the Executive Board are detailed in the Executive Board Charter, which was approved by the Supervisory Board. The Executive Board Charter is available on the ING Group website (www.ing.com).

### Profile of members of the Executive Board

The Supervisory Board has drawn up a profile to be used as a basis for selecting members of the Executive Board. This Executive Board Profile was submitted for discussion to the annual General Meeting of Shareholders in 2005. It is available at the ING Group head office and on the ING Group website (www.ing.com).

### Remuneration and share ownership

Details of the remuneration of members of the Executive Board, including shares and/or option rights granted to them, together with information pertaining to such decisions, are provided in the Remuneration report, starting on page 76. Members of the Executive Board are permitted to hold shares and depositary receipts for shares in the company for long-term investment purposes. Transactions in these shares are subject to the ING regulations for insiders. These regulations are available on the ING Group website (www.ing.com).

### Ancillary positions/Conflicting interests

To avoid potential conflicts of interest, ING Group has a policy that members of its Executive Board do not accept corporate directorships with listed companies outside ING. The only exception is currently Jacques de Vaucleroy, who is on the Board of Directors of Delhaize Group in Belgium. He held this position prior to his appointment to the Executive Board of ING Group.

### Transactions involving actual or potential conflicts of interest

Details of relationships that members of the Executive Board have with ING Group subsidiaries as ordinary, private individuals are not reported, with the exception of information on any loans that may have been granted to them (see page 84). In all these cases, the company complies with the best-practice provisions of the Tabaksblat Code.

## INFORMATION ON MEMBERS OF THE EXECUTIVE BOARD

### Michel J. Tilmant, chairman

*(Born 1952, Belgian nationality; male; appointed in 1998, contractual retirement date 2012)*

Michel Tilmant graduated from Louvain University with a Licence in Business Administration. He is also a graduate of Louvain School for European Affairs. He started his career with Morgan Guaranty Trust Company in New York. In 1992 he joined Bank Brussels Lambert, where he was appointed chairman of the Executive Board in 1997. After the acquisition of BBL by ING in 1998, Michel Tilmant was appointed vice-chairman in May 2000. He was appointed chairman in April 2004. Five Group staff departments report directly to Michel Tilmant: Corporate Legal Department, Corporate Human Resources, Corporate Development, Corporate Communications & Affairs and Corporate Audit Services.

### Eric F. Boyer de la Giroday

*(Born 1952, Belgian nationality, male; appointed in 2004, term expires in 2008)*

After completing his degree in commercial engineering at the Free University of Brussels and a master in Business Administration at the Wharton School, University of Pennsylvania, Eric Boyer started his career with Citibank in 1978. In 1984 he joined Bank Brussels Lambert, which was acquired by ING Group in 1998, where he held various management positions in the fields of capital markets, treasury and corporate and investment banking. He was appointed a member of the Executive Board of ING Group in April 2004. He is responsible for Wholesale Banking and ING Real Estate.

### Dick H. Harryvan

*(Born 1953, Dutch nationality, male; appointed in 2006, term expires in 2010)*

Dick Harryvan graduated from the Erasmus University Rotterdam with a master's degree in Business Economics, majoring in finance. He joined ING as a management trainee at Nationale-Nederlanden in 1979. Before his appointment to the Executive Board in 2006, he held various management positions in the United States, Canada and the Netherlands, where he was lastly chief financial officer/chief risk officer and member of the Global Management Team of ING Direct. Dick Harryvan is responsible for ING Direct.

### John C.R. Hele, CFO

*(Born 1958, Canadian nationality, male; appointed in 2007, term expires in 2011)*

John Hele graduated from the University of Waterloo, Canada, in 1980 with a bachelor's degree in Mathematics. He joined ING in 2003. Before he joined the Executive Board John Hele has been deputy chief financial officer of ING Group since 2006. Prior to assuming this role, he was the general manager and chief insurance risk officer responsible for global insurance risk management and also functioned as the Group actuary.

# Corporate governance (continued)

Before joining ING, John Hele held various positions at Crown Life in Canada, Merrill Lynch in the United States and at Worldinsure, Bermuda. He is responsible for Group Capital Management, Group Tax, Group Finance and Control, Group Finance Bank and Group Finance Insurance.

**Eli P. Leenaars**
*(Born 1961, Dutch nationality, male; appointed in 2004, term expires in 2008)*
Eli Leenaars studied Civil Law at the Catholic University of Nijmegen and received an LLM from the European University Institute in Florence, Italy and attended the Harvard Graduate School of Business in Boston. After a traineeship at ABN AMRO, he joined ING in 1991, where he held various management positions, including chairman of ING Poland and of ING Latin America. He was appointed a member of the Executive Board of ING Group in April 2004. He is responsible for Retail Banking and Private Banking. He is also in charge of Operations/IT and Corporate Operations and Information Services.

**Tom J. McInerney**
*(Born 1956, American nationality, male; appointed in 2006, term expires in 2010)*
Tom McInerney has a bachelor's degree from Colgate University (Hamilton, New York) and an MBA from the Tuck School of Business, Dartmouth College (Hanover, New Hampshire). He started his career in 1978 with Aetna Financial Services, which was acquired by ING in 2000. He has been CEO of ING's insurance activities in the United States, which position included the responsibility for ING Mexico. Tom McInerney is now responsible for Insurance Americas, ING Investment Management Americas and the global coordination of ING Investment Management.

**Hans van der Noordaa**
*(Born 1961, Dutch nationality, male; appointed in 2006, term expires in 2010)*
Hans van der Noordaa graduated in Public Administration at the University of Twente, the Netherlands. After a career in retail banking at ABN AMRO, he joined ING in 1991, where he held various management positions. He was CEO of the Retail Division of ING Netherlands, responsible for Postbank, ING Bank and RVS, before his appointment to the Executive Board in 2006. Hans van der Noordaa is responsible for Insurance Asia/Pacific and ING Investment Management Asia/Pacific.

**Koos (J.V.) Timmermans, CRO**
*(Born 1960, Dutch nationality, male; appointed in 2007, term expires in 2011)*
Koos Timmermans graduated from Erasmus University in Rotterdam in 1986 with a master's degree in Economics. Until 1991 he worked at ABN AMRO in the field of derivatives and before joining ING in 1996 he was stationed in Ireland for IBM's European treasury. He has been deputy chief risk officer of ING Group since March 2006. Prior to this he was head of Corporate Market Risk Management. Koos Timmermans is responsible for ING's risk departments including compliance.

**Jacques M. de Vaucleroy**
*(Born 1961, Belgian nationality, male; appointed in 2006, term expires in 2010)*
Jacques de Vaucleroy graduated from Louvain University with a degree in Law. He also has a master's degree in Business Law from the Free University of Brussels, Belgium. In 1986 he joined Bank Brussels Lambert, which was acquired by ING in 1998. Before his appointment to the Executive Board in 2006, he was Group president ING Retail at US Financial Services. Jacques de Vaucleroy is responsible for Insurance Europe and ING Investment Management Europe.

### Executive Board composition

The Supervisory Board will propose reappointing Eric Boyer de la Giroday and Eli Leenaars to the Executive Board at the annual General Meeting of Shareholders on 22 April 2008.

## SUPERVISORY BOARD

### Appointment and dismissal

Members of the Supervisory Board are appointed by the General Meeting of Shareholders from a binding list to be drawn up by the Supervisory Board. This list shall mention at least two candidates for each vacancy, failing which the list will be non-binding. The list will also be non-binding pursuant to a resolution to that effect of the General Meeting of Shareholders adopted by an absolute majority of the votes cast which majority represents more than one-third of the issued capital.

Candidates for appointment to the Supervisory Board must comply with the reliability requirements set out in the *Wet financieel toezicht* (Dutch Financial Supervision Act).

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

### Function of the Supervisory Board and its committees

The function of the Supervisory Board is to supervise the policy of the Executive Board and the general course of events in the company and its business, as well as to provide advice to the Executive Board. The Supervisory Board has three standing committees: the Audit Committee, the Remuneration and Nomination Committee and the Corporate Governance Committee. The organisation, powers and modus operandi of the Supervisory Board are detailed in the Supervisory Board Charter. Separate charters have been drawn up for the Audit Committee, the Remuneration and Nomination Committee and the Corporate Governance Committee. These charters are available on the ING Group website (www.ing.com). A short description of the duties for the three Committees follows below.

The Audit Committee assists the Supervisory Board in monitoring the integrity of the financial statements of ING Group, ING Verzekeringen N.V. and ING Bank N.V., in monitoring the compliance with legal and regulatory requirements, and in monitoring the independence and performance of ING's internal and external auditors.

The Remuneration and Nomination Committee advises the Supervisory Board amongst others on the composition of the Supervisory Board and Executive Board, on the compensation packages of the members of the Executive Board and on stock-based compensation programmes for top senior management, including the Executive Board.

The Corporate Governance Committee assists the Supervisory Board in monitoring and evaluating the corporate governance of ING as a whole and the reporting of this in the Annual Report and to the General Meeting of Shareholders, and advises the Supervisory Board on improvements.

**Profile of members of the Supervisory Board**
The Supervisory Board has drawn up a profile to be used as a basis for its composition. The profile was submitted for discussion to the annual General Meeting of Shareholders in 2005. It is available at the ING Group head office and on the ING Group website (www.ing.com).

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

**Reappointment of Supervisory Board members**
Members of the Supervisory Board will resign from the Supervisory Board at the annual General Meeting of Shareholders held in the calendar year in which they will complete the fourth year after their most recent reappointment. As a general rule, they shall also resign at the annual General Meeting of Shareholders in the year in which they attain the age of 70 and shall not be reappointed. The schedule for resignation by rotation is available on the ING Group website (www.ing.com). Members of the Supervisory Board may as a general rule be reappointed for two four-year terms, based on a proposal from the Supervisory Board to the General Meeting of Shareholders.

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

**Details of transactions involving actual or potential conflicts of interest**
Details of any relationships that members of the Supervisory Board may have with ING Group subsidiaries as ordinary, private individuals are not reported, with the exception of any loans that may have been granted to them (see page 86).

**Independence**
Annually, the Supervisory Board members are requested to assess whether the criteria of dependence of the Tabaksblat Code do not apply to them and to confirm this in writing. On the basis of these criteria, all members of the Supervisory Board, except Piet Hoogendoorn, are to be regarded as independent as of 31 December 2007. Members of the Supervisory Board to whom the dependence criteria of the Tabaksblat Code do not apply and members of the Supervisory Board to whom the criteria do apply but who can explain why this does not undermine their independence, are deemed to be independent.

**Remuneration and share ownership**
The remuneration of the members of the Supervisory Board is set by the General Meeting of Shareholders and is not dependent on the results of the company. Details of the remuneration are provided in the Remuneration Report on pages 85 – 86. Members of the Supervisory Board are permitted to hold shares and depositary receipts for shares in the company for long-term investment purposes. Details are given on page 86. Transactions by Supervisory Board members in ING Group shares and depositary receipts for shares are subject to the ING regulations for insiders. These regulations are available on the ING Group website (www.ing.com).

## INFORMATION ON MEMBERS OF THE SUPERVISORY BOARD

**Cor A.J. Herkströter, chairman (until 1 January 2008)**
*(Born 1937, Dutch nationality, male; appointed in 1998, retirement on 1 January 2008)*
Chairman of the Remuneration and Nomination Committee and the Corporate Governance Committee (until 1 January 2008). Former president of Royal Dutch Petroleum Company and chairman of the Committee of Managing Directors, Royal Dutch/Shell Group.
Other business activities: chairman of the Supervisory Board of Koninklijke DSM N.V. (listed company). Member of the Advisory Committee, Robert Bosch GmbH. Chairman of the Social Advisory Council, Tinbergen Institute. Emeritus Professor of International Management, University of Amsterdam. Chairman of the Advisory Committee Royal NIVRA (Netherlands Institute of Chartered Accountants). Member Committee Capital Market, Authority Financial Markets, Amsterdam.

**Jan H.M. Hommen (chairman from 1 January 2008)**
*(Born 1943, Dutch nationality, male; appointed in 2005, term expires in 2009)*
Chairman of the Audit Committee until 1 January 2008; member of the Audit Committee until 24 January 2008. Chairman of the Remuneration and Nomination Committee and the Corporate Governance Committee (from 1 January 2008). Former vice-chairman and CFO of the Board of Management of Royal Philips Electronics.

## Corporate governance (continued)

Other business activities: chairman of the Supervisory Board of each of Reed Elsevier and TNT N.V. (listed companies). Chairman of the Supervisory Board of each of Academisch Ziekenhuis Maastricht (hospital) and TiasNimbas Business School. Member of the Supervisory Board of Campina BV.

**Eric Bourdais de Charbonnière, vice-chairman**
*(Born 1939, French nationality, male; appointed in 2004, term expires in 2008)*
Member of the Remuneration and Nomination Committee and the Corporate Governance Committee. Former managing director of JP Morgan France and chief financial officer of Michelin.
Other business activities: chairman of the Supervisory Board of Michelin and member of the Supervisory Board of Thomson (listed companies). Member of the Supervisory Board of each of Oddo et Cie, American Hospital of Paris and Associés en Finance.

**Henk W. Breukink**
*(Born 1950, Dutch nationality, male; appointed in 2007, term expires in 2011)*
Member of the Corporate Governance Committee (from 24 January 2008). Former managing director of F&C and country head for F&C Netherlands (asset management firm). Vice-chairman of VastNed Offices/Industrial (real estate fund) and non-executive director of F&C hedge funds, Ireland (listed companies).
Other business activities: non-executive director of Heembouw Holding B.V. and B&S Vastgoed Nederland NV.

**Peter A.F.W. Elverding**
*(Born 1948, Dutch nationality, male; appointed in 2007, term expires in 2011)*
Member of the Audit Committee (from 24 January 2008). Former chairman of the Managing Board of Directors of Royal DSM N.V. and former vice-chairman of the Supervisory Board of De Nederlandsche Bank N.V. (Dutch Central Bank).
Other business activities: chairman of the Supervisory Board of Océ N.V. (listed company). Member of the Supervisory Board of SHV Holdings N.V. Chairman of the Supervisory Board of Maastricht University and member of the Supervisory Board of the cross-border University of Limburg.

**Luella Gross Goldberg**
*(Born 1937, American nationality, female; appointed in 2001, retirement in 2008)*
Member of the Remuneration and Nomination Committee and the Corporate Governance Committee (until 24 January 2008). Former member of the Board of Directors of ReliaStar Financial Corp.
Other business activities: member of the Supervisory Board of each of TCF Financial Corporation, Hormel Foods Corporation and Communications Systems Inc. (listed companies). Member of the Advisory Board of Carlson School of Management, University of Minnesota. Member of the Supervisory Board of the Minnesota Orchestra. Member (emerita) of the Board of Trustees, Wellesley College. Member of the Board of Trustees, University of Minnesota Foundation.

**Claus Dieter Hoffmann**
*(Born 1942, German nationality, male; appointed in 2003, term expires in 2011)*
Member of the Audit Committee (until 24 January 2008). Member of the Corporate Governance Committee (from 24 January 2008). Former chief financial officer of Robert Bosch GmbH.
Other business activities: managing partner of H+H Senior Advisors, Stuttgart. Chairman of the Supervisory Board of EnBW AG (listed company). Member of the Supervisory Board of Bauerfeind AG and de Boer Structures Holding B.V. Chairman of the Charlottenklinik Foundation (hospital). Chairman of the Board of Trustees (Vereinigung der Freunde) of Stuttgart University.

**Piet Hoogendoorn**
*(Born 1945, Dutch nationality, male; appointed in 2007, term expires in 2011)*
Member of the Audit Committee (from 24 January 2008). Former chairman of the Board of Directors of Deloitte Touche Tohmatsu and CEO of Deloitte in the Netherlands. Former chairman of Royal NIVRA (Netherlands Institute of Chartered Accountants).

**Piet C. Klaver**
*(Born 1945, Dutch nationality, male; appointed in 2006, term expires in 2010)*
Member of the Remuneration and Nomination Committee (from 24 January 2008). Former chairman of the Executive Board of SHV Holdings N.V.
Other business activities: member of the Supervisory Board of SHV Holdings N.V., Jaarbeurs Holding B.V. and Dura Vermeer Groep N.V. Chairman of the Supervisory Board of Dekker Hout Groep B.V. Chairman of the Board of African Parks Foundation. Chairman of the Supervisory Board of Utrecht School of the Arts.

**Wim Kok**
*(Born 1938, Dutch nationality, male; appointed in 2003, term expires in 2010)*
Member of the Audit Committee; chairman of the Audit Committee from 1 January 2008. Former Minister of Finance and Prime Minister of the Netherlands.
Other business activities: non-executive member of the Board of Directors of Royal Dutch Shell plc, member of the Supervisory Board of TNT N.V. (listed companies). Member of the Supervisory Board of KLM Royal Dutch Airlines. Chairman of the Supervisory Board of the Anne Frank Foundation, Amsterdam. Chairman of the Supervisory Board of the Nationale Ballet, Amsterdam. Member of the Supervisory Board of Het Muziektheater, Amsterdam. Member of the Supervisory Board of the Rijksmuseum, Amsterdam. Chairman of the Supervisory Board of the Netherlands Cancer Institute – Antoni van Leeuwenhoek Hospital. Member of the Board of Start Foundation.

**Godfried J.A. van der Lugt**
*(Born 1940, Dutch nationality, male; appointed in 2001, term expires in 2009)*
Member of the Audit Committee. Former chairman of the Executive Board of ING Group (retired in May 2000).
Other business activities: chairman of the Supervisory Board of each of Siemens Nederland N.V. and Stadsherstel Amsterdam NV. Vice-chairman of the Supervisory Board of Universitair Medisch Centrum Groningen (hospital). Treasurer of Vereniging Natuurmonumenten (Dutch foundation for nature conservation). Member Siemens Group Pension Advisory Board München.

**Karel Vuursteen**
*(Born 1941, Dutch nationality, male; appointed in 2002, term expires in 2010*)
Member of the Remuneration and Nomination Committee (from 24 January 2008). Former chairman of the Executive Board of Heineken N.V.
Other business activities: member of the Supervisory Board of each of Akzo Nobel N.V., TomTom N.V. and Henkel KGaA (listed companies). Member of the Board of Directors of Heineken Holding N.V. Member of the Advisory Board of CVC Capital Partners. Chairman of World Wild Life Fund Netherlands and The Concertgebouw Fund Foundation. Member of the Supervisory Board of Nyenrode Foundation.

**Changes in the composition**
Cor Herkströter retired from the Supervisory Board on 1 January 2008. Luella Gross Goldberg will retire after the 2008 annual General Meeting of Shareholders. Wim Kok will reach the age of 70 in 2008 but, having been appointed chairman of the Audit Committee, will remain in office one extra year to ensure a balanced composition of the Supervisory Board. He will retire after the 2009 annual General Meeting of Shareholders.

At the 2008 annual General Meeting of Shareholders four new candidates will be proposed for appointment: Joan Spero (born 1944, American nationality, female), Harish Manwani (born 1953, Indian nationality, male), Aman Mehta (born 1946, Indian nationality, male) and Jackson Tai (born 1950, American nationality, male). More information can be found in the convocation for the 2008 annual General Meeting of Shareholders, available on the ING Group website (www. ing.com).

## CHANGE OF CONTROL PROVISIONS

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

**Change of control clauses in important contracts**
ING Group is not a party to any material agreement, which becomes effective, or is being amended or terminated subject to the condition of a change of control of ING Group following a public bid defined in section 5:70 of the Financial Supervision Act. ING Group subsidiaries have customary change of control arrangements in contracts related to various business activities, such contracts including joint venture agreements, letters of credit and other credit facilities, reinsurance contracts and futures and option trading contracts. Following a change of control of ING Group (whether or not as the result of a public bid), such contracts may be amended or terminated, leading to, for example, an obligatory transfer of the interest in the joint venture, early repayment of amounts due, loss of credit facilities or reinsurance cover and liquidation of outstanding futures and option trading positions.

**Severance payments to Executive Board members**
The employment contracts with the members of the Executive Board provide for severance payments, which are to become due in case of termination of the contract in connection with a public bid defined in section 5:70 of the Dutch Financial Supervision Act. With respect to the amounts due, there is no difference as to whether termination of the contract would be in connection with a public bid or not.

## AMENDMENT OF ARTICLES OF ASSOCIATION

The Articles of Association of ING Group may be amended pursuant to a resolution of the General Meeting of Shareholders, adopted with a majority of two-thirds of the votes cast in a meeting in which two-thirds of the issued share capital is present or represented. The resolution of the General Meeting of Shareholders must be proposed by the Executive Board; the Executive Board proposal must be approved by the Supervisory Board.

## EXTERNAL AUDITORS

Ernst & Young Accountants (Ernst & Young) and KPMG Accountants N.V. (KPMG) were the appointed auditors of ING. Ernst & Young was responsible for auditing the financial statements of ING Group and ING Verzekeringen N.V., while KPMG was responsible for the audit of the financial statements of ING Bank N.V. The external auditors, Ernst & Young and KPMG, both attended the meetings of the Audit Committee.

At the annual General Meeting of Shareholders on 27 April 2004, Ernst & Young was appointed to audit the financial statements of ING Group for the financial years 2004 to 2007 inclusive, to report on the outcome of these audits to the Executive Board and the Supervisory Board and to provide an audit opinion on the financial statements of ING Group. Furthermore, Ernst & Young also audited and reported on the effectiveness of internal control over financial reporting as of 31 December 2007.

In 2006, the Supervisory Board, at the suggestion of the Audit Committee and the Executive Board, concluded that it is more efficient that the financial audit of ING Group and its subsidiaries be assigned to one single audit firm, instead of being shared between two firms. Accordingly, both Ernst & Young and KPMG were invited to tender for the financial audit of ING Group and all of its subsidiaries in 2007. This resulted in the nomination of Ernst & Young for appointment by the annual General Meeting of Shareholders in 2008 as sole external auditor as of 2008 onwards for ING Group and its subsidiaries. ING appreciates the excellent

# Corporate governance (continued)

service that KPMG has provided as an auditor of ING Bank N.V. over many years.

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

The external auditors may be questioned at the annual General Meeting of Shareholders in relation to their audit opinion on the annual accounts. The external auditors will therefore attend and be entitled to address this meeting.

Both Ernst & Young and KPMG may only provide audit and non-audit services to ING Group and its subsidiaries with the permission of the Audit Committee. The Audit Committee has generally pre-approved certain types of audit, audit-related, tax and non-audit services to be provided by ING's external audit firms on an annual basis. Services that have not been generally pre-approved by the Audit Committee should not be provided by the external auditor or should be specifically pre-approved by the Audit Committee after recommendation of local management.

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

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

In 2007 and 2006, the following amounts were paid to Ernst & Young and KPMG for audit services and non-audit services:

**Fees Ernst & Young and KPMG [1]**

| in EUR million | **2007** | 2006 |
|---|---|---|
| Audit fees | **61** | 63 |
| Audit-related fees | **7** | 4 |
| Tax fees | **5** | 4 |
| All other fees | **2** | 3 |
| Total | **75** | 74 |

[1] all amounts excluding VAT

# Report of ING Trust Office

The following report is issued in compliance with article 15 of the Conditions of Trust for registered shares in ING Groep N.V.

Pursuant to its Constitution, the object of Stichting ING Aandelen (the Trust Office) is:

a. to foster the interests of the holders of depositary receipts for shares in the capital of ING Groep N.V. (the company), while having regard for the interests of (i) the company itself, (ii) the enterprises carried on by the company and companies associated with it in a group and (iii) all other stakeholders in the company, such that all those interests are balanced and safeguarded as effectively as possible;
b. to acquire and administer registered ordinary and preference shares for which bearer depositary receipts have been issued;
c. to foster the exchange of information between the company on the one hand and the depositary-receipt holders and shareholders in the company on the other;
d. to promote and organise the solicitation of proxies of shareholders other than the Trust Office itself and of specific proxies and/or voting instructions of depositary-receipt holders.

During the 2007 reporting year the Board held three meetings.

On 4 April 2007 the Board held a meeting to discuss the 2006 annual report and to prepare the annual General Meeting of Shareholders on 24 April 2007. Prior to this Board meeting the Executive Board and Supervisory Board of the company discussed with the Trust Office the company's activities and performance over 2006 on the basis of the press release of 15 February 2007 on the 2006 figures.

On 24 April 2007 the Board convened before the annual General Meeting of Shareholders to discuss the proxy voting results and to decide on the initial position of the Board vis-à-vis the items on the agenda.

The last meeting was on 3 December 2007. In this meeting attention was paid again to the composition of the Board, a decision was taken to change the Trust Conditions and recent developments in the area of corporate governance were discussed. The amendments of the Trust Conditions were made in connection with the Act of 20 October 2006 to amend Book 2 of the Civil Code in order to promote the use of electronic means of communication in connection with decision-making in legal entities.

Prior to its meeting on 3 December 2007 the Executive Board and Supervisory Board of the company discussed with the Trust Office the company's activities and performance over the first nine months of 2007 as published on 7 November 2007.

The Trust Office organises the solicitation of proxies of shareholders other than the Trust Office itself and of specific proxies and/or voting instructions of depositary-receipt holders. The Board encourages the greatest possible participation of depositary-receipt holders and shareholders.

Holders of depositary receipts in the Netherlands, the United Kingdom and the United States are able to vote by proxy. For the 2007 annual General Meeting of Shareholders votes were cast for 36.7% of the total number of outstanding ordinary shares and depositary receipts (excluding the voting rights on preference shares). The Board voted for the remaining depositary receipts.

# Report of ING Trust Office (continued)

The Trust Office takes the position that abandoning depositary receipts will be considered when the turnout at the shareholders' meeting reaches a level of at least 35% of the votes that can be cast on ordinary shares (excluding the multiple voting rights of preference shares) during three consecutive years. This level was reached for the first time in 2007.

According to its by-laws the Trust Office has to vote in the interest of all depositary-receipt holders, including the majority of depositary-receipt holders that has not given voting instructions, while taking into account the interests of ING and other stakeholders.

By doing so the Trust Office promotes the execution of voting rights in a transparent way and prevents at the same time that a minority of shareholders could use a chance majority of votes to the disadvantage of those investors not present or not represented. The Board, as is customary, attended the annual General Meeting of Shareholders and answered various questions. The Trust Office voted in favour of all agenda items for the shares for which it had received no voting instructions.

On 31 December 2007 the nominal value of administered ordinary shares amounted to EUR 534,183,417.12 for which 2,225,764,238 depositary receipts of EUR 0.24 each were issued. During the reporting year, the net number of depositary receipts issued for ordinary shares ran to 21,363,919.

The increase came about as follows:

| | |
|---|---|
| Add: | |
| from exercise of warrants | 15,783,588 |
| from conversion of shares into depositary receipts | 5,585,939 |
| Less: | |
| from conversion of depositary receipts into shares | 5,608 |

On 31 December 2007, preference A shares representing a nominal amount of EUR 19,212,562.80 were entered into the administration, for which 16,010,469 depositary receipts with a nominal value of EUR 1.20 were issued. During the reporting year the preference A shares initially held by Fortis and ABN AMRO were bought and partially withdrawn. The remainder of the preference A shares currently held by the company will be withdrawn in 2008.

Carel van den Driest has been appointed to the Board from 4 April 2007 and Herman Hazewinkel from 3 December 2007. Jan Veraart and Paul Frentrop were reappointed as Board members from 13 May 2007 and 1 July 2007 respectively. In accordance with the provisions of article 7, section 8 of the Constitution, the Trust Office disclosed the proposed (re)appointments by publication in NRC Handelsblad and the Officiële Prijscourant (AEX Official List).

**The Board of the Trust Office currently consists of:**
Jan Veraart, former chairman of the Executive Board of HBG, several supervisory directorships and additional offices;

Huib Blaisse lawyer and partner at Blaisse;

Paul Frentrop, head Corporate Governance APG Vermogens-beheer;

Carel van den Driest, former chairman Executive Board of Koninklijke Vopak N.V, several supervisory directorships and additional offices;

Herman Hazewinkel, chairman of the Executive Board of Koninklijke Volker Wessels Stevin N.V. and several supervisory directorships and additional offices.

A profile and an overview of additional relevant offices held by Board members can be found on the website of the Trust Office: www.ingtrustoffice.com.

The annual remuneration is EUR 25,000 for the chairman and EUR 20,000 for other members.

The costs of proxy voting amounted to EUR 65,153.75.

The Trust Office may consult depositary-receipt holders in a separate meeting. This possibility was not made use of. Holders of depositary receipts are invited to attend the annual General Meeting of Shareholders and look after their own interests.

The activities involved in the administration of shares are performed by Algemeen Administratie- en Trustkantoor B.V., Amsterdam.

The contact details of Stichting ING Aandelen (the Trust Office) are:
Coco C.M. van Hulten
Telephone + 31 20 5418864
Email: coco.van.hulten@ing.com

**AMSTERDAM, 17 MARCH 2008**

**BOARD OF STICHTING ING AANDELEN**

# Report of ING Continuity Foundation

Stichting Continuïteit ING, established in Amsterdam, was founded on 22 January 1991. By amendment of the Articles of Association on 23 June 2003, the former name 'Stichting Cumulatief Preferente Aandelen ING Groep' was changed to Stichting Continuïteit ING ('ING Continuity Foundation').

A call-option agreement concluded between the Stichting and ING Groep N.V. vests the Stichting with the right to acquire cumulative preference shares in the capital of ING Groep N.V. up to a maximum of 900 million cumulative preference shares. The purpose of the cumulative preference shares is to protect the independence, the continuity and the identity of the company against influences which are contrary to the interests of ING Group, its enterprise and the enterprises of its subsidiaries and all stakeholders (including hostile takeovers). The acquisition of cumulative preference shares by the Stichting is subject to the restriction that, immediately after the issue of cumulative preference shares, the total amount of cumulative preference shares may not exceed one third of the total issued share capital of ING Groep N.V. If new shares other than cumulative preference shares are subsequently issued, the Stichting may again exercise its right, subject to the provisions of the preceding sentence. On acquisition of cumulative preference shares, at least 25% of the nominal value must be paid.

In 2007 the Board of the Stichting met once, namely on 4 April. The December meeting was postponed until 28 January 2008.

The composition of the Board is currently as follows: Allard Metzelaar, Wim van Vonno and Sebastian Kortmann, who was reappointed as of 13 May 2007. Ad Timmermans retired on 1 January 2008 as chairman and member because he reached the statutory age limit. The Board will appoint his successor in due course.

**AMSTERDAM, 17 MARCH 2008**

**BOARD OF STICHTING CONTINUITEIT ING**

# Section 404 Sarbanes-Oxley Act
## Effective internal control over financial reporting

Due to the listing of ING shares on the New York Stock Exchange, ING Group is required to comply with the SEC regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act, or SOX 404. These regulations require that the CEO (the chairman of the Executive Board) and the CFO of ING Group report and certify on an annual basis on the effectiveness of ING Group's internal controls over financial reporting. Furthermore, the external auditors are required to provide an opinion on the effectiveness of ING Group's internal controls over financial reporting.

Internal controls over financial reporting already existed before the adoption of SOX 404. However, SOX 404 regulations require management to demonstrate the effectiveness of such controls. This implies a more formalised approach in executing our tasks. ING Group has long-established Business Principles and a strong internal-control culture, which all staff must adhere to. SOX 404 activities are organised along the lines of the governance structure, and involve the participation of senior management across ING. Following the SOX 404 process, ING is in the position to publish an unqualified statement which denotes that the company's internal control over financial reporting is effective as of 31 December 2007. The SOX 404 statement by the Executive Board is included below, followed by the report of the external auditor.

**Report of the Executive Board on Internal Control Over Financial Reporting**

The Executive Board is responsible for establishing and maintaining adequate internal control over financial reporting. ING's internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

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

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

The Executive Board assessed the effectiveness of our internal control over financial reporting as of 31 December 2007. In making this assessment, the Executive Board performed tests based on the criteria of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on the Executive Board's assessment and those criteria, the Executive Board concluded that the company's internal control over financial reporting is effective as of 31 December 2007.

Our independent registered public accounting firm has audited and issued their report on ING's internal control over financial reporting, which appears on the following page.

**AMSTERDAM, 17 MARCH 2008**

**Michel Tilmant**
**chairman Executive Board**

**John Hele**
**chief financial officer**

**Report of Independent Registered Public Accounting Firm**

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

We have audited ING Groep N.V.'s internal control over financial reporting as of 31 December 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). ING Groep N.V.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of the Executive Board on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, ING Groep N.V. maintained, in all material respects, effective internal control over financial reporting as of 31 December 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of ING Groep N.V. as of 31 December 2007, the consolidated profit and loss account, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended. Our report dated 17 March 2008 expressed an unqualified opinion thereon.

**AMSTERDAM, 17 MARCH 2008**

**ERNST & YOUNG ACCOUNTANTS**

# Remuneration report

This chapter sets out the remuneration for the Executive Board and the Supervisory Board. The remuneration policy was adopted by the annual General Meeting of Shareholders on 27 April 2004. In 2006, the Executive Board pension scheme was revised in alignment with the approved amendment to the remuneration policy. The revised Executive Board pension scheme is further described on page 78. There were no changes to this policy in 2007 and therefore, the approval of the 2006 annual General Meeting of Shareholders still applies for 2007. The chapter starts with the general policy for senior-management remuneration, followed by the Executive Board compensation for 2007 and the compensation structure for 2008. In addition, information is included on loans and advances to the Executive Board and Supervisory Board members as well as ING depositary receipts for shares held by members of both boards.

## GENERAL POLICY SENIOR-MANAGEMENT REMUNERATION

### Background

The prime objective of the remuneration policy is to enable the company to recruit and retain qualified and expert leaders. The remuneration package supports a performance-driven culture that aligns ING's objectives with those of its stakeholders. ING rewards performance on the basis of previously determined, challenging, measurable and influenceable short-term and long-term targets.

ING's remuneration policy is based on five key principles that apply throughout ING. These principles are:

- Total compensation levels are benchmarked against relevant markets in which ING competes for talent.
- ING aims for total compensation at the median level in the relevant market, allowing only for above-median compensation in the event of outstanding performance.
- The remuneration package includes variable-pay components (short-term and long-term incentives) to ensure that executive remuneration is linked to ING's short-term and long-term business performance.
- To enhance the effectiveness of the short-term incentive plan, clear, measurable and challenging targets are set at the beginning of each year.
- Long-term incentives ensure a focus on longer-term strategic targets and create alignment of management with the interests of shareholders. A broad selection of ING's senior leaders participate in the plan to ensure a common focus on ING's overall performance.

### Remuneration structure

Total compensation throughout ING consists of three basic components:

- Fixed or base salary, which represents the total guaranteed annual income.
- Short-term incentive (STI) in cash, which compensates for past performance measured over one year.
- Long-term incentive (LTI) in stock options and/or performance shares, which compensates for performance measured over multiple years and is forward-looking.

In addition to the base salary and incentive plan participation, senior management and Executive Board members enjoy benefits similar to most other comparable employees of ING Group. These include benefits such as the use of company cars, contributions to company savings plans and, if applicable, expatriate allowances.

### Base salary

The base salaries of the Executive Board should be sufficient to attract and retain high calibre management needed to achieve our business objectives. The Supervisory Board assesses the experience, background, responsibilities, performance and leadership competencies of the CEO and the members of the Executive Board when making decisions on base-salary levels.

To ensure that base-salary levels are in line with the relevant market for talent, the Supervisory Board reviews the base-salary levels of the Executive Board on an annual basis.

### Short-term incentive plan

The short-term incentive plan (STIP) is a key component of ING's performance-driven culture. The short-term incentive is paid in cash. The 'at target' bonus opportunity is expressed as a percentage of base salary. The target levels are based on benchmarks reflecting external market competitiveness as well as internal objectives. Three financial parameters were used in the 2007 STIP for the members of the Executive Board and top senior management across the organisation (the top-200 executives) to measure performance at Group level. These financial parameters are: underlying net profit, underlying operating expenses and economic profit/embedded value profit (excluding financial variances). The quantitative elements of the targets are considered stock price sensitive and competition sensitive; accordingly these are not disclosed.

We believe that by combining a profit, a cost and a return parameter, the overall performance of ING is properly reflected. Each element is weighted equally to determine the final award. The three performance targets are set by the Supervisory Board at the beginning of the performance period. Under the short-term incentive plan, the actual payout in any year may vary between 0% and 200% of the target level.

In addition to the financial targets, part of the short-term incentive award is based on individual performance, assessed over pre-defined measurable targets set for each senior executive. These targets depend on the specific responsibilities of the individual Executive Board members and are determined and assessed by the Supervisory Board. The Executive Board sets the targets for senior management. For this layer directly reporting to the Executive Board, the emphasis is on individual performance in their primary business-related responsibility.

**Short-term incentive: relative weight of Group and individual performance**

| | Group performance | Individual performance |
|---|---|---|
| Executive Board | 70% of total bonus | 30% of total bonus |
| Top senior management in business | 15% of total bonus | 85% of total bonus |
| Top senior management in Group staff | 30% of total bonus | 70% of total bonus |

### Long-term incentive plan

The long-term incentive plan (LTIP) at ING includes both stock options and performance shares. LTIP awards are granted to ensure alignment of senior management with the interests of shareholders, and to retain top management over a longer period of time. The LTIP awards will be granted with a total 'fair value' split between stock options and performance shares. The LTI plan was tabled and approved during the General Meeting of Shareholders on 27 April 2004.

The ING stock options have a total term of ten years and a vesting period of three years after which they can be exercised for the remaining seven years. After three years, the options will vest only if the option holder is still employed by ING. The exercise price of the stock options is equal to the Euronext Amsterdam by NYSE Euronext market price of the ING depositary receipts on the grant date. For members of the Executive Board the grant date is a specific date during the first 'open period' after the General Meeting of Shareholders.

Performance shares are conditionally granted. The number of ING depositary receipts that is ultimately granted at the end of a three-year performance period depends on ING's Total Shareholder Return (TSR) performance over three years (return in the form of capital gains and reinvested dividends that shareholders receive in that period) relative to the TSR performance of a pre-defined peer group. The criteria used to determine the performance peer group are: a) considered comparable and relevant by the Supervisory Board, b) representing ING's current portfolio of businesses (e.g. banking, insurance and asset management) and ING's geographical spread, c) global players, d) listed and with a substantial free float.

On the basis of these criteria the performance peer group established in 2004 is composed as follows:

- Citigroup, Fortis, Lloyds TSB (bank/insurance companies);
- ABN AMRO, Bank of America, BNP Paribas, Banco Santander, Credit Suisse, Deutsche Bank, HSBC (banks);
- Aegon, AIG, Allianz, Aviva, AXA, Prudential UK, Hartford Financial Services, Munich Re (insurance companies);
- Invesco (asset manager).

The Supervisory Board has determined that in light of the disappearance of ABN AMRO from the peer group, it will be replaced by Unicredito Italiano. This replacement is based upon a thorough replacement process using the above objective criteria to determine the performance peer group.

ING's TSR ranking within this group of companies determines the final number of performance shares that vest at the end of the three-year performance period. The initial number of performance shares granted is based on a mid-position ranking of ING. This initial grant will increase or decrease (on a linear basis) on the basis of ING's TSR position after the three-year performance period as specified in the table below.

**Number of shares awarded after each three-year performance period related to peer group**

| ING ranking | Number of shares |
|---|---|
| 1 – 3 | 200% |
| 4 – 8 | Between 200% and 100% |
| 9 – 11 | 100% |
| 12 – 17 | Between 100% and 0% |
| 18 – 20 | 0% |

The Supervisory Board reviews the peer group before each new three-year performance period. The performance test itself will be carried out at the end of every three-year performance period by an independent third party.

The Executive Board members are not allowed to sell depositary receipts obtained either through the stock-option or the performance-shares plan within a period of five years from the grant date. They are only allowed to sell part of their depositary receipts at the date of vesting to pay tax over the vested performance share award. Depositary receipts obtained from exercised stock options may only be sold within a period of five years from the grant date of the options to pay tax over the exercised award.

# Remuneration report (continued)

**Remuneration levels**
Every year a compensation benchmark analysis is performed based upon a peer group of companies. This peer group, established in 2003, is a mix of European financial services companies and Dutch-based multinationals. The peer group reflects ING's business structure and environment. ING competes with these companies for executive talent. The following companies are part of this compensation peer group: ABN AMRO, Aegon, Ahold, AXA, BNP Paribas, Credit Suisse, Fortis, KPN, Royal Bank of Scotland, Société Générale.

Considering the disappearance of ABN AMRO and the natural evolvement of the companies in the compensation peer group, the Supervisory Board has undertaken a review of this group. The composition of the adjusted peer group is based upon a thorough review process using objective criteria and reflects the evolved environment and ING's business structure. The Supervisory Board has decided to adjust to a European financial industry peer group effective as of compensation year 2009. This financial industry peer group will comprise of the following companies: Aegon, Allianz, AXA, Banco Santander, Barclays, BNP Paribas, Credit Suisse, Deutsche Bank, Fortis, HSBC, Royal Bank of Scotland, Société Générale, Unicredito Italiano, Zurich Financial Services.

In line with ING's overall remuneration policy, the Supervisory Board has focused on increasing variable (performance-driven) pay components which has resulted in a gradual convergence of the Executive Board total compensation to the median benchmark over a period of four years. This has been achieved by raising the target levels of both the short-term and long-term incentives. This ensures that future payouts more directly reflect short-term and long-term performance. As a result, the mix of total target compensation (in case of at-target performance) is divided equally between each component (i.e. 1/3rd base salary, 1/3rd short-term incentives, and 1/3rd long-term incentives). This balance of variable remuneration provides the right amount of focus on both the short and long term.

**Pensions Executive Board members**
At the General Meeting of Shareholders on 25 April 2006, it was agreed to amend the Executive Board remuneration policy with respect to pensions. This revised pension plan applies to all members of the Executive Board regardless of the time of appointment to the Executive Board except for John Hele, Tom McInerney and Cees Maas (retired 1 June 2007). The revised pension plan does not apply to a) Cees Maas, who was born before 1 January 1950 and who therefore continued to participate in the previous Executive Board defined-benefit pension scheme, and b) John Hele and Tom McInerney as they participate in the US pension plans. The pensions of the Executive Board are now based on a defined-contribution plan, which are insured through a contract with Nationale-Nederlanden Levensverzekering Maatschappij N.V. Starting in 2006, members of the Executive Board have been required to pay a portion of their pension premium. The Employment Contract will terminate by operation of law in case of retirement ('Standard Retirement'), which will take place on the first day of the month that the individual reaches the age of 65. The retirement age has been changed from previous years (age 60) as a result of the Dutch tax reform.

**Employment contract for newly appointed Board members**
The contract of employment for Executive Board members appointed after 1 January 2004 provides for an appointment for a period of four years (the appointment period) and allows for reappointment by the General Meeting of Shareholders.

In the case of an involuntary exit, Executive Board members will be entitled to an amount which has been set at a multiple of their Executive Board member base salary, preserving their existing rights. These rights slightly exceed the exit-arrangement provision in the Dutch Corporate Governance Code, i.e. no more than two times base salary (first appointment period) or one time base salary (all other situations).

As existing contracts cannot be adapted unilaterally, Executive Board members appointed before 2004 remain appointed for an indefinite period of time and, in case of an involuntary exit remain entitled to an exit payment of three years base salary.

The term of notice for Executive Board members is three months for the employee and six months for the employer.

## REMUNERATION EXECUTIVE BOARD 2007

**Executive Board base salary 2007**
The base salary of the Executive Board members has been frozen for 2007, as was the case in 2004, 2005 and 2006.

**Executive Board short-term incentive plan 2007**
The target STI payout over 2007 was set at 100% of the individual Executive Board member's base salary. The final award is based on the achievement of a set of common Group financial targets and specific individual qualitative and quantitative objectives for each Executive Board member. Specifically, 70% of the total award is based on the Group's underlying net profit, underlying operating expenses and economic profit/embedded value profit (excluding financial variances), while the remaining 30% is based on individual objectives set at the beginning of the year by the chairman of the Executive Board and approved by the Remuneration and Nomination Committee of the Supervisory Board.

Early in 2008, the Remuneration and Nomination Committee reviewed the actual results of ING against the 2007 targets. Over 2007, ING exceeded on average the three Group financial targets set, resulting in a score of 136% of target on this component. The individual performance of the Executive Board members was on average 182%. ING's external auditor has reviewed the extent to which the objectives of both the Group and the individual have been met. The Audit Committee was involved in the review of the underlying financial data.

## Compensation in cash of the individual members of the Executive Board

| amounts in thousands of euros | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Michel Tilmant** | | | |
| Base salary | **1,289** | 1,289 | 1,289 |
| Short-term performance-related bonus | **2,001** | 2,299 | 1,520 |
| Total cash compensation | **3,290** | 3,588 | 2,809 |
| | | | |
| **Eric Boyer de la Giroday** | | | |
| Base salary | **850** | 850 | 850 |
| Short-term performance-related bonus | **1,319** | 1,477 | 945 |
| Total cash compensation | **2,169** | 2,327 | 1,795 |
| | | | |
| **Dick Harryvan** (1) | | | |
| Base salary | **634** | 423 | |
| Short-term performance-related bonus | **842** | 710 | |
| Total cash compensation | **1,476** | 1,133 | |
| | | | |
| **John Hele** (2) (3) | | | |
| Base salary | **412** | | |
| Short-term performance-related bonus | **621** | | |
| Total cash compensation | **1,033** | | |
| | | | |
| **Eli Leenaars** | | | |
| Base salary | **634** | 634 | 634 |
| Short-term performance-related bonus | **956** | 1,102 | 705 |
| Total cash compensation | **1,590** | 1,736 | 1,339 |
| | | | |
| **Tom McInerney** (1) (3) | | | |
| Base salary | **946** | 690 | |
| Short-term performance-related bonus | **1,425** | 1,157 | |
| Total cash compensation | **2,371** | 1,847 | |
| | | | |
| **Hans van der Noordaa** (1) | | | |
| Base salary | **634** | 423 | |
| Short-term performance-related bonus | **956** | 710 | |
| Total cash compensation | **1,590** | 1,133 | |
| | | | |
| **Koos Timmermans** (2) | | | |
| Base salary | **423** | | |
| Short-term performance-related bonus | **637** | | |
| Total cash compensation | **1,060** | | |
| | | | |
| **Jacques de Vaucleroy** (1) | | | |
| Base salary | **634** | 423 | |
| Short-term performance-related bonus | **956** | 710 | |
| Total cash compensation | **1,590** | 1,133 | |
| | | | |
| **Cees Maas** (4) | | | |
| Base salary | **291** | 697 | 697 |
| Short-term performance-related bonus | **438** | 1,244 | 806 |
| Total cash compensation | **729** | 1,941 | 1,503 |

(1) Dick Harryvan, Tom McInerney, Hans van der Noordaa and Jacques de Vaucleroy were appointed to the Executive Board on 25 April 2006. The figures for these members reflect compensation earned in their capacity as Executive Board members. Thus, the figures for 2006 reflect the partial year as Executive Board members.

(2) John Hele and Koos Timmermans were appointed to the Executive Board on 24 April 2007. The figures for these members reflect compensation earned in their capacity as Executive Board members. Thus, the figures for 2007 reflect the partial year as Executive Board members.

(3) John Hele and Tom McInerney get their compensation in US dollars. For each year the compensation in US dollars was converted to euros at the average exchange rate for that year.

(4) Cees Maas stepped down from his position in the Executive Board on 24 April 2007 and retired on 1 June 2007. The figures for this member reflect compensation earned until the last day of employment. Thus, the figures for 2007 reflect the partial year. In addition to his base salary, Cees Maas received a one-off retirement payment in 2007 of EUR 727 thousand.

Compensation in cash of former members of the Executive Board who are not included in the above table amounted to nil in 2007, EUR 3,412 thousand in 2006 and EUR 5,068 thousand in 2005.

# Remuneration report (continued)

**Executive Board long-term incentive plan 2007**
Under the LTIP for the Executive Board, two instruments are used: stock options and performance shares. As mentioned earlier, an identical plan has been adopted by the Executive Board for the top senior managers across ING. As a result, approximately 7,000 senior leaders participate in a similar plan.

The target level for the 2007 LTIP was set at 100% of base salary for each Executive Board member. The final grant level depends on the Group STIP performance and will vary between 50% of the target level (if Group STI would be 0%) and 150% (if Group STI would be 200%).

As the Group STIP performance outcome over 2007 was 136%, the resulting LTIP award is 118% of target. The number of options and performance shares is determined based on a reference price set at the end of 2007 (EUR 26.79) and a 'fair value' calculation of options and performance shares (based on a pricing model).

The grant to the Executive Board members is subject to shareholder approval of the maximum number of stock options, performance shares and conditional share awards pursuant to the 2007 LTIP. The LTIP grant table on page 81 shows the award amounts for each Executive Board member.

Tom McInerney will receive a conditional share award on the same grant date as the other long-term incentive awards. The conditional share award will be 100% vested four years after the grant date with the condition being an active employment contract at the date of vesting. This award is part of Tom McInerney's employment contract to align his total remuneration with the market practice of senior executives in the United States. The LTIP grant table on page 81 shows the number of the conditional shares.

The exercise price of the options will be fixed at the Euronext Amsterdam by NYSE Euronext opening price of the ING share on 15 May 2008. The performance shares are granted provisionally at the beginning of 2008; the final number will depend on the ranking within the performance peer group after the three-year period (2008 – 2010) based on the performance/payout scale as indicated above.

The performance shares granted in 2005 had a three-year performance period of 2005 – 2007 and will vest in 2008. The actual results of 71% are based upon ING's TSR ranking of 13 within the designated peer group. The results were determined by an independent third party. ING's external auditor has reviewed the calculations performed. For members of the Executive Board who received an award as an Executive Board member in 2005, such award will vest in the final number of performance shares in May 2008. For the other senior leaders who participated in the 2005 – 2008 performance share award, such award vested in March 2008.

## Long-term incentives of the individual members of the Executive Board [1]

| fair market value at grant in thousands of euros | **2007** | 2006 | 2005 |
|---|---|---|---|
| **Michel Tilmant** | | | |
| Number of options | **132,054** | 132,163 | 108,200 |
| Number of performance shares | **31,293** | 27,650 | 19,300 |
| Fair market value of long-term incentive [2] | **1,521** | 1,734 | 1,160 |
| | | | |
| **Eric Boyer de la Giroday** | | | |
| Number of options | **87,066** | 87,138 | 71,400 |
| Number of performance shares | **20,632** | 18,230 | 12,800 |
| Fair market value of long-term incentive [2] | **1,003** | 1,143 | 765 |
| | | | |
| **Dick Harryvan [3]** | | | |
| Number of options | **64,967** | 43,347 | |
| Number of performance shares | **15,396** | 9,069 | |
| Fair market value of long-term incentive [2] | **748** | 569 | |
| | | | |
| **John Hele [4]** | | | |
| Number of options | **42,228** | | |
| Number of performance shares | **10,007** | | |
| Fair market value of long-term incentive [2] | **486** | | |
| | | | |
| **Eli Leenaars** | | | |
| Number of options | **64,967** | 65,021 | 53,200 |
| Number of performance shares | **15,396** | 13,603 | 9,500 |
| Fair market value of long-term incentive [2] | **748** | 853 | 571 |
| | | | |
| **Tom McInerney [3] [5]** | | | |
| Number of options | **96,875** | 70,695 | |
| Number of performance shares | **22,957** | 14,790 | |
| Number of conditional shares | **54,312** | 37,633 | |
| Fair market value of long-term incentive [2] | **2,571** | 2,201 | |
| | | | |
| **Hans van der Noordaa [3]** | | | |
| Number of options | **64,967** | 43,347 | |
| Number of performance shares | **15,396** | 9,069 | |
| Fair market value of long-term incentive [2] | **748** | 569 | |
| | | | |
| **Koos Timmermans [4]** | | | |
| Number of options | **43,312** | | |
| Number of performance shares | **10,264** | | |
| Fair market value of long-term incentive [2] | **499** | | |
| | | | |
| **Jacques de Vaucleroy [3]** | | | |
| Number of options | **64,967** | 43,347 | |
| Number of performance shares | **15,396** | 9,069 | |
| Fair market value of long-term incentive [2] | **748** | 569 | |
| | | | |
| **Cees Maas [6]** | | | |
| Number of options | | 0 | 58,600 |
| Number of performance shares | | 0 | 10,500 |
| Fair market value of long-term incentive | | 938 | 628 |

[1] Long-term incentives are granted in the year following the reporting year. The long-term incentive plan provides for a combination of share options and provisional performance shares based on a 50/50 split in value. The ratio of options to performance shares varies each year as a result of the fair value calculation and the 50/50 split in value. The fair value calculation for the performance year 2007 resulted in a ratio of options to performance shares of 4.22 : 1 (2006: 4.78 : 1, 2005: 5.6 : 1). The maximum number of stock options and performance shares to be granted to the Executive Board members will be tabled for approval at the General Meeting of Shareholders.

[2] The fair market value of a long-term incentive award reflects the estimated fair market value of the long-term incentive award based on a fair value calculation. The valuation is calculated on the last trading day of the year for grants made to the Executive Board members for performance over the specified year and is not updated for current market values.

[3] Dick Harryvan, Tom McInerney, Hans van der Noordaa and Jacques de Vaucleroy were appointed to the Executive Board on 25 April 2006. The figures for these members reflect compensation earned in their capacity as Executive Board members.

[4] John Hele and Koos Timmermans were appointed to the Executive Board on 24 April 2007. The figures for these members reflect compensation earned in their capacity as Executive Board members.

[5] Tom McInerney will receive conditional shares on the same grant date as the other long-term incentive awards. The conditional shares will be 100% vested four years after the grant date with the condition being an active employment contract. The conditional shares are provided to align Tom McInerney's total remuneration with US market practice.

[6] As a result of his retirement from the Executive Board in 2007, Cees Maas received the fair market value of his 2006 long-term incentive award in cash instead of options and performance shares.

The fair market value of long-term incentive awards of former members of the Executive Board who are not included in the above table amounted to nil in 2007 and 2006, and EUR 2,150 thousand in 2005.

# Remuneration report (continued)

**Information on the options outstanding and the movements during the financial year of options held by the members of the Executive Board as at 31 December 2007**

| number of options | Outstanding as at 31 December 2006 | **Granted in 2007** | **Exercised in 2007** | **Waived or expired in 2007** (1) | Outstanding as at 31 December 2007 | Exercise price in Euros | Exercise price in US dollars | Expiry date |
|---|---|---|---|---|---|---|---|---|
| **Michel Tilmant** | 21,000 | | | | **21,000** | 29.39 | | 11 Mar 2012 |
| | 14,000 | | | | **14,000** | 29.50 | | 11 Mar 2012 |
| | 21,000 | | | | **21,000** | 12.65 | | 3 Mar 2013 |
| | 14,000 | | | | **14,000** | 12.55 | | 3 Mar 2013 |
| | 41,250 | | | | **41,250** | 17.69 | | 14 May 2014 |
| | 82,600 | | | | **82,600** | 21.67 | | 13 May 2015 |
| | 108,200 | | | | **108,200** | 32.75 | | 12 May 2016 |
| | | **132,163** | | | **132,163** | 33.10 | | 17 May 2017 |
| **Eric Boyer de la Giroday** | 2,000 | | | | **2,000** | 26.10 | | 28 May 2009 |
| | 10,000 | | | | **10,000** | 28.30 | | 3 Apr 2010 |
| | 4,000 | | | | **4,000** | 35.80 | | 15 Mar 2011 |
| | 3,000 | | | | **3,000** | 28.60 | | 27 May 2012 |
| | 4,000 | | | | **4,000** | 12.55 | | 3 Mar 2013 |
| | 17,800 | | | | **17,800** | 17.69 | | 14 May 2014 |
| | 53,400 | | | | **53,400** | 21.67 | | 13 May 2015 |
| | 71,400 | | | | **71,400** | 32.75 | | 12 May 2016 |
| | | **87,138** | | | **87,138** | 33.10 | | 17 May 2017 |
| **Dick Harryvan** | 13,125 | | | | **13,125** | 29.39 | | 11 Mar 2012 |
| | 12,250 | | | | **12,250** | 12.65 | | 3 Mar 2013 |
| | 6,000 | | | | **6,000** | 18.71 | | 15 Mar 2014 |
| | 8,800 | | | | **8,800** | 23.28 | | 30 Mar 2015 |
| | 13,060 | | | | **13,060** | 32.77 | | 23 Mar 2016 |
| | | **46,802** | | | **46,802** | 33.10 | | 17 May 2017 |
| **John Hele** | 24,200 | | | | **24,200** | | 21.64 | 17 Nov 2013 |
| | 5,700 | | | | **5,700** | 18,71 | | 15 Mar 2014 |
| | 39,173 | | | | **39,173** | 23,28 | | 30 Mar 2015 |
| | 31,896 | | | | **31,896** | 32.77 | | 23 Mar 2016 |
| | | **46,592** | | | **46,592** | 32.19 | | 22 Mar 2017 |
| **Eli Leenaars** | 3,300 | | | | **3,300** | 25.25 | | 1 Apr 2009 |
| | 10,000 | | | | **10,000** | | 27.28 | 3 Apr 2010 |
| | 22,400 | | | | **22,400** | | 31.96 | 15 Mar 2011 |
| | 31,000 | | | | **31,000** | | 25.72 | 11 Mar 2012 |
| | 7,850 | | | | **7,850** | 12.55 | | 3 Mar 2013 |
| | 9,654 | | | | **9,654** | 18.75 | | 15 Mar 2014 |
| | 6,436 | | | | **6,436** | 18.71 | | 15 Mar 2014 |
| | 41,700 | | | | **41,700** | 21.67 | | 13 May 2015 |
| | 53,200 | | | | **53,200** | 32.75 | | 12 May 2016 |
| | | **65,021** | | | **65,021** | 33.10 | | 17 May 2017 |
| **Tom McInerney** | 40,000 | | | | **40,000** | | 31.96 | 15 Mar 2011 |
| | 91,400 | | | | **91,400** | | 25.72 | 11 Mar 2012 |
| | 125,200 | | | | **125,200** | | 13.70 | 3 Mar 2013 |
| | 153,550 | | | | **153,550** | 18.71 | | 15 Mar 2014 |
| | 260,425 | | | | **260,425** | 23.28 | | 30 Mar 2015 |
| | 213,325 | | | | **213,325** | 32.77 | | 23 Mar 2016 |
| | | **125,879** | | | **125,879** | 33.10 | | 17 May 2017 |
| **Hans van der Noordaa** | 13,125 | | | | **13,125** | 29.39 | | 11 Mar 2012 |
| | 8,900 | | | | **8,900** | 12.65 | | 3 Mar 2013 |
| | 6,000 | | | | **6,000** | 18.71 | | 15 Mar 2014 |
| | 15,000 | | | | **15,000** | 23.28 | | 30 Mar 2015 |
| | 11,195 | | | | **11,195** | 32.77 | | 23 Mar 2016 |
| | | **46,802** | | | **46,802** | 33.10 | | 17 May 2017 |
| **Koos Timmermans** | 10,500 | | | | **10,500** | 29.39 | | 11 Mar 2012 |
| | 6,000 | | | | **6,000** | 18.71 | | 15 Mar 2014 |
| | 8,800 | | | | **8,800** | 23.28 | | 30 Mar 2015 |
| | 6,530 | | | | **6,530** | 32.77 | | 23 Mar 2016 |
| | | **35,443** | | | **35,443** | 32.19 | | 22 Mar 2017 |

**Information on the options outstanding and the movements during the financial year of options held by the members of the Executive Board as at 31 December 2007 (continued)**

| number of options | Outstanding as at 31 December 2006 | **Granted in 2007** | **Exercised in 2007** | **Waived or expired in 2007** | Outstanding as at 31 December 2007 | Exercise price in Euros | Exercise price in US dollars | Expiry date |
|---|---|---|---|---|---|---|---|---|
| **Jacques de Vaucleroy** | 7,000 | | | | **7,000** | 26.10 | | 28 May 2009 |
| | 20,000 | | | | **20,000** | 28.30 | | 3 Apr 2010 |
| | 7,634 | | | | **7,634** | | 13.70 | 3 Mar 2013 |
| | 61,110 | | | | **61,110** | 18.71 | | 15 Mar 2014 |
| | 114,950 | | | | **114,950** | 23.28 | | 30 Mar 2015 |
| | 100,352 | | | | **100,352** | 32.77 | | 23 Mar 2016 |
| | | **70,657** | | | **70,657** | 33.10 | | 17 May 2017 |
| **Cees Maas** | 35,000 | | | | **35,000** | 29.39 | | 11 Mar 2012 |
| | 35,000 | | | | **35,000** | 12.65 | | 3 Mar 2013 |
| | 41,250 | | | | **41,250** | 17.69 | | 14 May 2014 |
| | 51,200 | | | | **51,200** | 21.67 | | 13 May 2015 |
| | 58,600 | | | | **58,600** | 32.75 | | 12 May 2016 |

(1) Waived at vesting date or expired at expiry date.

## Pension costs

The table below shows the pension costs of the individual members of the Executive Board.

**Pension costs of the individual members of the Executive Board (1)**

| amounts in thousands of euros | **2007** | 2006 | 2005 |
|---|---|---|---|
| Michel Tilmant | **874** | 689 | 685 |
| Eric Boyer de la Giroday | **566** | 439 | 482 |
| Dick Harryvan (2) | **324** | 206 | |
| John Hele (3) (4) | **72** | | |
| Eli Leenaars | **348** | 270 | 255 |
| Tom McInerney (2) (4) | **286** | 297 | |
| Hans van der Noordaa (2) | **267** | 170 | |
| Koos Timmermans (3) | **166** | | |
| Jacques de Vaucleroy (2) | **267** | 170 | |
| Cees Maas (5) (6) | **1,386** | 448 | 482 |

(1) For reasons of comparison, the company pension expenses are recalculated under IAS 19 with general assumption setting for 2005 to 2007.

(2) Dick Harryvan, Tom McInerney, Hans van der Noordaa and Jacques de Vaucleroy were appointed to the Executive Board on 25 April 2006. The figures for these members reflect pension costs in their capacity as Executive Board members.

(3) John Hele and Koos Timmermans were appointed to the Executive Board on 24 April 2007. The figures for these members reflect pension costs in their capacity as Executive Board members.

(4) John Hele's and Tom McInerney's pension costs have been translated from US dollars to euros at the average exchange rate for that year.

(5) Cees Maas stepped down from his position in the Executive Board on 24 April 2007 and retired on 1 June 2007. The 2007 figures for him reflect pension costs for the partial year until the last day of employment.

(6) The early retirement pension benefit is paid up until age 65 and during the early retirement benefit period, the plan provides for additional pension rights earned towards the old-age pension plan, which begins at age 65. The pension cost shown is the additional IFRS impact and cost related to the funding of Cees Maas' old-age pension rights earned during the early retirement pension period, which must be fully realised by the company in the same year he has retired.

Pension costs of former members of the Executive Board who are not included in the above table amounted to nil in 2007, EUR 4,506 thousand in 2006 and EUR 1,184 thousand in 2005.

# Remuneration report (continued)

## Loans and advances to Executive Board members

The table below presents the loans and advances provided to Executive Board members and outstanding on 31 December 2007, 2006 and 2005. These loans were concluded in the normal course of business and on terms generally applicable to Company personnel as a whole and were approved by the Supervisory Board.

**Loans and advances to the individual members of the Executive Board**

| amounts in thousands of euros | Amount outstanding 31 December | Average interest rate | Repayments 2007 | Amount outstanding 31 December | Average interest rate | Repayments 2006 | Amount outstanding 31 December | Average interest rate | Repayments 2005 |
|---|---|---|---|---|---|---|---|---|---|
| Eric Boyer de la Giroday | **24** | **4.3%** | **4** | 28 | 4.3% | 3 | 31 | 4.3% | 3 |
| Dick Harryvan | **227** | **3.5%** | **200** | 427 | 3.9% | | | | |
| John Hele | **635** | **5.6%** | | | | | | | |
| Hans van der Noordaa | **930** | **4.4%** | | 930 | 4.4% | | | | |
| Koos Timmermans | **380** | **4.6%** | | | | | | | |
| Jacques de Vaucleroy | **180** | **5.5%** | **12** | 192 | 5.5% | 17 | | | |
| Cees Maas (1) | | | | 446 | 4.0% | | 446 | 4.0% | |

(1) Cees Maas retired on 1 June 2007.

## ING depositary receipts for shares held by Executive Board members

Executive Board members are permitted to hold ING depositary receipts for shares as a long-term investment. The table below shows the holdings by members of the Executive Board.

**ING depositary receipts for shares held by members of the Executive Board**

| number of shares | 2007 | 2006 | 2005 |
|---|---|---|---|
| Michel Tilmant | **24,764** | 7,764 | 7,764 |
| Tom McInerney (1) | **127,694** | 64,527 | |
| Eric Boyer de la Giroday | **7,126** | | |
| Dick Harryvan | **2,000** | | |
| John Hele | **2,300** | | |
| Eli Leenaars | **5,628** | | |
| Hans van der Noordaa | **2,000** | | |
| Koos Timmermans | **2,000** | | |
| Jacques de Vaucleroy | **27,740** | | |
| Cees Maas (2) | | 7,764 | 7,764 |

(1) The shares held by Tom McInerney are American Depositary Receipts. He also holds 2,239 units in a Leveraged Stock Fund.
(2) Cees Maas retired on 1 June 2007.

## EXECUTIVE BOARD REMUNERATION STRUCTURE 2008

The Supervisory Board has taken notice of the recommendations by the Frijns corporate governance monitoring committee and will consider these recommendations in their evaluation in 2008.

### Policy for 2008

With regard to the remuneration policy for 2008, the Supervisory Board continues to build upon the remuneration policy initiated in 2003, which supports the performance-oriented culture. Over the past six years, the Executive Boards' total remuneration package has gradually converged to the benchmark through increases in the short-term and long-term incentive target levels (as a percentage of base salary). The results of the market-competitive analysis indicate overall increases in the market that may put pressure on compensation levels.

### Executive Board base salary 2008

A market-competitive analysis is conducted on an annual basis to ensure market competitiveness. For 2008 the Supervisory Board has concluded to increase the base-salary levels by 5% for all Executive Board members with the exception of Tom McInerney (who is employed on a US-based compensation structure).

### Executive Board short-term incentive plan 2008

The 2008 short-term incentive target at 100% of base salary will remain the same as 2007. The actual payout may vary between 0% and 200% of the target level (e.g. between 0% and 200% of base salary).

The mix for the 2008 short-term incentive award will remain the same as in 2007: 70% will be determined by pre-defined ING Group financial performance measures and 30% will be based on individual performance objectives set for each Executive Board member and agreed by the Supervisory Board.

For 2008 the Supervisory Board has determined that the Executive Board's short-term incentive award for the Group performance should be measured using three financial criteria: underlying net profit per share, underlying operating expenses and economic profit/embedded value profit (excluding financial variances).

### Executive Board long-term incentive plan 2008

The Supervisory Board will keep the LTI target value at 100% of base salary (same target percentage as the STI). The range may vary between 50% and 150% of the target level (e.g. between 50% and 150% of base salary). The structure for the 2008 long-term incentive award will remain the same as the 2004 structure (the total award value will be split between stock options and performance shares).

As was the case in 2007, the total LTI value in stock options and provisional performance shares to be granted to the Executive Board members will be determined by the Supervisory Board at the end of 2008, based on the extent to which each of the three pre-defined financial objectives set out in the 2008 short-term incentive plan have been achieved.

## REMUNERATION SUPERVISORY BOARD

### Remuneration

The annual remuneration of the Supervisory Board members amounts to: chairman EUR 75,000, vice-chairman EUR 65,000, other members EUR 45,000. In addition to the remuneration each member receives an expense allowance. For the chairman and vice-chairman the annual amount is EUR 6,810. For the other members the amount is EUR 2,270.

The remuneration for the membership of committees is as follows: chairman of the Audit Committee EUR 8,000, members of the Audit Committee EUR 6,000, chairmen of other Supervisory Board committees EUR 7,500 and members of other Supervisory Board committees EUR 5,000. In addition to the fixed remuneration, committee members receive a fee for each meeting they attend. For the Audit Committee chairman this fee is EUR 2,000 per meeting and for its members EUR 1,500. For the chairman and members of other committees the attendance fee amounts to EUR 450 per meeting. The remuneration and the attendance fee for the membership of a committee are not applicable to the chairman and vice-chairman of the Supervisory Board if they are on one of the committees.

# Remuneration report (continued)

The table below shows the remuneration, expense allowances and attendance fees per Supervisory Board member for 2007 and previous years.

**Compensation of the members of the Supervisory Board**

| amounts in thousands of euros | 2007 | 2006 | 2005 |
|---|---|---|---|
| Cor Herkströter | **82** | 75 | 68 |
| Eric Bourdais de Charbonnière [1] | **72** | 70 | 65 |
| Henk Breukink [2] | **35** | | |
| Peter Elverding [3] | **20** | | |
| Luella Gross Goldberg | **60** | 52 | 44 |
| Claus Dieter Hoffmann | **62** | 56 | 49 |
| Jan Hommen [4] | **67** | 57 | 24 |
| Piet Hoogendoorn [5] | **28** | | |
| Piet Klaver [6] | **47** | 33 | |
| Wim Kok | **62** | 51 | 39 |
| Godfried van der Lugt | **62** | 56 | 40 |
| Karel Vuursteen | **56** | 43 | 39 |
| Paul van der Heijden [7] | **20** | 52 | 43 |

(1) Eric Bourdais de Charbonnière is a member of the Supervisory Board as of April 2004 and vice-chairman as of February 2005. The compensation figure for 2005 reflects the partial year as vice-chairman.
(2) Henk Breukink is a member of the Supervisory Board as of April 2007. The compensation figure for 2007 reflects the partial year as member of the Supervisory Board.
(3) Peter Elverding is a member of the Supervisory Board as of August 2007. The compensation figure for 2007 reflects the partial year as member of the Supervisory Board.
(4) Jan Hommen is a member of the Supervisory Board as of June 2005. The compensation figure for 2005 reflects the partial year as member of the Supervisory Board.
(5) Piet Hoogendoorn is a member of the Supervisory Board as of June 2007. The compensation figure for 2007 reflects the partial year as member of the Supervisory Board.
(6) Piet Klaver is a member of the Supervisory Board as of April 2006. The compensation figure for 2006 reflects the partial year as member of the Supervisory Board.
(7) Paul van der Heijden retired in April 2007. The compensation figure for 2007 reflects the partial year as member of the Supervisory Board.

Compensation of former members of the Supervisory Board who are not included in the above table amounted to nil in 2007, EUR 33 thousand in 2006 and EUR 138 thousand in 2005.

### Proposal to amend the Supervisory Board remuneration

On the agenda of the 2008 General Meeting of Shareholders a proposal has been tabled to amend the remuneration of the Supervisory Board by providing a supplementary allowance for additional time requirements in cases where international travel is required for attending meetings, given that the current structure does not compensate at a competitive level in cases where individual Supervisory Board member's time commitments are substantially in excess of the time required for attending domestic meetings.

The amendment to the Supervisory Board remuneration would be as follows as of 1 May 2008: an additional fee of EUR 2,000 per attended Supervisory Board or Committee meeting in the event the meeting is held outside the country of residence of the Supervisory Board member, or an additional amount of EUR 7,500 per attended Supervisory Board or Committee meeting if intercontinental travel is required for attending the meeting.

### Loans and advances to Supervisory Board members

As at 31 December 2007 and 2006, there were no loans and advances outstanding to members of the Supervisory Board. As at 31 December 2005, the amount of loans and advances outstanding to the Supervisory Board was EUR 1.6 million at an average rate of 4.7%. This amount concerned a loan to a former Supervisory Board member.

### ING depositary receipts for shares and options held by Supervisory Board members

Supervisory Board members are permitted to hold ING depositary receipts for shares as a long-term investment. The table below shows the holdings by members of the Supervisory Board. Supervisory Board members did not hold ING options at year-end 2007.

**ING depositary receipts for shares and options held by members of the Supervisory Board**

| number of shares | 2007 | 2006 | 2005 |
|---|---|---|---|
| Cor Herkströter | **1,616** | 1,616 | 1,616 |
| Luella Gross Goldberg [1] | **6,814** | 6,814 | 6,814 |
| Piet Klaver | **7,430** | 5,430 | 0 |
| Karel Vuursteen | **1,510** | 1,510 | 1,510 |

(1) The shares held by Luella Gross Goldberg are American Depositary Receipts.

# Works Councils

## Central Works Council
as at 1 January 2008

Rob Eijt, *chairman*
Paul de Widt, *secretary*
Bernard Wempe, *deputy chairman*
René van der Linden, *deputy secretary*
Goof Bode, Bernardt Bodt, Hans de Boer, Ron Brands,
Hans van den Brink, Anneke Dalger, Petra Delhez, Rudi van Doorn,
Winie den Hartog, Thea van der Heide, Piet Hoekstra,
Alex Hoogendoorn, Hans de Jong, Aad Kant, Ben van Kessel,
Maarten Kramer, Rinus Koster, Jan Kuijper, Frans Rose,
Rob de Winter, Paul Zoet

## European Works Council
as at 1 January 2008

Mathieu Blondeel, *chairman*, Belgium
Mirjam Busse, *secretary*, the Netherlands
Adriana Dumitrescu, *deputy chairman*, Romania
Marcel Koopman, *deputy secretary*, the Netherlands
Jean-Claude Van Den Abeele, Freddy Dekerf, Jean Pierre Lambert,
Dirk Verstrepen, Belgium
Sebastien Barthe, Hervé Laurent, France
Norbert Lucas, Thomas Meder, Germany
Maria Tapini Orianou, Greece
Laszlo Szabo, Hungary
Alan Maher, Ireland
Arsène Kihm, Denis Richard, Luxembourg
Hans van den Brink, Jeffrey Dinsbach, Thea van der Heide,
Ben van Kessel, Gerlinde Korterink, Maarten Kramer,
Michel Tromp, Paul Zoet, the Netherlands
Mieczyslaw Bielawski, Mariusz Cieslik, Jaroslaw Szczesny, Poland
Gregorio Tejedor Mingo, Araceli Rodriguez, Spain
Thomas Wipf, Switzerland
Mike Sharman, United Kingdom

# Consolidated balance sheet of ING Group as at 31 December

| amounts in millions of euros | 2007 | 2006 |
|---|---|---|
| **ASSETS** | | |
| Cash and balances with central banks 1 | **12,406** | 14,326 |
| Amounts due from banks 2 | **48,875** | 39,868 |
| Financial assets at fair value through profit and loss 3 | | |
| – trading assets | **193,213** | 193,977 |
| – investments for risk of policyholders | **114,827** | 110,547 |
| – non-trading derivatives | **7,637** | 6,521 |
| – designated as at fair value through profit and loss | **11,453** | 6,425 |
| Investments 4 | | |
| – available-for-sale | **275,897** | 293,921 |
| – held-to-maturity | **16,753** | 17,660 |
| Loans and advances to customers 5 | **552,964** | 474,437 |
| Reinsurance contracts 17 | **5,874** | 6,529 |
| Investments in associates 6 | **5,014** | 4,343 |
| Real estate investments 7 | **4,829** | 6,974 |
| Property and equipment 8 | **6,237** | 6,031 |
| Intangible assets 9 | **5,740** | 3,522 |
| Deferred acquisition costs 10 | **10,692** | 10,163 |
| Other assets 11 | **40,099** | 31,063 |
| Total assets | **1,312,510** | 1,226,307 |
| | | |
| **EQUITY** | | |
| Shareholders' equity (parent) 12 | **37,208** | 38,266 |
| Minority interests | **2,323** | 2,949 |
| Total equity | **39,531** | 41,215 |
| | | |
| **LIABILITIES** | | |
| Preference shares 13 | **21** | 215 |
| Subordinated loans 14 | **7,325** | 6,014 |
| Debt securities in issue 15 | **66,995** | 78,133 |
| Other borrowed funds 16 | **27,058** | 29,639 |
| Insurance and investment contracts 17 | **265,712** | 268,683 |
| Amounts due to banks 18 | **166,972** | 120,839 |
| Customer deposits and other funds on deposit 19 | **525,216** | 496,680 |
| Financial liabilities at fair value through profit and loss 20 | | |
| – trading liabilities | **148,988** | 127,975 |
| – non-trading derivatives | **6,951** | 4,934 |
| – designated as at fair value through profit and loss | **13,882** | 13,702 |
| Other liabilities 21 | **43,859** | 38,278 |
| Total liabilities | **1,272,979** | 1,185,092 |
| | | |
| Total equity and liabilities | **1,312,510** | 1,226,307 |

References relate to the notes starting on page 110 which form an integral part of the consolidated annual accounts.

# Consolidated profit and loss account of ING Group
## for the years ended 31 December

| amounts in millions of euros | 2007 | 2007 | 2006 | 2006 | 2005 | 2005 |
|---|---|---|---|---|---|---|
| Interest income banking operations | **76,749** | | 59,170 | | 48,176 | |
| Income expense banking operations | **–67,773** | | –49,978 | | –39,109 | |
| Interest result banking operations 34 | | **8,976** | | 9,192 | | 9,067 |
| Gross premium income 35 | | **46,818** | | 46,835 | | 45,758 |
| Investment income 36 | | **13,352** | | 10,907 | | 10,434 |
| Net gains/losses on disposal of group companies | | **430** | | 1 | | 390 |
| Gross commission income | **7,693** | | 6,867 | | 5,845 | |
| Commission expense | **–2,866** | | –2,551 | | –2,098 | |
| Commission income 37 | | **4,827** | | 4,316 | | 3,747 |
| Valuation results on non-trading derivatives 38 | | **–561** | | 89 | | 47 |
| Net trading income 39 | | **1,119** | | 1,172 | | 426 |
| Share of profit from associates 6 | | **740** | | 638 | | 541 |
| Other income 40 | | **885** | | 471 | | 710 |
| Total income | | **76,586** | | 73,621 | | 71,120 |
| | | | | | | |
| Gross underwriting expenditure | **51,818** | | 53,065 | | 54,594 | |
| Investment income for risk of policyholders | **–1,079** | | –2,702 | | –5,074 | |
| Reinsurance recoveries | **–1,906** | | –2,175 | | –2,400 | |
| Underwriting expenditure 41 | | **48,833** | | 48,188 | | 47,120 |
| Addition to loan loss provisions 5 | | **125** | | 103 | | 88 |
| Other impairments 42 | | **–3** | | 27 | | 76 |
| Staff expenses 43 | | **8,261** | | 7,918 | | 7,646 |
| Other interest expenses 44 | | **1,102** | | 1,016 | | 969 |
| Other operating expenses 45 | | **7,225** | | 6,429 | | 6,327 |
| Total expenses | | **65,543** | | 63,681 | | 62,226 |
| | | | | | | |
| Profit before tax | | **11,043** | | 9,940 | | 8,894 |
| | | | | | | |
| Taxation 46 | | **1,535** | | 1,907 | | 1,379 |
| Net profit (before minority interests) | | **9,508** | | 8,033 | | 7,515 |
| | | | | | | |
| Attributable to: | | | | | | |
| Shareholders of the parent | | **9,241** | | 7,692 | | 7,210 |
| Minority interests | | **267** | | 341 | | 305 |
| | | **9,508** | | 8,033 | | 7,515 |

| amounts in euros | 2007 | 2006 | 2005 |
|---|---|---|---|
| Earnings per ordinary share attributable to shareholders of parent 47 | **4.32** | 3.57 | 3.32 |
| Diluted earnings per ordinary share 47 | **4.28** | 3.53 | 3.32 |
| Dividend per ordinary share 48 | **1.48** | 1.32 | 1.18 |

References relate to the notes starting on page 163 which form an integral part of the consolidated annual accounts.

# Consolidated statement of cash flows of ING Group
## for the years ended 31 December

| amounts in millions of euros | | **2007** | 2006 | 2005 |
|---|---|---|---|---|
| Profit before tax | | **11,043** | 9,940 | 8,894 |
| Adjusted for | – depreciation | **1,382** | 1,298 | 1,278 |
| | – deferred acquisition costs and VOBA | **–1,338** | –1,317 | –1,141 |
| | – increase in provisions for insurance and investment contracts | **26,494** | 17,689 | 21,250 |
| | – addition to loan loss provisions | **125** | 103 | 88 |
| | – other | **–3,897** | –4,778 | –1,282 |
| Taxation paid | | **–1,347** | –1,739 | –1,398 |
| Changes in | – amounts due from banks, not available on demand | **–8,690** | 3,117 | –720 |
| | – trading assets | **2,997** | –48,168 | –29,925 |
| | – non-trading derivatives | **261** | –179 | 2,596 |
| | – other financial assets at fair value through profit and loss | **–4,878** | 3,930 | –2,193 |
| | – loans and advances to customers | **–75,501** | –59,800 | –62,709 |
| | – other assets | **–6,534** | 1,218 | –7,551 |
| | – amounts due to banks, not payable on demand | **15,414** | 1,925 | 19,405 |
| | – customer deposits and other funds on deposit | **28,640** | 47,521 | 62,089 |
| | – trading liabilities | **20,916** | 38,821 | 13,442 |
| | – other financial liabilities at fair value through profit and loss | **44** | 2,405 | 8,398 |
| | – other liabilities | **6,577** | –2,416 | 3,568 |
| Net cash flow from operating activities | | **11,708** | 9,570 | 34,089 |
| | | | | |
| Investments and advances | – group companies | **–3,215** | –2,358 | –250 |
| | – associates | **–1,221** | –449 | –858 |
| | – available-for-sale investments | **–284,006** | –295,086 | –260,769 |
| | – held-to-maturity investments | | | –1,030 |
| | – real estate investments | **–876** | –1,588 | –1,156 |
| | – property and equipment | **–575** | –568 | –540 |
| | – assets subject to operating leases | **–1,393** | –1,164 | –991 |
| | – investments for risk of policyholders | **–54,438** | –44,116 | –41,781 |
| | – other investments | **–316** | –250 | –164 |
| Disposals and redemptions | – group companies | **1,012** | 490 | 703 |
| | – associates | **1,049** | 459 | 1,058 |
| | – available-for-sale investments | **281,198** | 271,983 | 218,847 |
| | – held-to-maturity investments | **822** | 1,343 | 245 |
| | – real estate investments | **309** | 1,294 | 1,030 |
| | – property and equipment | **151** | 292 | 483 |
| | – assets subject to operating leases | **417** | 402 | 391 |
| | – investments for risk of policyholders | **47,136** | 37,945 | 34,464 |
| | – other investments | **13** | 51 | 13 |
| Net cash flow from investing activities 51 | | **–13,933** | –31,320 | –50,305 |
| | | | | |
| Proceeds from issuance of subordinated loans | | **1,764** | 865 | 1,901 |
| Repayments of subordinated loans | | | –600 | –177 |
| Proceeds from borrowed funds and debt securities | | **455,629** | 304,228 | 237,340 |
| Repayments of borrowed funds and debt securities | | **–464,982** | –283,728 | –229,498 |
| Issuance of ordinary shares | | **397** | 5 | 114 |
| Payments to acquire treasury shares | | **–3,446** | –1,422 | –303 |
| Sales of treasury shares | | **846** | 373 | 55 |
| Dividends paid | | **–3,039** | –2,716 | –2,461 |
| Net cash flow from financing activities | | **–12,831** | 17,005 | 6,971 |
| | | | | |
| Net cash flow 52 | | **–15,056** | –4,745 | –9,245 |
| | | | | |
| Cash and cash equivalents at beginning of year | | **–1,795** | 3,335 | 11,588 |
| Implementation IAS 32/39 | | | | 692 |
| Effect of exchange rate changes on cash and cash equivalents | | **40** | –385 | 300 |
| Cash and cash equivalents at end of year 53 | | **–16,811** | –1,795 | 3,335 |

Cash and cash equivalents at 31 December 2007 of EUR –16,811 million includes cash and balances with central banks of EUR 12,406 million. Reference is made to Note 53 'Cash and cash equivalents'.

References relate to the notes starting on page 180 which form an integral part of the consolidated annual accounts.

# Consolidated statement of changes in equity of ING Group
## for the years ended 31 December

| amounts in millions of euros | Share capital | Share premium | Reserves | Total shareholders' equity (parent) | Minority interests | Total equity |
|---|---|---|---|---|---|---|
| Balance as at 1 January 2005 | 634 | 8,525 | 14,910 | 24,069 | 3,481 | 27,550 |
| | | | | | | |
| Implementation IAS 32/39 and IFRS 4 | –104 | –191 | 4,398 | 4,103 | –1,386 | 2,717 |
| | | | | | | |
| Unrealised revaluations after taxation | | | 2,514 | 2,514 | –32 | 2,482 |
| Realised gains/losses transferred to profit and loss | | | –663 | –663 | | –663 |
| Changes in cash flow hedge reserve | | | 764 | 764 | | 764 |
| Transfer to insurance liabilities/DAC | | | –89 | –89 | 17 | –72 |
| Employee stock option and share plans | | | 63 | 63 | | 63 |
| Exchange rate differences | | | 1,217 | 1,217 | 14 | 1,231 |
| Total amount recognised directly in equity | | | 3,806 | 3,806 | –1 | 3,805 |
| | | | | | | |
| Net profit | | | 7,210 | 7,210 | 305 | 7,515 |
| | | | 11,016 | 11,016 | 304 | 11,320 |
| | | | | | | |
| Changes in composition of the group | | | | | –710 | –710 |
| Dividends (1) | | | –2,461 | –2,461 | | –2,461 |
| Exercise of warrants and options | | 9 | | 9 | | 9 |
| Balance as at 31 December 2005 | 530 | 8,343 | 27,863 | 36,736 | 1,689 | 38,425 |
| | | | | | | |
| Unrealised revaluations after taxation | | | –1,096 | –1,096 | –8 | –1,104 |
| Realised gains/losses transferred to profit and loss | | | –759 | –759 | –1 | –760 |
| Changes in cash flow hedge reserve | | | –696 | –696 | | –696 |
| Transfer to insurance liabilities/DAC | | | 820 | 820 | –3 | 817 |
| Employee stock option and share plans | | | 100 | 100 | 2 | 102 |
| Exchange rate differences | | | –1,335 | –1,335 | –70 | –1,405 |
| Total amount recognised directly in equity | | | –2,966 | –2,966 | –80 | –3,046 |
| | | | | | | |
| Net profit | | | 7,692 | 7,692 | 341 | 8,033 |
| | | | 4,726 | 4,726 | 261 | 4,987 |
| | | | | | | |
| Changes in composition of the group | | | | | 1,034 | 1,034 |
| Dividends (2) | | | –2,681 | –2,681 | –35 | –2,716 |
| Purchase/sale of treasury shares | | | –520 | –520 | | –520 |
| Exercise of warrants and options | | 5 | | 5 | | 5 |
| Balance as at 31 December 2006 | 530 | 8,348 | 29,388 | 38,266 | 2,949 | 41,215 |
| | | | | | | |
| Unrealised revaluations after taxation | | | **–1,135** | **–1,135** | **–109** | **–1,244** |
| Realised gains/losses transferred to profit and loss | | | **–3,186** | **–3,186** | | **–3,186** |
| Changes in cash flow hedge reserve | | | **–925** | **–925** | | **–925** |
| Transfer to insurance liabilities/DAC | | | **1,132** | **1,132** | **5** | **1,137** |
| Employee stock option and share plans | | | **104** | **104** | | **104** |
| Exchange rate differences | | | **–1,381** | **–1,381** | **23** | **–1,358** |
| Other revaluations | | | | | **31** | **31** |
| Total amount recognised directly in equity | | | **–5,391** | **–5,391** | **–50** | **–5,441** |
| | | | | | | |
| Net profit | | | **9,241** | **9,241** | **267** | **9,508** |
| | | | **3,850** | **3,850** | **217** | **4,067** |
| | | | | | | |
| Changes in composition of the group | | | | | **–745** | **–745** |
| Dividends (3) | | | **–2,999** | **–2,999** | **–40** | **–3,039** |
| Purchase/sale of treasury shares | | | **–2,304** | **–2,304** | | **–2,304** |
| Exercise of warrants and options | **4** | **391** | | **395** | | **395** |
| Change in minority interest shareholdings | | | | | **–58** | **–58** |
| Balance as at 31 December 2007 | **534** | **8,739** | **27,935** | **37,208** | **2,323** | **39,531** |

(1) 2004 final dividend of EUR 0.58 per ordinary share and 2005 interim dividend of EUR 0.54 per ordinary share.
(2) 2005 final dividend of EUR 0.64 per ordinary share and 2006 interim dividend of EUR 0.59 per ordinary share.
(3) 2006 final dividend of EUR 0.73 per ordinary share and 2007 interim dividend of EUR 0.66 per ordinary share.

# Consolidated statement of changes in equity of ING Group (continued)

In 2007, deferred taxes for the year with regard to unrealised revaluations amounted to EUR 1,451 million (2006: EUR 1,339 million). For details on deferred tax see Note 21 'Other liabilities'.

Reserves include Revaluation reserve of EUR 4,937 million (2006: EUR 9,453 million; 2005: EUR 11,206 million), Currency translation reserve of EUR –1,354 million (2006: EUR –473 million; 2005: EUR 668 million) and Other reserves of EUR 24,352 million (2006: EUR 20,408 million; 2005: EUR 15,989 million). Changes in individual components are presented in Note 12 'Shareholders' equity (parent)'.

For details on Implementation IAS 32/39 and IFRS 4 refer to section 'Implementation of IAS 32, IAS 39 and IFRS 4' at the end of the Accounting policies section.

# Accounting policies for the consolidated balance sheet and profit and loss account of ING Group

## AUTHORISATION OF ANNUAL ACCOUNTS
The consolidated annual accounts of ING Groep N.V. ('ING Group') for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the Executive Board on 17 March 2008. ING Groep N.V. is incorporated and domiciled in Amsterdam, the Netherlands. The principle activities of ING Group are described in the section 'ING at a glance' in section 1.1.

## BASIS OF PRESENTATION
ING Group applies International Financial Reporting Standards as adopted by the European Union ('EU').

IFRS 7 'Financial Instruments: Disclosure' became effective as of 1 January 2007. Also during the year IFRIC 11 'Group and treasury share transactions' became effective. Neither of these recent standards and interpretations has had a material effect on equity nor profit for the period. Recently issued standards and interpretations that became effective after 1 January 2007 are not expected to have a material effect on equity or profit for the period. ING Group has not early adopted any new International Financial Reporting Standard or interpretation.

International Financial Reporting Standards as adopted by the EU provide several options in accounting policies. ING Group's accounting policies 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 Group made with regard to the options available under International Financial Reporting Standards as adopted by the EU.

As permitted by IFRS-EU ING Group adopted IAS 32 and IAS 39 and IFRS 4 for the accounting period beginning on 1 January 2005. For the resulting changes in policies made as at 1 January 2005 see section 'Implementation of IAS 32, IAS 39 and IFRS 4' at the end of the 'Accounting policies' section.

As explained in the section 'Principles of valuation and determination of results' and in Note 23 'Derivatives and hedge accounting' ING Group applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU.

## CHANGES IN ACCOUNTING POLICIES AND PRESENTATION
As of 1 January 2007, the level at which the adequacy test of the provision for insurance contracts is evaluated has been aligned to the business lines, which is the level at which performance is evaluated and segments are reported.

Previously, if it was determined using a best estimate (50%) confidence level that a shortfall existed in a business unit, then this shortfall was immediately recorded in the profit and loss account. Under the new policy, if it is determined using a best estimate (50%) confidence level that a shortfall exists in a business unit, and there are no offsetting amounts within other business units in the Business Line, then this shortfall is immediately recorded in the profit and loss account. This change in accounting policy has no effect on the equity or profit for any of the years presented in these annual accounts.

The presentation of, and certain terms used in, the balance sheet, the profit and loss account, cash flow statement, statement of changes in equity and certain notes has been changed to provide additional and more relevant information. Certain comparative amounts have been reclassified to conform with the current period presentation.

## CRITICAL ACCOUNTING POLICIES
ING Group has identified the accounting policies that are most critical to its business operations and to the understanding of its results. These critical accounting policies are those which involve the most complex or subjective decisions or assessments, and relate to insurance provisions and deferred acquisition costs, the loan loss provision, 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'.

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

# Accounting policies for the consolidated balance sheet and profit and loss account of ING Group (continued)

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, and 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, and mortality and morbidity trends. The use of different assumptions about these factors could have a material effect on insurance provisions and underwriting expense.

See section 'Risk management' for a sensitivity analysis of net profit and shareholders' equity to insurance, interest rate, equity, foreign currency and real estate risks. These sensitivities are based on changes in assumptions that management considers reasonably likely at the balance sheet date.

**LOAN LOSS PROVISIONS**

Loan loss provisions are recognised based on an incurred loss model. Considerable judgement is exercised in determining the extent of the loan loss provision (impairment) and is based on the management's evaluation of the risk in the portfolio, current economic conditions, loss experience in recent years and credit, industry and geographical concentration trends. Changes in such judgements and analyses may lead to changes in the loan loss provisions over time.

The identification of impairment and the determination of the recoverable amount are an inherently uncertain process involving various assumptions and factors including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

Future cash flows in a portfolio of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Current observable data may include changes in unemployment rates, property prices and commodity prices. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

Fair values of financial assets and liabilities are determined using quoted market prices where available. Market prices are obtained from independent market vendors, brokers, or market makers. In general, positions are valued taking the bid price for a long position and the offer price for a short position. In some cases where positions are marked at mid-market prices, a fair value adjustment is calculated. 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 no quoted market prices are available. For these financial assets and liabilities, fair value is determined using valuation techniques. These valuation techniques range from discounting of cash flows to valuation models, where relevant pricing factors including the market price of underlying reference instruments, market parameters (volatilities, correlations, credit ratings) and customer behaviour are taken into account. All valuation techniques used are subject to internal review and approval. Most data used in these valuation techniques are validated on a daily basis.

Valuation techniques are subjective in nature and significant judgement is involved in establishing fair values for certain financial assets and liabilities. Valuation techniques involve various assumptions regarding the pricing 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.

See Note 33 'Fair value of financial assets and liabilities' for the basis of the determination of the fair value of financial instruments.

### 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 and losses, and unrecognised past service costs.

The determination of the defined benefit plan liability is based on internal and external actuarial models and calculations. The defined benefit obligation is calculated using the projected unit credit method. Inherent in these actuarial models are assumptions including discount rates, rates of increase in future salary and benefit levels, mortality rates, 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 the excess is then amortised over the employees' expected average remaining working lives. See Note 21 'Other liabilities' for the weighted averages of basic actuarial assumptions in connection with pension and other post-employment benefits.

## PRINCIPLES OF VALUATION AND DETERMINATION OF RESULTS

### CONSOLIDATION
ING Group ('the Group') comprises ING Groep N.V. ('the Company'), ING Verzekeringen N.V., ING Bank N.V. and all other subsidiaries. The consolidated financial statements of ING Group comprise the accounts of ING Groep N.V. and each of those entities in which it either owns, directly or indirectly, more than half of the voting power or over which it has control of their operating and financial policies through situations including, but not limited to:
- Ability to appoint or remove the majority of the board of directors;
- Power to govern such policies under statute or agreement; and
- Power over more than half of the voting rights through an agreement with other investors.

A list of principal subsidiaries is included in Note 28 'Principal subsidiaries'.

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

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

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 group policies. In general, the reporting dates of subsidiaries are the same as the reporting date of ING Groep N.V. There are no material restrictions on subsidiaries to transfer funds to ING Groep N.V.

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

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

The process of setting assumptions is subject to internal control procedures and approvals, and takes into account internal and external studies, industry statistics, environmental factors and trends, and regulatory requirements.

# Accounting policies for the consolidated balance sheet and profit and loss account of ING Group (continued)

**SEGMENTAL REPORTING**

A business segment is a distinguishable component of the Group 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 a distinguishable component of the Group engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The geographical analyses are based on the location of the office from which the transactions are originated. The business lines of the Group are the business segments and the primary segment reporting format. The geographical segments are considered 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 which is similar in nature to life insurance business included in 'life'.

**FOREIGN CURRENCY TRANSLATION**

**Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euros, which is 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 or qualifying net investment hedges.

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

Translation differences in the profit and loss account are generally included in Net trading income. Refer to Note 39 'Net trading income', which discloses the amounts included in profit and loss. Translation differences relating to the disposal of Available-for-sale debt and equity securities are considered to be an inherent part of the capital gains and losses recognised in Investment income. As mentioned in Group companies below any translation differences deferred in equity are recognised in the profit and loss account in Net gains and losses on disposals of group companies. Refer also to Note 12 'Shareholders equity (parent)', which discloses the amounts included in profit and loss.

**Group companies**

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

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

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

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

**FAIR VALUES 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 the Group 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 are determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

See Note 33 'Fair value of financial assets and liabilities' for the basis of the determination of the fair value of financial instruments.

**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 (such as discounted cash flow models and option pricing models), as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

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

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

The Group 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 together with the methods selected to assess hedge effectiveness. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

ING Group applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU. The EU 'carve-out' macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the IFRS-EU 'carve-out', hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket.

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

**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 item is derecognised. For non-interest bearing instruments, the cumulative adjustment of the hedged item is recognised in the profit and loss account only when the hedged item is derecognised.

**Cash flow hedges**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Amounts accumulated in equity are recycled to the profit and loss account in the periods in which the hedged item will affect net profit. 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 and the gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account. Gains and losses accumulated in equity are included in the profit and loss account when the foreign operation is disposed of.

# Accounting policies for the consolidated balance sheet and profit and loss account of ING Group (continued)

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

**FINANCIAL ASSETS**
**Recognition of financial assets**
All purchases and sales of financial assets classified as fair value through profit and loss, held-to-maturity and available-for-sale that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. Loans and receivables are recognised at settlement date, which is the date the Group receives or delivers the asset.

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

**CLASSIFICATION OF FINANCIAL INSTRUMENTS**
**Financial assets at fair value through profit and loss**
Financial assets at fair value through profit and loss comprise two sub-categories: financial assets held for trading and other financial assets designated at fair value through profit and loss by management, including investments for risk of policyholders. A financial asset is classified as at fair value through profit and loss if acquired principally for the purpose of selling in the short term or if so designated by management. Designation 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 risk of policyholders are investments against insurance liabilities for which all changes in fair value of invested assets are offset by similar changes in insurance liabilities. Transaction costs on initial recognition are expensed as incurred. Interest income from debt securities and loans and receivables classified as at fair value through profit and loss is recognised in Interest income and Investment income in the profit and loss account using the effective interest method. Dividend income from equity instruments classified as at fair value through profit and loss is recognised in Investment income in the profit and loss account generally when the dividend has been declared. For all financial assets classified as at fair value through profit and loss changes in fair value are recognised in Net trading income.

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

**Available-for-sale financial assets**
Available-for-sale financial assets are initially recognised at fair value plus transaction costs. For available-for-sale debt securities, the difference between cost and redemption value is amortised. Interest income is recognised using the effective interest method. Available-for-sale financial assets are measured at fair value. Interest income from debt securities classified as Available-for-sale is recognised in Interest income and Investment income in the profit and loss account using the effective interest method. Dividend income from equity instruments classified as Available-for-sale is recognised in Investment income in the profit and loss account generally when the dividend has been declared. Unrealised gains and losses arising from changes in the fair value are recognised in equity. When the securities are disposed of, the related accumulated fair value adjustments are included in the profit and loss account as investment income. For impairments of available-for-sale financial assets reference is made to the section 'Impairments of other financial assets'. Investments in prepayment sensitive securities such as Interest-Only and Principal-Only strips are generally classified as available-for-sale.

**Held-to-maturity investments**
Non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Group has the positive intent and ability to hold to maturity and which are designated as held-to-maturity assets are initially recognised at fair value plus transaction costs. Subsequently they are carried at amortised cost using the effective interest method less any impairment losses. Interest income from debt securities classified as Held-to-maturity is recognised in Interest income in the profit and loss account using the effective interest method.

**Loans and receivables**
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs. Subsequently, they are carried at amortised cost using the effective interest method less any impairment losses. Loans and receivables are included in the following balance sheet lines: Cash and balances

with central banks, Amounts due from banks, Loans and advances to customers, and Other assets. Interest income from loans and receivables is recognised in Interest income and Investment income in the profit and loss account using the effective interest method.

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

**Credit risk management classification**
In relation to credit risk management disclosures provided in the Risk management section, classification follows the credit risk management characteristics of the instrument. The relationship between risk classifications and the classifications above is explained below:

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

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

### REPURCHASE TRANSACTIONS AND REVERSE REPURCHASE TRANSACTIONS
Securities sold subject to repurchase agreements ('repos') are retained in the consolidated financial statements. The counterparty liability is included in Amounts due to banks, Other borrowed funds or Customer deposits and other funds on deposit, as appropriate.

Securities purchased under agreements to resell ('reverse repos') are recorded as Loans and advances to customers or Amounts due from banks, as appropriate. The difference between sale and repurchase price is treated as interest and amortised over the life of the agreement using the effective interest method.

### LOAN LOSS PROVISIONS
The Group assesses periodically and at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, but before the balance sheet date, (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The following circumstances, among others, are considered objective evidence that a financial asset or group of assets is impaired:

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

# Accounting policies for the consolidated balance sheet and profit and loss account of ING Group (continued)

The Group does not consider events that may be expected to occur in the future as objective evidence, and consequently they are not used as a basis for concluding that a financial asset or group of assets is impaired. In determining the impairment, expected future cash flows are estimated on the basis of the contractual cash flows of the assets in the portfolio and historical loss experience for assets with credit risk characteristics similar to those in the portfolio. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Losses expected as a result of future events, no matter how likely, are not recognised.

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

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

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

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

**IMPAIRMENT OF OTHER FINANCIAL ASSETS**

The Group 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 specific 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 objective evidence exists for available-for-sale debt and equity investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in net profit – is removed from equity and recognised in the profit and loss account. Impairment losses recognised on equity instruments can never be reversed. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit and loss, the impairment loss is reversed through the profit and loss account.

**INVESTMENTS IN ASSOCIATES**

Associates are all entities over which the Group has significant influence but not control. Significant influence generally results from a shareholding of between 20% and 50% of the voting rights, but also is the ability to participate in the financial and operating policies through situations including, but not limited to the following:

- Representation on the board of directors;
- Participation in the policy making process; and
- Interchange of managerial personnel.

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

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

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless 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 the Group. The reporting dates of all material associates are consistent with the reporting date of the Group.

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

**REAL ESTATE INVESTMENTS**

Real estate investments are stated at fair value at the balance sheet date. Changes in the carrying amount resulting from revaluations are 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 real estate investments is based on regular appraisals by independent qualified valuers. Each year a valuation is made, either by an independent valuer or internally, of every property. Indexation is used when a property is valued internally. The index is based on the results of the independent valuations carried out in that period. Market transactions, and disposals made by the Group, are monitored as part of the procedures to back test the indexation methodology. All properties are valued independently at least every 5 years.

**PROPERTY AND EQUIPMENT**

**Property in own use**

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

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

**Property under construction**

Land and buildings under construction (including real estate investments) are stated at the directly attributable purchase and construction costs incurred up to the balance sheet date plus borrowing costs incurred during construction and the Group'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 for which there is no specifically negotiated contract. These properties are stated at the lower of cost and net realisable value. Cost includes borrowing costs. Net realisable 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 where there is not yet a specifically negotiated contract is measured at direct construction cost incurred up to the balance sheet date, including borrowing costs incurred during construction and the Group's own directly attributable development and supervision expenses less any impairment losses. Profit is recognised using the completed contract method (on completion date of the property).

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

# Accounting policies for the consolidated balance sheet and profit and loss account of ING Group (continued)

**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.

**Assets under operating leases**
Assets leased out under operating leases in which ING is the lessor are stated at cost less accumulated depreciation and any impairment losses. The cost of the assets is depreciated on a straight-line basis over the lease term. Reference is made to the section 'Leases'.

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

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

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

**The Group as the lessor**
When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable under Loans and advances to customers or Amounts due from banks. The difference between the gross receivable and the present value of the receivable is unearned lease finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. When assets are held subject to an operating lease, the assets are included under Assets under operating leases.

**PURCHASE ACCOUNTING, GOODWILL AND OTHER INTANGIBLE ASSETS**
**Goodwill**
ING Group'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 the Group's interest in the fair value of the acquired assets, liabilities and contingent liabilities as at the date of acquisition, is capitalised as an intangible asset. The results of the operations of the acquired companies are included in the profit and loss account from the date control is obtained.

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 lowest level at which goodwill is monitored for internal management purposes. This test is performed annually or more frequently if there are indicators of impairment. Under the impairment tests, the carrying value of the 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 value 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 unrealised results (including the currency translation reserve in equity) is included in the profit and loss account.

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

**Value of business acquired (VOBA)**
VOBA is an asset that reflects the present value of estimated net cash flows embedded in the insurance contracts of an acquired company, which existed at the time the company was acquired. It represents the difference between the fair value of Insurance liabilities

and their book value. VOBA is amortised in a similar manner 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 life, which is generally between three and ten years. Intangible assets with an indefinite life are not amortised.

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

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

For other types of flexible life insurance contracts DAC is amortised over the lives of the policies in relation to the emergence of estimated gross profits. Amortisation is adjusted 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 change in the 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. Subsequently it is tested on a regular basis together with the provision for life insurance liabilities and VOBA. The test for recoverability is described in the section 'Insurance, Investment and Reinsurance Contracts'.

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

### TAXATION
Income tax on the net profit for the year comprises current and deferred tax. Income tax is recognised in the profit and loss account but it is charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity.

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

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future. The tax effects of income tax losses available for carry forward are recognised as an asset where it is probable that future taxable profits will be available against which these losses can be utilised. Deferred tax related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the profit and loss account together with the deferred gain or loss.

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

# Accounting policies for the consolidated balance sheet and profit and loss account of ING Group (continued)

Financial liabilities at fair value through profit and loss comprise two sub-categories: financial liabilities held for trading, and other financial liabilities designated at fair value through profit and loss by management. Designation 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. All other financial liabilities are measured at amortised cost.

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

**INSURANCE, INVESTMENT AND REINSURANCE CONTRACTS**

**Insurance contracts**

Insurance policies which bear significant insurance risk 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. For some insurance contracts the measurement reflects current market assumptions.

**Provision for life insurance**

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

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

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

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

**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 (IBNR) and for future claims handling expenses. The adequacy of the Claims provision is evaluated each year using standard actuarial techniques. In addition, 'IBNR' reserves are set to recognise the estimated cost of losses that have occurred but which have not yet been notified to the Group.

**Deferred profit sharing 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. Upon realisation, the profit sharing on unrealised revaluation is reversed and 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.

**Provisions for life insurance for risk of policyholders**

The Provisions for life insurance for risk of policyholder are calculated on the same basis as the Provision for life insurance. For insurance contracts for risk of policyholders the provisions are generally shown at the balance sheet value of the associated investments.

**Reinsurance contracts**

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

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

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

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

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

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

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

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

The expected value of the assets is calculated using the expected rate of return on plan assets. Differences between the expected return and the actual return on these plan assets and actuarial changes in the deferred benefit obligation are not recognised in the profit and loss account, unless the accumulated differences and changes exceed 10% of the greater of the defined benefit obligation and the fair value of the plan assets. The excess is 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.

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

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

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

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

# Accounting policies for the consolidated balance sheet and profit and loss account of ING Group (continued)

**INCOME RECOGNITION**

**Gross premium income**

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

**Interest**

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

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

**Fees and commissions**

Fees and commissions are generally recognised as the service is provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the service is provided. Asset management fees related to investment funds and investment contract fees are recognised on a pro-rata basis over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Fees received and paid between banks for payment services are classified as commission income and expenses.

**Lease income**

The proceeds from leasing out assets under operating leases are recognised on a straight-line basis over the life of the lease agreement. Lease payments received in respect of finance leases when ING is the lessor are divided into an interest component (recognised as interest income) and a repayment component.

**EXPENSE RECOGNITION**

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

**Share-based payments**

Share-based payment expenses are recognised as the employees provide the service. A corresponding increase in equity is recognised if the services are received in an equity-settled share-based payment transaction. A liability is recognised if the services are acquired in a cash-settled share-based payment transaction. The cost of acquiring the services is expensed as a staff expense. Prior to 2007 ING Group generally provided equity-settled share-based payment transactions. However, from 2007 ING Group generally provides cash-settled share-based payment transactions. The fair value of equity-settled share-based payment transactions is measured at the grant date and the fair value of cash-settled share-based payment transactions is measured at each balance sheet date.

**EARNINGS PER ORDINARY SHARE**

Earnings per ordinary share is calculated on the basis of the weighted average number of ordinary shares outstanding. In calculating the weighted average number of ordinary shares outstanding:

- Own shares held by group companies are deducted from the total number of ordinary shares in issue;
- The computation is based on daily averages;
- In case of exercised warrants, the day of exercise is taken into consideration.

Diluted earnings per share data are computed as if the stock options and warrants outstanding at year-end were exercised at the beginning of the period. It is also assumed that ING Group uses the assumed proceeds thus received for stock options and warrants exercised to buy its own shares against the average market price in the financial year. The net increase in the number of shares resulting from the exercise of warrants and stock options is added to the average number of shares used for the calculation of diluted earnings per share.

Share options with fixed or determinable terms are treated as options in the calculation of diluted earnings per share, even though they may be contingent on vesting. They are treated as outstanding on the grant date. Performance-based employee share options are treated as contingently issuable shares because their issue is contingent upon satisfying specified conditions in addition to the passage of time.

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

**IMPLEMENTATION OF IAS 32, IAS 39 AND IFRS 4**
ING Group applies IFRS-EU since 2004. However, as permitted by IFRS 1, ING Group implemented IAS 32, IAS 39 and IFRS 4 as of 1 January 2005.

The key differences between the former accounting policies under Dutch GAAP and IFRS-EU as applied as from 1 January 2005 for financial instruments and insurance contracts and their transitional impact on equity as at 1 January 2005 are summarised below.

**Impact of IAS 32/39 and IFRS 4**

| amounts in millions of euros | As at 1 January 2005 |
|---|---|
| Available-for-sale debt securities | 9,922 |
| Insurance provisions | –3,126 |
| Derivatives/hedge accounting/fair value option | –977 |
| Loans and advances to customers | 465 |
| Loan loss provisions | 623 |
| Venture capital investments | 90 |
| Other | –35 |
| Taxation | –2,460 |
| Classification of equity instruments – shareholders' equity | –399 |
| IFRS-EU impact on net profit and shareholders' equity | 4,103 |
| | |
| Classification of equity instruments – minority interests | –1,442 |
| Minority interests in equity | 56 |
| Total impact | 2,717 |

### Available-for-sale debt securities
Under IFRS-EU, quoted debt securities (non-trading) other than those designated as being held-to-maturity 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 Dutch GAAP, debt securities were reported at amortised cost; realised results were deferred and amortised over the remaining term.

### Insurance provisions
Under IFRS-EU 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 Dutch 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 Dutch 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.

# Accounting policies for the consolidated balance sheet and profit and loss account of ING Group (continued)

**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 Dutch GAAP, non-trading derivatives used for risk management purposes were valued similarly to the item being hedged (mainly at cost).

**Fair value option**
As an alternative to hedge accounting under IFRS-EU, financial assets and liabilities may be designated at fair value through profit and loss, which results in these being presented at fair value, with all changes in fair value recognised directly in the profit and loss account. Furthermore, the fair value option is applied to certain financial liabilities that are subject to market-making activities.

**Loans and advances to customers**
Under both Dutch GAAP and IFRS-EU loans are measured at amortised cost. Under IFRS-EU, certain fees/costs are capitalised and amortised whilst under Dutch 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 Dutch GAAP these were amortised on a straight-line basis. Under IFRS-EU, realised results are reported in net profit. Under Dutch GAAP these were amortised over the remaining term (e.g. certain 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 Dutch 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 Dutch GAAP, negative revaluations on equity securities were only charged to the profit and loss account as an impairment when triggered by the financial condition of the issuer. Under IFRS-EU, an impairment is also triggered by a significant or prolonged decline of the market value below cost. This did not affect Group equity at the date of transition to IFRS-EU.

**Classification of equity instruments**
Under Dutch GAAP, preference shares and trust preferred securities were classified as equity in accordance with their legal form. Under IFRS-EU, the terms and conditions of ING Group's preference shares and trust preferred securities require them to be classified as liabilities.

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

# Accounting policies for the consolidated statement of cash flows of ING Group

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

For the purposes of the cash flow statement, Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, amounts due from other banks and amounts due to banks. Investments qualify as a cash equivalent if they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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

The net cash flow shown in respect of Loans and advances to customers only relates to transactions involving actual payments or receipts. The Addition to loan loss provision which is deducted from the item Loans and advances to customers in the balance sheet has been adjusted accordingly from the 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 change in Cash and cash equivalents in the balance sheet is due to exchange rate differences and is separately accounted for as part of the reconciliation of the net cash flow and the balance sheet change in Cash and cash equivalents.

# Notes to the consolidated balance sheet of ING Group
amounts in millions of euros, unless stated otherwise

## ASSETS

### 1 CASH AND BALANCES WITH CENTRAL BANKS

**Cash and balances with central banks**

| | 2007 | 2006 |
|---|---|---|
| Amounts held at central banks | **8,376** | 10,511 |
| Cash and bank balances | **3,664** | 3,563 |
| Short term deposits insurance operations | **366** | 252 |
| | **12,406** | 14,326 |

### 2 AMOUNTS DUE FROM BANKS

**Amounts due from banks**

| | Netherlands 2007 | Netherlands 2006 | International 2007 | International 2006 | Total 2007 | Total 2006 |
|---|---|---|---|---|---|---|
| Loans and advances to banks | **14,451** | 4,660 | **31,339** | 31,751 | **45,790** | 36,411 |
| Cash advances, overdrafts and other balances | **1,065** | 285 | **2,033** | 3,176 | **3,098** | 3,461 |
| | **15,516** | 4,945 | **33,372** | 34,927 | **48,888** | 39,872 |
| | | | | | | |
| Loan loss provision | **–11** | | **–2** | –4 | **–13** | –4 |
| | **15,505** | 4,945 | **33,370** | 34,923 | **48,875** | 39,868 |

Amounts due from banks, at 31 December 2007, included receivables with regard to securities which have been acquired in reverse repurchase transactions amounting to EUR 2,472 million (2006: EUR 2,249 million) and assets held under finance lease contracts amounting to EUR 232 million (2006: EUR 277 million).

As at 31 December 2007, the non-subordinated receivables amounted to EUR 48,705 million (2006: EUR 39,774 million), and the subordinated receivables amounted to EUR 170 million (2006: EUR 94 million).

No individual amount due from banks has terms and conditions that materially affect the amount, timing or certainty of consolidated cash flows of the Group. For details on significant concentrations see 'Risk management' section.

### 3 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

**Financial assets at fair value through profit and loss**

| | 2007 | 2006 |
|---|---|---|
| Trading assets | **193,213** | 193,977 |
| Investments for risk of policyholders | **114,827** | 110,547 |
| Non-trading derivatives | **7,637** | 6,521 |
| Designated as at fair value through profit and loss | **11,453** | 6,425 |
| | **327,130** | 317,470 |

**Trading assets by type**

| | 2007 | 2006 |
|---|---|---|
| Equity securities | **11,112** | 14,717 |
| Debt securities | **37,345** | 38,287 |
| Derivatives | **28,592** | 22,514 |
| Loans and receivables | **116,164** | 118,459 |
| | **193,213** | 193,977 |

As at 31 December 2007, the balance sheet value included equity securities which were lent or sold in repurchase transactions amounting to EUR 4 million (2006: EUR 13 million) and nil (2006: nil), respectively. As at 31 December 2007, the balance sheet value included debt securities which were lent or sold in repurchase transactions amounting to EUR 386 million (2006: EUR 42 million) and EUR 629 million (2006: EUR 4,303 million), respectively.

### Investments for risk of policyholders by type

| | 2007 | 2006 |
|---|---|---|
| Equity securities | **106,061** | 102,775 |
| Debt securities | **7,398** | 7,100 |
| Loans and receivables | **122** | 59 |
| Other | **1,246** | 613 |
| | **114,827** | 110,547 |

In 2007 none of the changes in the fair value of the loans and receivables included in Investments for risk of policyholders are attributable to changes in the credit risk of the financial assets (2006: nil), or cumulatively (2006: nil).

The fair value of credit derivatives included in trading assets and held to mitigate exposure to credit risk was EUR –7 million (2006: nil), and the change in their fair value in the period was EUR –7 million (2006: nil).

The cost of investments for risk of policyholders as at 31 December 2007 was EUR 105,625 million (2006: EUR 98,863 million).

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

### Non-trading derivatives by type

| | 2007 | 2006 |
|---|---|---|
| Derivatives used in: | | |
| – fair value hedges | **1,952** | 1,080 |
| – cash flow hedges | **3,417** | 3,617 |
| – hedges for net investments in foreign operations | **281** | 3 |
| Other non-trading derivatives | **1,987** | 1,821 |
| | **7,637** | 6,521 |

### Designated as at fair value through profit and loss by type

| | 2007 | 2006 |
|---|---|---|
| Equity securities | **306** | 193 |
| Debt securities | **8,774** | 4,744 |
| Loans and receivables | **428** | 306 |
| Other | **1,945** | 1,182 |
| | **11,453** | 6,425 |

In 2007 none of the changes in the fair value of the loans and receivables designated as at fair value through profit and loss are attributable to changes in the credit risk of the financial assets (2006: nil), or cumulatively (2006: nil).

The fair value of credit derivatives included in non-trading derivatives and held to mitigate exposure to credit risk on debt securities was EUR –10 million (2006: EUR –2 million), and the change in their fair value in the period was nil (2006: nil).

As at 31 December 2007, trading assets include receivables of EUR 114,897 million (2006: EUR 118,053 million) with regard to reverse repurchase transactions.

Other includes alternative asset investments and limited partnerships.

# Notes to the consolidated balance sheet of ING Group (continued)

## 4 INVESTMENTS

### Investments by type

| | 2007 | 2006 |
|---|---|---|
| **Available-for-sale** | | |
| – equity securities | **19,947** | 18,225 |
| – debt securities | **255,950** | 275,696 |
| | **275,897** | 293,921 |
| | | |
| **Held-to-maturity** | | |
| – debt securities | **16,753** | 17,660 |
| | **16,753** | 17,660 |
| | | |
| | **292,650** | 311,581 |

### Changes in investments – available-for-sale and held-to-maturity

| | Available-for-sale equity securities 2007 | 2006 | Available-for-sale debt securities 2007 | 2006 | Held-to-maturity 2007 | 2006 | Total 2007 | 2006 |
|---|---|---|---|---|---|---|---|---|
| Opening balance | **18,225** | 16,466 | **275,696** | 289,241 | **17,660** | 18,937 | **311,581** | 324,644 |
| Additions | **7,788** | 6,395 | **275,497** | 281,452 | | | **283,285** | 287,847 |
| Amortisation | | | **–181** | –309 | **–59** | | **–240** | –309 |
| Transfers | **512** | –294 | **–1,417** | –249 | | 110 | **–905** | –433 |
| Changes in the composition of the group | **–536** | –26 | **–2,903** | –9,653 | | | **–3,439** | –9,679 |
| Changes in unrealised revaluations | **3,379** | 1,956 | **–6,284** | –5,177 | | | **–2,905** | –3,221 |
| Impairments and reversals | **–53** | –42 | **–133** | 36 | | | **–186** | –6 |
| Disposals and redemptions | **–9,093** | –5,782 | **–272,106** | –266,200 | **–822** | –1,342 | **–282,021** | –273,324 |
| Exchange rate differences | **–275** | –448 | **–12,219** | –13,445 | **–26** | –45 | **–12,520** | –13,938 |
| Closing balance | **19,947** | 18,225 | **255,950** | 275,696 | **16,753** | 17,660 | **292,650** | 311,581 |

### Included in transfers of available-for-sale and held-to-maturity investments

| | Available-for-sale equity securities 2007 | 2006 | Available-for-sale debt securities 2007 | 2006 | Held-to-maturity 2007 | 2006 | Total 2007 | 2006 |
|---|---|---|---|---|---|---|---|---|
| To/from available-for-sale | **21** | 49 | **–21** | –12 | | | | 37 |
| To/from loans and advances | **–1** | | **–6** | –122 | | | **–7** | –122 |
| To/from fair value through profit and loss | **52** | –118 | **–1,386** | –164 | | | **–1,334** | –282 |
| To/from Investment in associates | **438** | –197 | | | | | **438** | –197 |
| To/from Other assets/ Other liabilities | **2** | –28 | **–4** | 49 | | 110 | **–2** | 131 |
| | **512** | –294 | **–1,417** | –249 | | 110 | **–905** | –433 |

The reclassification from Available-for-sale debt securities to Financial assets designated as at fair value through profit and loss relates to debt securities backing insurance contracts where current market assumptions were implemented in the measurement of the insurance contracts.

**Available-for-sale equity securities by insurance and banking operations**

| | Listed 2007 | Listed 2006 | Unlisted 2007 | Unlisted 2006 | Total 2007 | Total 2006 |
|---|---|---|---|---|---|---|
| Insurance operations | **14,082** | 14,376 | **2,240** | 1,951 | **16,322** | 16,327 |
| Banking operations | **3,309** | 1,093 | **316** | 805 | **3,625** | 1,898 |
| | **17,391** | 15,469 | **2,556** | 2,756 | **19,947** | 18,225 |

**Debt securities by insurance and banking operations**

| | Available-for-sale 2007 | Available-for-sale 2006 | Held-to-maturity 2007 | Held-to-maturity 2006 | Total 2007 | Total 2006 |
|---|---|---|---|---|---|---|
| Insurance operations | **115,944** | 124,163 | | | **115,944** | 124,163 |
| Banking operations | **140,006** | 151,533 | **16,753** | 17,660 | **156,759** | 169,193 |
| | **255,950** | 275,696 | **16,753** | 17,660 | **272,703** | 293,356 |

As at 31 December 2007, the balance sheet value included equity securities which were lent or sold in repurchase transactions amounting to EUR 13 million (2006: EUR 20 million) and nil (2006: nil), respectively, and debt securities which were lent or sold in repurchase transactions amounting to EUR 4,114 million (2006: EUR 2,119 million) and EUR 38,214 million (2006: EUR 37,804 million), respectively.

Borrowed debt securities are not recognised in the balance sheet and amounted to EUR 170 million as at 31 December 2007 (2006: EUR 460 million).

Investments in connection with the insurance operations with a combined carrying value of EUR 69 million (2006: EUR 43 million) were non-income-producing for the year ended 31 December 2007.

## 5 LOANS AND ADVANCES TO CUSTOMERS

**Loans and advances to customers by insurance and banking operations**

| | 2007 | 2006 |
|---|---|---|
| Insurance operations | **27,576** | 37,606 |
| Banking operations | **528,540** | 440,375 |
| | **556,116** | 477,981 |
| Eliminations | **–3,152** | –3,544 |
| | **552,964** | 474,437 |

**Loans and advances to customers by type – insurance operations**

| | Netherlands 2007 | Netherlands 2006 | International 2007 | International 2006 | Total 2007 | Total 2006 |
|---|---|---|---|---|---|---|
| Policy loans | **54** | 55 | **3,414** | 3,511 | **3,468** | 3,566 |
| Loans secured by mortgages | **8,532** | 18,335 | **8,772** | 9,539 | **17,304** | 27,874 |
| Personal loans | **2,851** | 3,736 | **2,602** | 913 | **5,453** | 4,649 |
| Other | **378** | 507 | **1,003** | 1,047 | **1,381** | 1,554 |
| | **11,815** | 22,633 | **15,791** | 15,010 | **27,606** | 37,643 |
| | | | | | | |
| Loan loss provisions | **–14** | –12 | **–16** | –25 | **–30** | –37 |
| | **11,801** | 22,621 | **15,775** | 14,985 | **27,576** | 37,606 |

# Notes to the consolidated balance sheet of ING Group (continued)

### Loans and advances to customers by type – banking operations

| | Netherlands 2007 | Netherlands 2006 | International 2007 | International 2006 | Total 2007 | Total 2006 |
|---|---|---|---|---|---|---|
| Loans to, or guaranteed by, public authorities | **14,678** | 16,450 | **8,961** | 9,503 | **23,639** | 25,953 |
| Loans secured by mortgages | **141,314** | 120,753 | **132,614** | 87,458 | **273,928** | 208,211 |
| Loans guaranteed by credit institutions | **1,951** | 2,088 | **591** | 320 | **2,542** | 2,408 |
| Other personal lending | **6,975** | 6,484 | **17,784** | 16,422 | **24,759** | 22,906 |
| Other corporate loans | **105,017** | 93,988 | **100,643** | 89,547 | **205,660** | 183,535 |
| | **269,935** | 239,763 | **260,593** | 203,250 | **530,528** | 443,013 |
| | | | | | | |
| Loan loss provisions | **–654** | –733 | **-1,334** | –1,905 | **–1,988** | –2,638 |
| | **269,281** | 239,030 | **259,259** | 201,345 | **528,540** | 440,375 |

### Loans and advances to customers analysed by subordination – banking operations

| | 2007 | 2006 |
|---|---|---|
| Non-subordinated | **527,344** | 439,850 |
| Subordinated | **1,196** | 525 |
| | **528,540** | 440,375 |

As at 31 December 2007, Loans and advances to customers included receivables with regard to securities which have been acquired in reverse repurchase transactions related to the banking operations amounting to EUR 4,569 million (2006: EUR 1,554 million).

No individual loan or advance has terms and conditions that materially affect the amount, timing or certainty of the consolidated cash flows of the Group.

Loans and advances to customers and Amounts due from banks include finance lease receivables, analysed as follows:

### Finance lease receivables

| | 2007 | 2006 |
|---|---|---|
| Maturities of gross investment in finance lease receivables | | |
| – within 1 year | **6,473** | 4,641 |
| – more than 1 year but less than 5 years | **8,448** | 8,061 |
| – more than 5 years | **3,753** | 3,346 |
| | **18,674** | 16,048 |
| | | |
| Unearned future finance income on finance leases | **–3,109** | –2,684 |
| Net investment in finance leases | **15,565** | 13,364 |
| | | |
| Maturities of net investment in finance lease receivables | | |
| – within 1 year | **5,337** | 3,943 |
| – more than 1 year but less than 5 years | **7,060** | 6,813 |
| – more than 5 years | **3,168** | 2,608 |
| | **15,565** | 13,364 |
| | | |
| Included in Amounts due from banks | **232** | 277 |
| Included in Loans and advances to customers | **15,333** | 13,087 |
| | **15,565** | 13,364 |

The allowance for uncollectible finance lease receivables included in the loan loss provisions amounted to EUR 33 million at 31 December 2007 (2006: EUR 47 million).

No individual finance lease receivable has terms and conditions that materially affect the amount, timing or certainty of the consolidated cash flows of the Group.

## Loan loss provisions analysed by type – banking operations

| | Netherlands 2007 | Netherlands 2006 | International 2007 | International 2006 | Total 2007 | Total 2006 |
|---|---|---|---|---|---|---|
| Loans secured by public authorities | | | **1** | 2 | **1** | 2 |
| Loans secured by mortgages | **96** | 96 | **203** | 177 | **299** | 273 |
| Loans guaranteed by credit institutions | **11** | | **3** | 6 | **14** | 6 |
| Other personal lending | **181** | 357 | **374** | 408 | **555** | 765 |
| Other corporate loans | **377** | 280 | **755** | 1,316 | **1,132** | 1,596 |
| | **665** | 773 | **1,336** | 1,909 | **2,001** | 2,642 |
| | | | | | | |
| The closing balance is included in | | | | | | |
| – amounts due from banks | **11** | | **2** | 4 | **13** | 4 |
| – loans and advances to customers | **654** | 733 | **1,334** | 1,905 | **1,988** | 2,638 |
| | **665** | 733 | **1,336** | 1,909 | **2,001** | 2,642 |

## Changes in loan loss provission

| | Insurance operations 2007 | Insurance operations 2006 | Banking operations 2007 | Banking operations 2006 | Total 2007 | Total 2006 |
|---|---|---|---|---|---|---|
| Opening balance | **37** | 47 | **2,642** | 3,313 | **2,679** | 3,360 |
| Changes in the composition of the group | **–3** | | **98** | –101 | **95** | –101 |
| Write-offs | **–11** | –4 | **–952** | –691 | **–963** | –695 |
| Recoveries | **1** | | **59** | 86 | **60** | 86 |
| Increase in loan loss provisions | **8** | 4 | **125** | 103 | **133** | 107 |
| Exchange rate differences | **–1** | –2 | **–19** | –67 | **–20** | –69 |
| Other changes | **–1** | –8 | **48** | –1 | **47** | –9 |
| Closing balance | **30** | 37 | **2,001** | 2,642 | **2,031** | 2,679 |

Changes in loan loss provisions relating to insurance operations are presented under Investment income. Changes in the loan loss provision relating to banking operations are presented on the face of the profit and loss account.

# Notes to the consolidated balance sheet of ING Group (continued)

## 6 INVESTMENTS IN ASSOCIATES

**Investments in associates**

| 2007 | Interest held (%) | Fair value of listed investment | Balance sheet value | Total assets | Total liabilities | Total income | Total expenses |
|---|---|---|---|---|---|---|---|
| TMB Public Company Limited | 30 | | 481 | 16,028 | 15,002 | 180 | 436 |
| ING Dutch Office Master Fund C.V. | 24 | | 348 | 1,718 | 257 | 202 | 24 |
| ING Winkels Basisfonds | 24 | | 333 | 1,617 | 209 | 192 | 22 |
| ING Industrial Fund Australia | 18 | 303 | 303 | 3,124 | 1,338 | 411 | 168 |
| Lionbrook Property Partnership | 28 | | 295 | 1,243 | 176 | -60 | 27 |
| ING Woningen Basisfonds | 25 | | 237 | 1,116 | 112 | 135 | 48 |
| Q-Park N.V. | 19 | | 191 | 3,911 | 2,914 | 458 | 403 |
| ING Real Estate Asia Retail Fund | 46 | | 189 | 791 | 399 | 29 | 2 |
| Property Fund Iberica | 30 | | 185 | 1,959 | 1,331 | 313 | 188 |
| ING Retail Property Fund Australia | 29 | | 150 | 958 | 399 | 179 | 100 |
| Lion Properties Fund | 5 | | 147 | 4,502 | 1,666 | 660 | 155 |
| Lion Industrial Trust | 9 | | 142 | 3,001 | 1,157 | 387 | 106 |
| B.V. Petroleum Maatschappij 'Moeara Enim' | 30 | | 130 | 461 | | 19 | 2 |
| ING Re Nordic Property Fund | 22 | | 104 | 1,089 | 623 | 70 | 47 |
| ING Vastgoed Kantoren C.V. | 10 | | 103 | 1,033 | 7 | 124 | 34 |
| ING PF Brittanica | 20 | | 93 | 864 | 402 | -7 | 42 |
| Lion Value Fund | 33 | | 92 | 423 | 143 | 76 | 14 |
| ING Vastgoed Winkels C.V. | 10 | | 86 | 870 | 8 | 130 | 19 |
| ING Office Fund Australia | 6 | 69 | 83 | 2,134 | 763 | 443 | 152 |
| Retail Property Fund France Belgium (RPFFB) | 15 | | 81 | 1,597 | 1,069 | 304 | 189 |
| ING Logistics Property Fund Europe | 25 | | 78 | 574 | 263 | 76 | 31 |
| Property Fund Central Europe | 25 | | 73 | 649 | 358 | 119 | 41 |
| ING Retail Property Partnership Southern Europe | 23 | | 66 | 1,150 | 857 | 111 | 78 |
| ING Property Fund Central and Eastern Europe | 23 | | 66 | 761 | 478 | 40 | 39 |
| ING Vastgoed Woningen C.V. | 10 | | 56 | 557 | 1 | 68 | 15 |
| Other investments in associates | | | 902 | | | | |
| | | | 5,014 | | | | |

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

Accumulated impairments have been recognised of EUR 29 million (2006: EUR 4 million).

For the above associates in which the interest held is below 20%, significant influence exists based on the combination of ING's financial interest for own risk and its role as investment manager.

## Investments in associates

| 2006 | Interest held (%) | Fair value of listed investment | Balance sheet value | Total assets | Total liabilities | Total income | Total expenses |
|---|---|---|---|---|---|---|---|
| Vesteda | 25 | | 810 | 4,610 | 1,371 | 362 | 51 |
| Lionbrook Property Partnership | 30 | | 355 | 1,276 | 106 | 214 | 20 |
| ING Winkels Basisfonds | 25 | | 311 | 1,326 | 80 | 212 | 9 |
| ING Woningen Basisfonds | 25 | | 227 | 990 | 84 | 93 | 8 |
| Property Fund Iberica | 30 | | 186 | 1,792 | 1,160 | 319 | 175 |
| Lion Properties Fund | 5 | | 144 | 3,904 | 1,049 | 567 | 155 |
| Lion Industrial Fund | 10 | | 142 | 2,495 | 1,080 | 327 | 100 |
| ING PF Brittanica | 20 | | 115 | 1,093 | 522 | 162 | 59 |
| ING Industrial Fund Australia | 12 | 157 | 165 | 1,685 | 617 | 250 | 53 |
| ING Global Fund | 10 | | 56 | 600 | 40 | 179 | 4 |
| Gables RE Trust – Permanent/Bridge equity | 6 | | 45 | 1,646 | 805 | 279 | 147 |
| ING Retail Property Fund Australia | 29 | | 124 | 744 | 321 | 66 | 21 |
| Q-Park N.V. | 19 | | 166 | 1,995 | 1,120 | 95 | 86 |
| B.V. Petroleum Maatschappij 'Moeara Enim' | 33 | | 141 | 2,901 | 2,475 | 52 | 6 |
| ING Korea Property Investments | 15 | | 32 | 458 | 248 | 30 | 31 |
| ING Vastgoed Winkels C.V. | 10 | | 80 | 803 | 4 | 146 | 11 |
| ING Office Fund Australia | 6 | 62 | 60 | 1,548 | 627 | 272 | 69 |
| ING Logostic Property C.V. | 25 | | 74 | 552 | 255 | 90 | 29 |
| ING Convent Garden | 32 | | 59 | 318 | 130 | 76 | 9 |
| Retail Property Fund France Belgium (RPFFB) | 15 | | 63 | 1,096 | 678 | 142 | 60 |
| ING Vastgoed Woningen C.V. | 10 | | 54 | 541 | | 71 | 9 |
| Other investments in associates | | | 934 | | | | |
| | | | 4,343 | | | | |

## Changes in Investments in associates

| | 2007 | 2006 |
|---|---|---|
| Opening balance | **4,343** | 3,622 |
| Additions | **1,222** | 449 |
| Changes in the composition of the group | **934** | 152 |
| Transfers to and from Investments | **–438** | 197 |
| Revaluations | **–155** | 41 |
| Share of results | **765** | 638 |
| Dividends received | **–224** | –174 |
| Disposals | **–1,296** | –511 |
| Impairments | **–25** | –3 |
| Exchange rate differences | **–112** | –68 |
| Closing balance | **5,014** | 4,343 |

In 2007, share of results of EUR 765 million and impairments of EUR –25 million are presented in the profit and loss account in Share of profit from associates (EUR 740 million).

## 7 REAL ESTATE INVESTMENTS

## Changes in real estate investments

| | 2007 | 2006 |
|---|---|---|
| Opening balance | **6,974** | 5,031 |
| Additions | **878** | 1,588 |
| Changes in the composition of the group | **–2,919** | 1,497 |
| Transfers to and from Property in own use | **–60** | 44 |
| Transfers to and from Other assets | **13** | |
| Fair value gains/(losses) | **168** | 175 |
| Disposals | **–309** | –1,293 |
| Exchange rate differences | **84** | –68 |
| Closing balance | **4,829** | 6,974 |

# Notes to the consolidated balance sheet of ING Group (continued)

In 2007 Changes in composition of the group relates mainly to the deconsolidation of Real estate funds as a result of the reduction of ING's shareholding in these funds.

**Real estate investments by insurance and banking operations**

| | 2007 | 2006 |
|---|---|---|
| Insurance operations | **1,302** | 3,310 |
| Banking operations | **3,527** | 3,664 |
| | **4,829** | 6,974 |

The total amount of rental income recognised in the profit and loss account for the year ended 31 December 2007 was EUR 402 million (2006: EUR 434 million). The total amount of contingent rent recognised in the profit and loss account for the year ended 31 December 2007 was EUR 14 million (2006: EUR 14 million).

The total amount of direct operating expenses (including repairs and maintenance) arising from Real estate investments that generated rental income for the year ended 31 December 2007 was EUR 64 million (2006: EUR 168 million). The total amount of direct operating expenses (including repairs and maintenance) arising from Real estate investments that did not generate rental income for the year ended 31 December 2007 was EUR 20 million (2006: EUR 32 million).

**Appraisal of real estate investments during the last five years by independently qualified valuers (in percentages)**

| year of appraisal | |
|---|---|
| 2007 | **64** |
| 2006 | **36** |
| 2005 | **0** |
| 2004 | **0** |
| 2003 | **0** |
| | **100** |

## 8 PROPERTY AND EQUIPMENT

**Property and equipment by type**

| | 2007 | 2006 |
|---|---|---|
| Property in own use | **2,069** | 2,034 |
| Equipment | **1,270** | 1,312 |
| Assets under operating leases | **2,898** | 2,685 |
| | **6,237** | 6,031 |

**Property in own use by insurance and banking operations**

| | 2007 | 2006 |
|---|---|---|
| Insurance operations | **599** | 694 |
| Banking operations | **1,470** | 1,340 |
| | **2,069** | 2,034 |

## Changes in property in own use

| | 2007 | 2006 |
|---|---|---|
| Opening balance | **2,034** | 2,271 |
| Additions | **85** | 68 |
| Changes in the composition of the group | **29** | –14 |
| Transfers to and from Real estate investments | **60** | –44 |
| Transfers to and from Other assets | **59** | –4 |
| Depreciation | **–39** | –64 |
| Revaluations | **–60** | 76 |
| Reversal of impairments | **14** | 4 |
| Disposals | **–84** | –221 |
| Exchange rate differences | **–29** | –38 |
| Closing balance | **2,069** | 2,034 |
| | | |
| Gross carrying amount as at 31 December | **2,943** | 2,883 |
| Accumulated depreciation as at 31 December | **–708** | –669 |
| Accumulated impairments as at 31 December | **–166** | –180 |
| Net book value | **2,069** | 2,034 |
| | | |
| **Revaluation surplus** | | |
| Opening balance | **693** | 612 |
| Revaluation in year | **19** | 82 |
| Released in year | **–79** | –1 |
| Closing balance | **633** | 693 |

The cost or purchase price amounted to EUR 2,310 million (2006: EUR 2,190 million). Cost less accumulated depreciation would have been EUR 1,602 million (2006: EUR 1,521 million).

## Appraisal of property in own use during the last five years by independently qualified valuers (in percentages)

| year of appraisal | |
|---|---|
| 2007 | **39** |
| 2006 | **19** |
| 2005 | **26** |
| 2004 | **4** |
| 2003 | **12** |
| | **100** |

## Changes in equipment

| | Data processing equipment 2007 | Data processing equipment 2006 | Fixtures and fittings and other equipment 2007 | Fixtures and fittings and other equipment 2006 | Total 2007 | Total 2006 |
|---|---|---|---|---|---|---|
| Opening balance | **283** | 314 | **1,029** | 1,002 | **1,312** | 1,316 |
| Additions | **177** | 157 | **309** | 343 | **486** | 500 |
| Changes in the composition of the group | **10** | –7 | **16** | –1 | **26** | –8 |
| Disposals | **–24** | –9 | **–44** | –63 | **–68** | –72 |
| Depreciation | **–164** | –177 | **–216** | –222 | **–380** | –399 |
| Impairments | **–1** | | **–1** | –1 | **–2** | –1 |
| Exchange rate differences | **–3** | –6 | **–17** | –26 | **–20** | –32 |
| Other changes | **3** | 11 | **–87** | –3 | **–84** | 8 |
| Closing balance | **281** | 283 | **989** | 1,029 | **1,270** | 1,312 |
| | | | | | | |
| Gross carrying amount as at 31 December | **1,763** | 1,499 | **2,950** | 2,729 | **4,713** | 4,228 |
| Accumulated depreciation as at 31 December | **–1,481** | –1,216 | **–1,959** | –1,699 | **–3,440** | –2,915 |
| Accumulated impairments as at 31 December | **–1** | | **–2** | –1 | **–3** | –1 |
| Net book value | **281** | 283 | **989** | 1,029 | **1,270** | 1,312 |

# Notes to the consolidated balance sheet of ING Group (continued)

## Changes in assets under operating leases

| | Cars 2007 | Cars 2006 | Other leased-out assets 2007 | Other leased-out assets 2006 | Total 2007 | Total 2006 |
|---|---|---|---|---|---|---|
| Opening balance | **2,671** | 2,116 | **14** | 54 | **2,685** | 2,170 |
| Additions | **1,396** | 1,146 | **2** | 18 | **1,398** | 1,164 |
| Changes in the composition of the group | | 417 | | –46 | | 371 |
| Disposals | **–417** | –400 | | –2 | **–417** | –402 |
| Depreciation | **–720** | –617 | **–4** | –10 | **–724** | –627 |
| Exchange rate differences | **–44** | 9 | | | **–44** | 9 |
| Closing balance | **2,886** | 2,671 | **12** | 14 | **2,898** | 2,685 |
| | | | | | | |
| Gross carrying amount as at 31 December | **5,177** | 3,938 | **70** | 39 | **5,247** | 3,977 |
| Accumulated depreciation as at 31 December | **–2,291** | –1,267 | **–58** | –25 | **–2,349** | –1,292 |
| Net book value | **2,886** | 2,671 | **12** | 14 | **2,898** | 2,685 |

Depreciation of assets under operating leases is included in the profit and loss account in other income as a deduction from operating lease income.

No individual operating lease has terms and conditions that materially affect the amount, timing or certainty of the consolidated cash flows of the Group.

The Group leases assets to third parties under operating leases as lessor. The future minimum lease payments to be received under non–cancellable operating leases are as follows:

## Future minimum lease payments by maturity

| | 2007 | 2006 |
|---|---|---|
| Within 1 year | **1,048** | 926 |
| More than 1 year but less than 5 years | **1,844** | 1,754 |
| More than 5 years | **6** | 5 |
| | **2,898** | 2,685 |

## 9 INTANGIBLE ASSETS

**Changes in intangible assets**

| | Value of business acquired 2007 | 2006 | Goodwill 2007 | 2006 | Software 2007 | 2006 | Other 2007 | 2006 | Total 2007 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| Opening balance | **2,641** | 2,986 | **305** | 173 | **377** | 408 | **199** | 94 | **3,522** | 3,661 |
| Additions (bought) | **93** | 107 | **2,040** | 169 | **215** | 194 | **170** | 59 | **2,518** | 529 |
| Capitalised expenses | | | | | **124** | | | | **124** | |
| Amortisation | **–229** | –175 | | | **–221** | –200 | **–18** | –8 | **–468** | –383 |
| Impairments | | | | | **–14** | –10 | **–1** | | **–15** | –10 |
| Effect of unrealised revaluations in equity | **32** | 18 | | | | | | | **32** | 18 |
| Changes in the composition of the group | **25** | –5 | **–28** | –21 | **9** | –6 | **390** | 61 | **396** | 29 |
| Exchange rate differences | **–261** | –290 | **–71** | –10 | **–5** | –9 | **–18** | –7 | **–355** | –316 |
| Disposals | | | **–1** | –6 | **–13** | | | | **–14** | –6 |
| Closing balance | **2,301** | 2,641 | **2,245** | 305 | **472** | 377 | **722** | 199 | **5,740** | 3,522 |
| | | | | | | | | | | |
| Gross carrying amount as at 31 December | **2,946** | 3,057 | **2,245** | 305 | **1,379** | 1,049 | **766** | 224 | **7,336** | 4,635 |
| Accumulated amortisation as at 31 December | **–645** | –416 | | | **–878** | –657 | **–43** | –25 | **–1,566** | –1,098 |
| Accumulated impairments as at 31 December | | | | | **–29** | –15 | **–1** | | **–30** | –15 |
| Net book value | **2,301** | 2,641 | **2,245** | 305 | **472** | 377 | **722** | 199 | **5,740** | 3,522 |

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.

Additions to goodwill in 2007 include mainly EUR 1,818 million related to the acquisition of Landmark, Latin American Pension business of Santander, Oyak Bank and Sharebuilder Corporation. The increase in Other intangibles in 2007 includes mainly EUR 390 million related to the acquisition of Latin American Pension business of Santander and Oyak Bank. Reference is made to Note 29 'Companies acquired and companies disposed'.

## 10 DEFERRED ACQUISITION COSTS

**Changes in deferred acquisition costs**

| | Investment contracts 2007 | 2006 | Life insurance 2007 | 2006 | Non-life insurance 2007 | 2006 | Total 2007 | 2006 |
|---|---|---|---|---|---|---|---|---|
| Opening balance | **83** | 71 | **9,645** | 9,043 | **435** | 490 | **10,163** | 9,604 |
| Capitalised | **31** | 25 | **2,766** | 2,544 | **257** | 259 | **3,054** | 2,828 |
| Amortisation | **–12** | –11 | **–1,266** | –1,178 | **–274** | –255 | **–1,552** | –1,444 |
| Unlocking | | | **–28** | –11 | | | **–28** | –11 |
| Effect of unrealised revaluations in equity | | | **43** | 43 | | | **43** | 43 |
| Changes in the composition of the group | | | | | **–5** | | **–5** | |
| Exchange rate differences | **–1** | –2 | **–938** | –812 | **10** | –43 | **–929** | –857 |
| Disposal of portfolios | | | **–39** | 16 | **–15** | –16 | **–54** | |
| Closing balance | **101** | 83 | **10,183** | 9,645 | **408** | 435 | **10,692** | 10,163 |

For flexible life insurance contracts the growth rate assumption used for calculating the amortisation of the deferred acquisition costs for 2007 is 6.6% gross and 5.6% net of investment management fees (2006: 7.6% gross and 6.1% net of investment management fees).

# Notes to the consolidated balance sheet of ING Group (continued)

## 11 OTHER ASSETS

**Other assets by type**

| | 2007 | 2006 |
|---|---|---|
| Reinsurance and insurance receivables | 3,664 | 4,105 |
| Deferred tax assets | 2,723 | 1,872 |
| Property held for sale | 2,993 | 2,243 |
| Property under development for third parties | | 96 |
| Income tax receivable | 974 | 1,222 |
| Accrued interest and rents | 17,818 | 14,535 |
| Other accrued assets | 1,099 | 1,167 |
| Pension assets | 439 | 251 |
| Other receivables | 10,389 | 5,572 |
| | 40,099 | 31,063 |

Disclosures in respect of deferred tax assets and pension assets are provided in Note 21 'Other liabilities'.

Included in the above are assets measured at amortised cost under the IAS 39 classification Loans and receivables. These amount to EUR 8,844 million and are included in Accrued interest and rents.

The total amount of borrowing costs relating to Property under development for third parties, capitalised in 2007 is nil (2006: EUR 2 million).

**Reinsurance and insurance receivables**

| | 2007 | 2006 |
|---|---|---|
| Receivables on account of direct insurance from: | | |
| – policyholders | 2,211 | 2,390 |
| – intermediaries | 283 | 239 |
| Reinsurance receivables | 1,170 | 1,476 |
| | 3,664 | 4,105 |

**Property held for sale**

| | 2007 | 2006 |
|---|---|---|
| Property held for sale | 530 | 367 |
| Other: | | |
| – property obtained from foreclosures | 48 | 58 |
| – property developed for sale | 2,415 | 1,818 |
| | 2,993 | 2,243 |
| | | |
| Gross carrying amount as at 31 December | 3,104 | 2,328 |
| Accumulated impairments as at 31 December | –111 | –85 |
| Net book value | 2,993 | 2,243 |

## EQUITY

### 12 SHAREHOLDERS' EQUITY (PARENT)

**Shareholders' equity (parent)**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Share capital | **534** | 530 | 530 |
| Share premium | **8,739** | 8,348 | 8,343 |
| Revaluation reserve | **4,937** | 9,453 | 11,206 |
| Currency translation reserve | **–1,354** | –473 | 668 |
| Other reserves | **24,352** | 20,408 | 15,989 |
| Shareholders' equity (parent) | **37,208** | 38,266 | 36,736 |

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

As at 31 December 2007 Other reserves included an amount of EUR 566 million (2006: EUR 566 million; 2005: EUR 583 million) related to Regio Bank NV (formerly Stichting Regio Bank) that cannot be freely distributed.

**Share capital**

| | Ordinary shares (par value EUR 0.24) Number X1,000 | | | Amount | | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| Authorised share capital | **3,000,000** | 3,000,000 | 3,000,000 | **720** | 720 | 720 |
| Unissued share capital | **773,555** | 794,907 | 795,066 | **186** | 190 | 190 |
| Issued share capital | **2,226,445** | 2,205,093 | 2,204,934 | **534** | 530 | 530 |

**Changes in issued share capital**

| | Ordinary shares (par value EUR 0.24) Number X1,000 | Amount |
|---|---|---|
| Issued share capital as at 1 January 2005 | 2,204,720 | 530 |
| | | |
| Issue of shares | 214 | |
| Issued share capital as at 31 December 2005 | 2,204,934 | 530 |
| | | |
| Issue of shares | 96 | |
| Exercise of B warrants and options | 63 | |
| Issued share capital as at 31 December 2006 | 2,205,093 | 530 |
| | | |
| Issue of shares | **5,569** | **1** |
| Exercise of B warrants and options | **15,783** | **3** |
| Issued share capital as at 31 December 2007 | **2,226,445** | **534** |

In May 2007, ING announced a plan to adopt a buy-back programme under which it plans to purchase (depository receipts for) ordinary shares with a total value of EUR 5 billion over a period of 12 months, beginning in June 2007. During 2007 the total number of (depository receipts for) ordinary shares repurchased under this programme is 90.7 million at an average price of EUR 30.49, and a total consideration of EUR 2.8 billion. This represents completion of approximately 56% of the repurchase programme. Shares bought back are included in the table 'Changes in treasury shares' on page 126.

#### Ordinary shares

All shares are in registered form. No share certificates have been issued. Shares may be transferred by means of a deed of transfer, subject to the approval of the Executive Board of ING Group. The par value of ordinary shares is EUR 0.24. The authorised ordinary share capital of ING Group consists of 3,000 million shares, of which as at 31 December 2007 2,226 million have been issued and fully paid.

# Notes to the consolidated balance sheet of ING Group (continued)

**Depository receipts for ordinary shares and preference shares**
More than 99% of the ordinary shares and preference shares issued by ING Groep N.V. are held by the Stichting ING Aandelen (Trust Office ING Shares). In exchange for these shares, the Trust Office has issued depository receipts in bearer form for ordinary shares and for preference shares, respectively. The depository receipts are listed on various stock exchanges. Depository receipts can be exchanged for (non-listed) shares of the relevant category without any restriction.

The holder of a depository receipt is entitled to receive from the Trust Office payment of dividends and distributions corresponding with the dividends and distributions received by the Trust Office on a share of the relevant category.

In addition, the holder of a depository receipt is entitled to attend and to speak at the General Meeting of Shareholders of ING Groep N.V. either in person or by proxy. A holder of a depository receipt, who thus attends the General Meeting of Shareholders, is entitled to vote as a proxy of the Trust Office but entirely at his own discretion for a number of shares equal to the number of his depository receipts of the relevant category.

A holder of depository receipts who does not attend the General Meeting of Shareholders in person or by proxy is entitled to give a binding voting instruction to the Trust Office for a number of shares equal to the number of his depository receipts of the relevant category.

**Concentration of holders of depository receipts for shares**
As at 31 December 2007, AllianceBernstein Corporation had an interest in depository receipts (for ordinary shares of ING Groep N.V. of between 5% and 10%.

**Depository receipts for ordinary shares held by ING Group**
As at 31 December 2007, 126.8 million (2006: 53.8 million; 2005: 38.7 million) of depository receipts for ordinary shares of ING Groep N.V. with a par value of EUR 0.24 was held by ING Group or its subsidiaries. These were purchased as part of the buy-back plan announced in 2007 and to hedge option rights granted to the Executive Board members and other employees.

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

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

**B warrants**
In 1998, ING Groep N.V. authorised the issue of a maximum of 17,317,132 B warrants, of which 17,220,200 have been issued. As at 31 December 2007, 9,266,097 B warrants were outstanding (2006: 17,157,891; 2005: 17,189,554). B warrant holders are entitled to obtain from ING Groep N.V., for a fixed price, depository receipts for ordinary shares in the proportion of 1 B warrant to 2 depository receipts. B warrant holders may exercise their rights at their own discretion but no later than 5 January 2008. As at 31 December 2007, 601,356 B warrants (2006: nil; 2005: nil) were held by group companies of ING Group.

The closing date for exercising warrants B was 5 January 2008. The exercise price of warrants B was EUR 49.92 for 2 depository receipts.

**Changes in revaluation reserve**

| 2007 | Property revaluation reserve | Available-for-sale reserve | Cash flow hedge reserve | Total |
|---|---|---|---|---|
| Opening balance | 468 | 7,629 | 1,356 | 9,453 |
| Unrealised revaluations after taxation | –29 | –1,508 | | –1,537 |
| Realised gains/losses transferred to profit and loss | | –3,186 | | –3,186 |
| Changes in cash flow hedge reserve | | | –925 | –925 |
| Transfer to insurance liabilities/DAC | | 1,132 | | 1,132 |
| Closing balance | 439 | 4,067 | 431 | 4,937 |

## Changes in revaluation reserve

| 2006 | Property revaluation reserve | Available-for-sale reserve | Cash flow hedge reserve | Total |
|---|---|---|---|---|
| Opening balance | 460 | 8,700 | 2,046 | 11,206 |
| Unrealised revaluations after taxation | 8 | –1,087 | | –1,079 |
| Realised gains/losses transferred to profit and loss | | –804 | | –804 |
| Changes in cash flow hedge reserve | | | –690 | –690 |
| Transfer to insurance liabilities/DAC | | 820 | | 820 |
| Closing balance | 468 | 7,629 | 1,356 | 9,453 |

## Changes in revaluation reserve

| 2005 | Property revaluation reserve | Available-for-sale reserve | Cash flow hedge reserve | Total |
|---|---|---|---|---|
| Opening balance | 382 | 875 | | 1,257 |
| Implementation IAS 32/39 and IFRS 4 | | 6,256 | 1,282 | 7,538 |
| Unrealised revaluations after taxation | 53 | 2,095 | | 2,148 |
| Realised gains/losses transferred to profit and loss | | –663 | | –663 |
| Changes in cash flow hedge reserve | | | 764 | 764 |
| Transfer to insurance liabilities/DAC | | –89 | | –89 |
| Other revaluations | 25 | 226 | | 251 |
| Closing balance | 460 | 8,700 | 2,046 | 11,206 |

## Changes in currency translation reserve

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| Opening balance | **–473** | 668 | –184 |
| Implementation IAS 32/39 and IFRS 4 | | | –556 |
| Unrealised revaluations after taxation | **500** | 194 | 489 |
| Realised gains/losses transferred to profit and loss | **–228** | | |
| Exchange rate differences | **–1,153** | –1,335 | 919 |
| Closing balance | **–1,354** | –473 | 668 |

## Changes in other reserves

| **2007** | **Retained earnings** | **Share of associates reserve** | **Treasury shares** | **Other reserves** | **Total** |
|---|---|---|---|---|---|
| Opening balance | **20,700** | **1,181** | **–1,436** | **–37** | **20,408** |
| Profit for the year | **8,894** | **347** | | | **9,241** |
| Unrealised revaluations after taxation | | | | **–98** | **–98** |
| Changes in treasury shares | | | **–2,304** | | **–2,304** |
| Dividend | **–2,826** | **–173** | | | **–2,999** |
| Employee stock options and share plans | **104** | | | | **104** |
| Other | **153** | **–153** | | | |
| Closing balance | **27,025** | **1,202** | **–3,740** | **–135** | **24,352** |

# Notes to the consolidated balance sheet of ING Group (continued)

## Changes in other reserves

| 2006 | Retained earnings | Share of associates reserve | Treasury shares | Other reserves | Total |
|---|---|---|---|---|---|
| Opening balance | 16,262 | 608 | –868 | –13 | 15,989 |
| Profit for the year | 6,972 | 720 | | | 7,692 |
| Unrealised revaluations after taxation | | | | –124 | –124 |
| Changes in treasury shares | | | –520 | | –520 |
| Dividend | –2,534 | –147 | | | –2,681 |
| Other | | | –48 | 100 | 52 |
| Closing balance | 20,700 | 1,181 | –1,436 | –37 | 20,408 |

## Changes in other reserves

| 2005 | Retained earnings | Share of associates reserve | Treasury shares | Other reserves | Total |
|---|---|---|---|---|---|
| Opening balance | 13,792 | 608 | –563 | | 13,837 |
| Implementation IAS 32/39 and IFRS 4 | –2,584 | | | | –2,584 |
| Profit for the year | 7,210 | | | | 7,210 |
| Changes in treasury shares | | | –305 | | –305 |
| Dividend | –2,461 | | | | –2,461 |
| Other | 305 | | | –13 | 292 |
| Closing balance | 16,262 | 608 | –868 | –13 | 15,989 |

## Changes in treasury shares

| | Amount | | | Number | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Opening balance | **1,436** | 868 | 563 | **53,859,235** | 38,722,934 | 29,787,165 |
| Purchased | **2,505** | 1,030 | 381 | **79,652,109** | 30,858,427 | 13,013,029 |
| Share based payments | **–201** | –462 | –76 | **–6,751,515** | –15,722,126 | –3,203,303 |
| Other | | | | | | –873,957 |
| Closing balance | **3,740** | 1,436 | 868 | **126,759,829** | 53,859,235 | 38,722,934 |

Preference shares are presented in the balance sheet under liabilities. See Note 13 ‘Preference shares’.

## LIABILITIES

### 13 PREFERENCE SHARES

**ING Group preference shares**

Preference shares are divided into 2 categories: 'A' preference shares and 'B' preference shares. The authorised preference share capital of ING Groep N.V. consists of 100 million 'A' preference shares with a par value of EUR 1.20, of which as at 31 December 2007 16,012,839 have been issued and 1,000 million 'B' preference shares with a par value of EUR 0.24, of which none have been issued. The only movement in preference shares outstanding is explained under Buy-back of preference shares.

Preference shares may only be issued if at least the nominal value is paid up.

Preference shares rank before ordinary shares in entitlement to dividends and distributions upon liquidation of ING Groep N.V., but are subordinated to cumulative preference shares. Holders of 'A' and 'B' preference shares rank pari passu among themselves. If the profit or amount available for distribution to the holders of preference shares is not sufficient to make such distribution in full, the holders will receive a distribution in proportion to the amount they would have received if the distribution could have been made in full. The 'A' preference shares and 'B' preference shares are not cumulative and their holders will not be compensated in subsequent years for a shortfall in a prior year.

The ING Groep N.V.'s Articles of Association make provision for cancellation of preference shares.

*'A' preference shares*

The dividend on the 'A' preference shares is equal to a percentage of the amount (including share premium) for which the 'A' preference shares were originally issued.

This percentage is calculated by taking the arithmetic mean of the average effective yield on the 5 longest-dated Dutch government loans, as determined by a Calculating Agent to be designated by the Executive Board for the last 20 stock exchange days preceding the day on which the first 'A' preference shares are issued, or, as the case may be, preceding the day on which the dividend percentage is adjusted. The percentage thus established may be increased or decreased by not more than 0.5 percentage points, depending on the market conditions then prevailing, as the Executive Board may decide with the approval of the Supervisory Board.

The dividend on the 'A' preference shares is set at EUR 0.1582 per year until 1 January 2014 at which stage the dividend percentage will be readjusted (and thereafter every 10 years) to the average effective yield at that time on the 5 longest-dated Dutch government loans.

'A' preference shares may only be cancelled if a distribution of the amount (including share premium) for which the 'A' preference shares were originally issued reduced by the par value of the shares can be made on each 'A' preference share. Upon liquidation of ING Groep N.V., a distribution of the amount (including share premium) for which the 'A' preference shares were originally issued will, insofar as possible, be made on each 'A' preference share.

*Buy-back of preference shares*

During 2007, ING Group bought back 57,016,572 (depository receipts for) 'A' preference shares (2006: 24,051,039) at an average price of EUR 3.64 per share or EUR 207.5 million in total (2006: EUR 3.72 per share or EUR 89.5 million). The 'A' preference shares were bought back from ABN AMRO Holding and Fortis as described below.

In July 2007, ING announced that agreement had been reached with Fortis Insurance Netherlands to buy-back 28,172,583 'A' preference shares of ING at a price of EUR 3.618175 per share or EUR 101,933,336 in total. Following the repurchase the preference shares were cancelled.

In October 2007, ING announced that agreement had been reached with ABN AMRO Holding to buy-back 28,843,989 'A' preference shares of ING Group. The transaction was completed in two tranches. On 15 October 2007, 18,843,989 'A' preference shares, were repurchased at a price of EUR 3.65 per share, or EUR 68,780,560 in total. Following the repurchase these preference share were cancelled. On 24 December, an additional 10,000,000 'A' preference shares were repurchased at a price of EUR 3.68 per share, or EUR 36,800,000. None of the 10 million preference shares had been cancelled at 31 December 2007, and are therefore included in the number of 'A' preference share in issue at 31 December 2007. However, all of these shares were cancelled in February 2008.

**Cumulative preference shares**

The par value of the cumulative preference shares is EUR 1.20. The authorised cumulative preference share capital consists of 900 million cumulative preference shares, of which none have been issued.

The cumulative preference shares rank before the preference shares and the ordinary shares in entitlement to dividend and to distributions upon liquidation of ING Groep N.V.

The dividend on the cumulative preference shares will be equal to a percentage, calculated on the amount compulsorily paid up or yet to be paid up. This percentage shall be equal to the average of the Euro OverNight Index Average (EONIA) as calculated by the European Central Bank. During the financial year for which the distribution is made, this percentage is weighted on the basis of the number of days for which it applies, increased by 2.5 percentage points.

If and to the extent that the profit available for distribution is not sufficient to pay the dividend referred to above in full, the shortfall will be made up from the reserves insofar as possible. If, and to the extent that, the dividend distribution cannot be made from the reserves, the profits earned in subsequent years shall first be used to make up the shortfall before any distribution may be made on shares of any other category.

ING Groep N.V.'s Articles of Association make provision for the cancellation of cumulative preference shares. Upon cancellation of cumulative preference shares and upon liquidation of ING Groep N.V., the amount paid up on the cumulative preference shares will be repaid together with the dividend shortfall in preceding years, insofar as this shortfall has not yet been made up.

## 14 SUBORDINATED LOANS

**Subordinated loans**

| Interest rate | Year of Issue | Due date | Notional amount in original currency | | Balance sheet value 2007 | 2006 |
|---|---|---|---|---|---|---|
| 7.375% | 2007 | Perpetual | USD | 1,500 | **988** | |
| 6.375% | 2007 | Perpetual | USD | 1,045 | **690** | |
| 5.140% | 2006 | Perpetual | GBP | 600 | **810** | 885 |
| 5.775% | 2005 | Perpetual | USD | 1,000 | **674** | 752 |
| 6.125% | 2005 | Perpetual | USD | 700 | **462** | 515 |
| 4.176% | 2005 | Perpetual | EUR | 500 | **497** | 497 |
| Variable | 2004 | Perpetual | EUR | 1,000 | **937** | 926 |
| 6.200% | 2003 | Perpetual | USD | 500 | **330** | 368 |
| Variable | 2003 | Perpetual | EUR | 750 | **682** | 669 |
| 7.200% | 2002 | Perpetual | USD | 1,100 | **726** | 811 |
| 7.050% | 2002 | Perpetual | USD | 800 | **529** | 591 |
| | | | | | **7,325** | 6,014 |

Subordinated loans consist of perpetual subordinated bonds issued by ING Groep N.V. These bonds have been issued to raise hybrid capital for ING Verzekeringen N.V. and Tier-1 capital for ING Bank N.V. Under IFRS-EU these bonds are classified as liabilities. They are considered capital for regulatory purposes.

These loans have been subsequently provided as subordinated loans by ING Groep N.V. to ING Verzekeringen N.V. and ING Bank N.V. under the same conditions as the original bonds.

The number of debentures held by group companies as at 31 December 2007 was 3,504 with a balance sheet value of nil (2006: nil with a balance sheet value of nil).

## 15 DEBT SECURITIES IN ISSUE

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

**Debt securities in issue – maturities**

| | 2007 | 2006 |
|---|---|---|
| **Fixed rate debt securities** | | |
| Within 1 year | **35,182** | 49,692 |
| More than 1 year but less than 2 years | **4,156** | 1,475 |
| More than 2 years but less than 3 years | **1,738** | 2,914 |
| More than 3 years but less than 4 years | **2,057** | 1,824 |
| More than 4 years but less than 5 years | **2,374** | 3,140 |
| More than 5 years | **5,870** | 5,155 |
| Total fixed rate debt securities | **51,377** | 64,200 |
| | | |
| **Floating rate debt securities** | | |
| Within 1 year | **7,204** | 4,637 |
| More than 1 year but less than 2 years | **487** | 238 |
| More than 2 years but less than 3 years | **989** | 413 |
| More than 3 years but less than 4 years | **1,847** | 1,086 |
| More than 4 years but less than 5 years | **1,140** | 2,611 |
| More than 5 years | **3,951** | 4,948 |
| Total floating rate debt securities | **15,618** | 13,933 |
| | | |
| Total debt securities | **66,995** | 78,133 |

As of 31 December 2007, ING Group had unused lines of credit available including the payment of commercial paper borrowings relating to debt securities in issue, totalling EUR 6,974 million (2006: EUR 29,335 million).

## 16 OTHER BORROWED FUNDS

**Other borrowed funds by remaining term**

| **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **There after** | **Total** |
|---|---|---|---|---|---|---|---|
| Subordinated loans of group companies | **66** | **542** | **1,052** | **429** | **1,632** | **9,942** | **13,663** |
| Preference shares of group companies | | | | | | **1,014** | **1,014** |
| Loans contracted | **4,791** | **1,054** | **1,306** | **1,019** | | **1,284** | **9,454** |
| Loans from credit institutions | **1,340** | **2** | **353** | **279** | **168** | **785** | **2,927** |
| | **6,197** | **1,598** | **2,711** | **1,727** | **1,800** | **13,025** | **27,058** |

**Other borrowed funds by remaining term**

| 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | There after | Total |
|---|---|---|---|---|---|---|---|
| Subordinated loans of group companies | 34 | 200 | 366 | 1,227 | 2,276 | 9,488 | 13,591 |
| Preference shares of group companies | | | | | | 1,132 | 1,132 |
| Loans contracted | 4,927 | 489 | 304 | 1,188 | 1,138 | 854 | 8,900 |
| Loans from credit institutions | 3,749 | 1,103 | 357 | 280 | 164 | 363 | 6,016 |
| | 8,710 | 1,792 | 1,027 | 2,695 | 3,578 | 11,837 | 29,639 |

Subordinated loans of group companies relate to capital debentures and private loans which are subordinated to all current and future liabilities of ING Bank N.V. or Postbank N.V.

Preference shares of group companies comprise non-cumulative guaranteed Trust Preference Securities which are issued by wholly owned subsidiaries of ING Groep N.V. These securities have a liquidation preference of a certain amount plus any accrued interest and unpaid dividend. Dividends with regard to these preference securities are presented as an interest expense in the profit and loss account. These trust preference securities have no voting rights.

# Notes to the consolidated balance sheet of ING Group (continued)

## 17 INSURANCE AND INVESTMENT CONTRACTS, REINSURANCE CONTRACTS

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

**Insurance and investment contracts, reinsurance contracts**

| | Provision net of reinsurance | | Reinsurance contracts | | Insurance and investment contracts | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| Provision for non-participating life policy liabilities | **70,149** | 78,772 | **4,481** | 4,930 | **74,630** | 83,702 |
| Provision for participating life policy liabilities | **54,645** | 52,914 | **175** | 187 | **54,820** | 53,101 |
| Provision for (deferred) profit sharing and rebates | **1,601** | 2,956 | **5** | 5 | **1,606** | 2,961 |
| Provision for life insurance for risk of policyholders | **100,753** | 97,304 | **639** | 651 | **101,392** | 97,955 |
| Life insurance provisions | **227,148** | 231,946 | **5,300** | 5,773 | **232,448** | 237,719 |
| | | | | | | |
| Provision for unearned premiums and unexpired risks | **2,564** | 2,631 | **99** | 156 | **2,663** | 2,787 |
| | | | | | | |
| Reported claims provision | **5,051** | 5,503 | **475** | 600 | **5,526** | 6,103 |
| Claims incurred but not reported (IBNR) | **1,121** | 1,148 | | | **1,121** | 1,148 |
| Claims provisions | **6,172** | 6,651 | **475** | 600 | **6,647** | 7,251 |
| | | | | | | |
| Other insurance provisions | **302** | 176 | | | **302** | 176 |
| Total provisions for insurance contracts | **236,186** | 241,404 | **5,874** | 6,529 | **242,060** | 247,933 |
| | | | | | | |
| Investment contracts for risk of company | **9,520** | 7,505 | | | **9,520** | 7,505 |
| Investment contracts for risk of policyholders | **14,132** | 13,245 | | | **14,132** | 13,245 |
| Total provisions for investment contracts | **23,652** | 20,750 | | | **23,652** | 20,750 |
| | | | | | | |
| Total | **259,838** | 262,154 | **5,874** | 6,529 | **265,712** | 268,683 |

**Changes in life insurance provisions**

| | Provision net of reinsurance | | Reinsurance contracts | | Insurance and investment contracts | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| Opening balance | **231,946** | 225,351 | **5,773** | 6,638 | **237,719** | 231,989 |
| Changes in the composition of the group | **–3,475** | 83 | **2** | 23 | **–3,473** | 106 |
| | **228,471** | 225,434 | **5,775** | 6,661 | **234,246** | 232,095 |
| | | | | | | |
| Current year provisions | **27,224** | 28,863 | **139** | 1,525 | **27,363** | 30,388 |
| | | | | | | |
| Change in deferred profit sharing liability | **–1,546** | –1,241 | | | **–1,546** | –1,241 |
| | | | | | | |
| Prior year provisions: | | | | | | |
| – benefit payments to policyholders | **–21,933** | –13,166 | **–82** | –366 | **–22,015** | –13,532 |
| – interest accrual | **6,794** | 4,791 | **–40** | 18 | **6,754** | 4,809 |
| – valuation changes for risk of policyholders | **5,612** | 2,702 | | | **5,612** | 2,702 |
| – effect of changes in other assumptions | **2** | –21 | | | **2** | –21 |
| | **–9,525** | –5,694 | **–122** | –348 | **–9,647** | –6,042 |
| | | | | | | |
| Exchange rate differences | **–15,583** | –15,874 | **–501** | –535 | **–16,084** | –16,409 |
| Other changes | **–1,893** | 458 | **9** | –1,530 | **–1,884** | –1,072 |
| Closing balance | **227,148** | 231,946 | **5,300** | 5,773 | **232,448** | 237,719 |

Included in Changes in the composition of the group is EUR 4,017 million relating to the disposal of portfolios in connection with the sale of Belgian Broker and Employee Benefit insurance business as disclosed in Note 29 'Companies acquired and companies disposed'.

Where discounting is used in the calculation of life insurance provisions the rate is within the range 2.9% to 6.0% (2006: 2.9% to 6.8%) based on weighted averages.

ING transferred part of their life insurance business to Scottish Re in 2004 by means of a co-insurance contract. This business continues to be included in Life insurance provisions. The related asset from the co-insurance contract is recognised under Reinsurance contracts.

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

As at 31 December 2007, the total Reinsurance exposure, including Reinsurance contracts and Receivables from reinsurers (presented in Other assets) amounted to EUR 7,044 million (2006: EUR 8,005 million) after the provision for uncollectible reinsurance of EUR 5 million (2006: EUR 6 million).

**Changes in provision for unearned premiums and unexpired risks**

| | Provision net of reinsurance | | Reinsurance contracts | | Insurance and investment contracts | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| Opening balance | **2,631** | 2,835 | **156** | 258 | **2,787** | 3,093 |
| Changes in the composition of the group | **–194** | –9 | **3** | | **–191** | –9 |
| | **2,437** | 2,826 | **159** | 258 | **2,596** | 3,084 |
| | | | | | | |
| Premiums written | **5,780** | 5,994 | **306** | 339 | **6,086** | 6,333 |
| Premiums earned during the year | **–5,701** | –5,929 | **–326** | –377 | **–6,027** | –6,306 |
| Exchange rate differences | **15** | –245 | **–10** | –22 | **5** | –267 |
| Other changes | **33** | –15 | **–30** | –42 | **3** | –57 |
| Closing balance | **2,564** | 2,631 | **99** | 156 | **2,663** | 2,787 |

**Changes in claims provisions**

| | Provision net of reinsurance | | Reinsurance contracts | | Insurance and investment contracts | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| Opening balance | **6,651** | 8,202 | **600** | 1,389 | **7,251** | 9,591 |
| Changes in the composition of the group | **–667** | –4 | **–18** | | **–685** | –4 |
| | **5,984** | 8,198 | **582** | 1,389 | **6,566** | 9,587 |
| | | | | | | |
| Additions | | | | | | |
| – for the current year | **3,356** | 3,261 | **78** | 124 | **3,434** | 3,385 |
| – for prior years | **–282** | –525 | **14** | –18 | **–268** | –543 |
| – interest accrual of provision | **32** | 54 | | | **32** | 54 |
| | **3,106** | 2,790 | **92** | 106 | **3,198** | 2,896 |
| | | | | | | |
| Claim settlements and claim settlement costs | | | | | | |
| – for the current year | **1,747** | 1,569 | **–42** | 33 | **1,705** | 1,602 |
| – for prior years | **1,343** | 1,458 | **151** | 388 | **1,494** | 1,846 |
| | **3,090** | 3,027 | **109** | 421 | **3,199** | 3,448 |
| | | | | | | |
| Exchange rate differences | **84** | –381 | **–14** | –93 | **70** | –474 |
| Other changes | **88** | –929 | **–76** | –381 | **12** | –1,310 |
| Closing balance | **6,172** | 6,651 | **475** | 600 | **6,647** | 7,251 |

# Notes to the consolidated balance sheet of ING Group (continued)

ING Group had an outstanding balance of EUR 66 million at 31 December 2007 (2006: EUR 66 million) relating to environmental and asbestos claims of the insurance operations. In establishing the liability for unpaid claims and claims adjustment expenses related to asbestos related illness and toxic waste clean up, the management of ING Group considers facts currently known and 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 2006 is as a result of favourable underwriting results in several business units, in particular, the Netherlands business units benefited from changes in legal requirements for disability benefits, favourable results and reserving methodology changes and Canada benefited from favourable experience mostly from automobile pool.

Where discounting is used in the calculation of the claims provisions the rate is, based on weighted averages, within the range of 3.8% to 4.3% (2006: 3.0% to 4.0%).

## Changes in investment contracts liabilities

| | **2007** | 2006 |
|---|---|---|
| Opening balance | **20,750** | 18,633 |
| Changes in the composition of the group | **–277** | –42 |
| | **20,473** | 18,591 |
| | | |
| Current year liabilities | **12,890** | 8,432 |
| | | |
| Prior year provisions | | |
| – payments to contract holders | **–9,697** | –6,667 |
| – interest accrual | **408** | 344 |
| – valuation changes investments | **576** | 948 |
| | **–8,713** | –5,375 |
| | | |
| Exchange rate differences | **–1,147** | –1,021 |
| Other changes | **149** | 123 |
| Closing balance | **23,652** | 20,750 |

## Gross claims development table

| | | | Underwriting year | | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** | **Total** |
| Estimate of cumulative claims: | | | | | |
| At the end of underwriting year | **2,773** | **3,010** | **2,678** | **3,007** | |
| 1 year later | **2,428** | **2,856** | **2,623** | | |
| 2 years later | **2,228** | **2,703** | | | |
| 3 years later | **2,169** | | | | |
| Estimate of cumulative claims | **2,169** | **2,703** | **2,623** | **3,007** | **10,502** |
| | | | | | |
| Cumulative payments | **–1,638** | **–1,929** | **–1,588** | **–1,052** | **–6,207** |
| | **531** | **774** | **1,035** | **1,955** | **4,295** |
| Effect of discounting | **–55** | **–66** | **–84** | **–131** | **–336** |
| Liability recognised | **476** | **708** | **951** | **1,824** | **3,959** |
| | | | | | |
| Liability relating to prior underwriting years | | | | | **2,688** |
| Total amount recognised in the balance sheet | | | | | **6,647** |

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

## 18 AMOUNTS DUE TO BANKS

Amounts due to banks include non-subordinated debt due to banks, other than amounts in the form of debt securities. As at 31 December 2007, liabilities concerning securities sold in repurchase transactions amounted to EUR 29,604 million (2006: EUR 23,627 million).

**Amounts due to banks by type**

| | Netherlands 2007 | Netherlands 2006 | International 2007 | International 2006 | Total 2007 | Total 2006 |
|---|---|---|---|---|---|---|
| Non-interest bearing | **3,527** | 2,696 | **3,580** | 1,035 | **7,107** | 3,731 |
| Interest bearing | **72,257** | 52,817 | **87,608** | 64,291 | **159,865** | 117,108 |
| | **75,784** | 55,513 | **91,188** | 65,326 | **166,972** | 120,839 |

## 19 CUSTOMER DEPOSITS AND OTHER FUNDS ON DEPOSIT

**Customer deposits and other funds on deposit**

| | 2007 | 2006 |
|---|---|---|
| Savings accounts | **275,127** | 283,147 |
| Credit balances on customer accounts | **161,204** | 147,695 |
| Corporate time deposits | **86,151** | 62,628 |
| Other | **2,734** | 3,210 |
| | **525,216** | 496,680 |

**Customer deposits and other funds on deposits by type**

| | Netherlands 2007 | Netherlands 2006 | International 2007 | International 2006 | Total 2007 | Total 2006 |
|---|---|---|---|---|---|---|
| Non-interest bearing | **15,100** | 13,734 | **3,905** | 2,704 | **19,005** | 16,438 |
| Interest bearing | **192,808** | 181,976 | **313,403** | 298,266 | **506,211** | 480,242 |
| | **207,908** | 195,710 | **317,308** | 300,970 | **525,216** | 496,680 |

No funds have been entrusted to the Group by customers on terms other than those prevailing in the normal course of business. As at 31 December 2007, Customer deposits and other funds on deposit included liabilities with regard to securities sold in repurchase transactions amounting to EUR 3,725 million (2006: EUR 870 million).

Savings accounts relate to the balances on savings accounts, savings books, savings deposits and time deposits of personal customers. The interest payable on savings accounts, which is contractually added to the accounts, is also included.

## 20 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

**Financial liabilities at fair value through profit and loss**

| | 2007 | 2006 |
|---|---|---|
| Trading liabilities | **148,988** | 127,975 |
| Non-trading derivatives | **6,951** | 4,934 |
| Designated as at fair value through profit and loss | **13,882** | 13,702 |
| | **169,821** | 146,611 |

**Trading liabilities by type**

| | 2007 | 2006 |
|---|---|---|
| Equity securities | **12,271** | 20,732 |
| Debt securities | **10,301** | 9,045 |
| Funds on deposit | **97,857** | 77,245 |
| Derivatives | **28,559** | 20,953 |
| | **148,988** | 127,975 |

# Notes to the consolidated balance sheet of ING Group (continued)

**Non-trading derivatives by type**

| | 2007 | 2006 |
|---|---|---|
| Derivatives used in: | | |
| – fair value hedges | **958** | 606 |
| – cash flow hedges | **3,188** | 1,696 |
| – hedges of net investments in foreign operations | **352** | 7 |
| Other non-trading derivatives | **2,453** | 2,625 |
| | **6,951** | 4,934 |

**Designated as at fair value through profit and loss by type**

| | 2007 | 2006 |
|---|---|---|
| Debt securities | **10,902** | 10,642 |
| Funds entrusted | **756** | 603 |
| Other | **2,224** | 2,457 |
| | **13,882** | 13,702 |

In 2007, changes in the fair value of financial liabilities designated as at fair value through profit and loss is attributable to changes in the credit risk of that liability is approximately EUR 20 million.

The amount that ING Group is contractually required to pay at maturity to the holders of financial liabilities designated as at fair value through profit and loss is EUR 13,845 million.

As at 31 December 2007, trading liabilities include amounts payable of EUR 86,759 million (2006: EUR 67,114 million) with regard to repurchase transactions.

## 21 OTHER LIABILITIES

**Other liabilities by type**

| | 2007 | 2006 |
|---|---|---|
| Deferred tax liabilities | **3,432** | 4,042 |
| Income tax payable | **877** | 923 |
| Pension and post-employment liabilities | **657** | 1,208 |
| Other staff-related liabilities | **355** | 247 |
| Other taxation and social security contributions | **1,123** | 1,147 |
| Deposits from reinsurers | **427** | 462 |
| Accrued interest | **13,606** | 10,556 |
| Costs payable | **2,744** | 2,353 |
| Amounts payable to brokers | **114** | 238 |
| Amounts payable to policyholders | **2,283** | 3,105 |
| Reorganisation and other provisions | **1,400** | 1,055 |
| Share-based payment plan liabilities | **7** | 5 |
| Property under development for third parties | **284** | |
| Other | **16,550** | 12,937 |
| | **43,859** | 38,278 |

On a distribution of a dividend ING Groep N.V. is required to withhold an income tax on dividends at a rate of 15%.

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

Other mainly relates to year-end accruals in the normal course of business, none of which are individually material.

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

**Changes in deferred tax**

| | Net liability 2006 | Change through equity | Change through net profit | Changes in the composition of the group | Exchange rate differences | Other | Net liability 2007 |
|---|---|---|---|---|---|---|---|
| Investments | 1,375 | **–1,243** | **213** | **–17** | **56** | **–126** | **258** |
| Financial assets and liabilities at fair value through profit and loss | 119 | **–40** | **82** | **–11** | **–2** | **8** | **156** |
| Deferred acquisition costs and VOBA | 3,201 | **3** | **151** | | **–312** | **4** | **3,047** |
| Fiscal equalisation reserve | 3 | | **8** | | | **4** | **15** |
| Depreciation | 28 | **3** | **–26** | **–5** | **1** | **–12** | **–11** |
| Insurance provisions | –1,490 | **116** | **339** | | **93** | **71** | **–871** |
| Other provisions | –1,081 | **238** | **–174** | **–28** | **109** | **–210** | **–1,146** |
| Receivables | 196 | | **–128** | **1** | **–2** | **33** | **100** |
| Loans and advances to customers | 102 | **5** | **–7** | | **–1** | **–3** | **96** |
| Unused tax losses carried forward | –909 | **–15** | **–26** | **1** | **76** | **–59** | **–932** |
| Other | 626 | **–767** | **27** | **117** | **3** | **–9** | **–3** |
| | 2,170 | **–1,700** | **459** | **58** | **21** | **–299** | **709** |
| | | | | | | | |
| Comprising: | | | | | | | |
| – deferred tax liabilities | 4,042 | | | | | | **3,432** |
| – deferred tax assets | –1,872 | | | | | | **–2,723** |
| | 2,170 | | | | | | **709** |

In 2006, the deferred tax changes through equity includes a deferred tax charge of EUR –1,583 million relating to unrealised valuations, EUR –242 million relating to changes in the cash flow hedge reserve, EUR 486 million relating to transfers to insurance liabilities and DAC, and nil relating to stock options and share plans. These items are presented in the Deferred tax by origin table in investments and insurance provisions respectively. Other changes in deferred tax are included in the profit and loss.

# Notes to the consolidated balance sheet of ING Group (continued)

**Deferred tax in connection with unused tax losses carried forward**

| | 2007 | 2006 |
|---|---|---|
| Total unused tax losses carried forward | **3,814** | 3,977 |
| Unused tax losses carried forward not recognised as a deferred tax asset | **–688** | –953 |
| Unused tax losses carried forward recognised as a deferred tax asset | **3,126** | 3,024 |
| | | |
| Average tax rate | **29.8%** | 30.1% |
| Deferred tax asset | **932** | 909 |

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 | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Within 1 year | **64** | 16 | **41** | 30 |
| More than 1 year but less than 5 years | **176** | 156 | **249** | 424 |
| More than 5 years but less than 10 years | **230** | 47 | **610** | 347 |
| More than 10 years but less than 20 years | **71** | 247 | **1,010** | 1,045 |
| Unlimited | **147** | 487 | **1,216** | 1,178 |
| | **688** | 953 | **3,126** | 3,024 |

**Changes in reorganisation and other provisions**

| | Reorganisation | | Other | | Total | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Opening balance | **335** | 356 | **720** | 825 | **1,055** | 1,181 |
| Changes in the composition of the group | | –6 | **60** | 4 | **60** | -2 |
| Additions | **507** | 96 | **359** | 269 | **866** | 365 |
| Interest | **9** | 3 | | 4 | **9** | 7 |
| Releases | **–62** | –49 | **–149** | –36 | **–211** | –85 |
| Charges | **–175** | –174 | **–219** | –238 | **–394** | –412 |
| Exchange rate differences | **–3** | –1 | **–7** | –15 | **–10** | –16 |
| Other changes | **8** | 110 | **17** | –93 | **25** | 17 |
| Closing balance | **619** | 335 | **781** | 720 | **1,400** | 1,055 |

The provision for reorganisations at 31 December 2007 includes EUR 252 million for the restructuring of the retail business of Postbank and ING Bank and EUR 100 million for the global wholesale restructuring. The remaining term of the provision for reorganisations is generally not more than 5 years.

Included in Other provisions is a provision for a loss of EUR 129 million relating to the agreed disposal of NRG as disclosed in Note 29 'Companies acquired and companies disposed'.

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

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

**Pension and post-employment liabilities**

The Group 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. The benefits in some of these plans are subject to various forms of indexation. The indexation is, in some cases, at the discretion of management; in other cases it is dependent upon the sufficiency of plan assets.

Annual contributions are paid to the funds at a rate necessary to adequately finance the accrued liabilities of the plans calculated in accordance with local legal requirements. Plans in all countries comply with applicable local regulations concerning investments and funding levels.
The Group provides other post-employment employee benefits to certain employees and former employees. These are primarily post-

employment healthcare benefits and discounts on ING products provided to employees and former employees.

Certain group companies sponsor defined contribution pension plans. The assets of all ING Group's defined contribution plans are held in independently administered funds. Contributions are generally determined as a percentage of pay. These plans do not give rise to balance sheet provisions, other than relating to short-term timing differences included in current liabilities. The amount incurred in 2007 was EUR 68 million (2006: EUR 45 million).

**Summary of pension and post-employment liabilities**

| | | Pension benefits | | | Post-employment benefits other than pensions | | | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Defined benefit obligation | **14,499** | 15,758 | 15,782 | **220** | 239 | 441 | **14,719** | 15,997 | 16,223 |
| Fair value of plan assets | **14,708** | 14,361 | 12,937 | | | | **14,708** | 14,361 | 12,937 |
| | **–209** | 1,397 | 2,845 | **220** | 239 | 441 | **11** | 1,636 | 3,286 |
| | | | | | | | | | |
| Unrecognised past service costs | **–3** | | | **4** | 10 | –6 | **1** | 10 | –6 |
| Unrecognised actuarial gains/(losses) | **198** | –687 | –1,778 | **8** | –2 | –27 | **206** | –689 | –1,805 |
| | **–14** | 710 | 1,067 | **232** | 247 | 408 | **218** | 957 | 1,475 |
| | | | | | | | | | |
| Presented as: | | | | | | | | | |
| – Other liabilities | **425** | 961 | 1,067 | **232** | 247 | 408 | **657** | 1,208 | 1,475 |
| – Other assets | **–439** | –251 | | | | | **–439** | –251 | |
| | **–14** | 710 | 1,067 | **232** | 247 | 408 | **218** | 957 | 1,475 |

Actuarial gains and losses for the year ended 31 December 2007 includes EUR –789 million (2006: EUR –180 million; 2005: EUR 873 million) experience gain adjustments for assets and EUR 83 million (2006: EUR –163 million; 2005: EUR 116 million) experience gain adjustments for liabilities.

During 2006 certain plans were reclassified from Other to Pension benefits. This reclassification did not have an effect on total pension liabilities and other staff related liabilities. This reclassification is included in the line Changes in the composition of the group and other changes in the tables below.

**Changes in defined benefit obligations**

| | | Pension benefits | | Post-employment benefits other than pensions |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Opening balance | **15,758** | 15,782 | **239** | 441 |
| Current service cost | **408** | 417 | **11** | 13 |
| Interest cost | **739** | 703 | **13** | 11 |
| Employer's contribution | | | | 1 |
| Participants contributions | **2** | –22 | | 5 |
| Benefits paid | **–556** | –493 | **–13** | –44 |
| Actuarial gains and losses | **–1,727** | –1,199 | **–8** | –25 |
| Past service cost | **–83** | 18 | | –5 |
| Changes in the composition of the group and other changes | **207** | 727 | **–11** | 4 |
| Effect of curtailment or settlement | **–32** | –6 | | –147 |
| Exchange rate differences | **–217** | –169 | **–11** | –15 |
| Closing balance | **14,499** | 15,758 | **220** | 239 |
| | | | | |
| Relating to: | | | | |
| – funded plans | **14,441** | 15,675 | | |
| – unfunded plans | **58** | 83 | **220** | 239 |
| | **14,499** | 15,758 | **220** | 239 |

The estimated unrecognised past services cost and unrecognised actuarial gains and losses for the defined benefit plans that will be amortised into pension and other staff related liability costs during 2008 are nil and nil, respectively.

# Notes to the consolidated balance sheet of ING Group (continued)

**Changes in fair value of plan assets**

| | Pension benefits 2007 | 2006 |
|---|---|---|
| Opening balance | **14,361** | 12,937 |
| Expected return on plan assets | **869** | 820 |
| Employer's contribution | **816** | 776 |
| Participants contributions | **6** | 5 |
| Benefits paid | **–540** | –476 |
| Actuarial gains and losses | **–789** | –180 |
| Changes in the composition of the group and other changes | **176** | 597 |
| Exchange rate differences | **–191** | –118 |
| Closing balance | **14,708** | 14,361 |

The actual return on the plan assets amounted to EUR 80 million (2006: EUR 613 million).

It is not expected that any plan assets are returned to ING Group during 2008.

*Pension Investment Strategy*
The primary financial objective of ING Employee Benefit Plans (the Plans) is to secure participant retirement benefits. As such, the key objective in the Plans financial management is to promote stability and, to the extent appropriate, growth in funded status (i.e. the ratio of market value of assets to liabilities). The investment strategy for the Plans portfolios of assets (the Funds) balances the requirement to generate returns with the need to control risk. The asset mix is recognised as the primary mechanism to influence the reward and risk structure of the Funds in an effort to accomplish the Plans funding objectives. Desirable target allocations amongst identified asset classes are set and within each asset class, careful consideration is given to balancing the portfolios among industry sectors, geographical areas, interest rate sensitivity, dependence on economic growth, currency and other factors affecting investment returns. The assets are managed by professional investment firms. They are bound by precise mandates and are measured against specific benchmarks. Factors considered by the fund managers include balancing security concentration, investment style, and reliance on particular active investment strategies. The asset mixes of the funds are reviewed on a regular basis. Generally, the funds asset mixes will be rebalanced to the target mixes as individual portfolios approach their minimum or maximum levels.

**Categories of plan assets in percentages**

| | Target allocation 2008 | Percentage of plan assets 2007 | 2006 | Weighted average expected long term rate of return 2007 | 2006 |
|---|---|---|---|---|---|
| Equity securities | **34** | **33** | 37 | **8.1** | 8.1 |
| Debt securities | **53** | **52** | 52 | **4.7** | 5.2 |
| Other | **13** | **15** | 11 | **6.5** | 7.1 |
| | **100** | **100** | 100 | **6.2** | 6.5 |

Equity securities include ING Group ordinary shares of EUR 5 million (0.1% of total plan assets) at 31 December 2007 (2006: EUR 14 million, 0.1% of total plan assets). Real estate, which is included in Other, includes nil (0.0% of total plan assets) at 31 December 2007 which was occupied by the Group (2006: nil, 0.0% 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 Plans asset allocations, historical returns on the types of assets held in the Funds, and the current economic environment. Based on these factors, it is expected that the Funds assets will earn an average 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 Funds. For estimation purposes, it is assumed the long term asset mixes will be consistent with the current mixes. Changes in the asset mixes could impact the amount of recorded pension income or expense, the funded status of the Plans, and the need for future cash contributions.

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

| | Pension benefits 2007 | 2006 | Post-employment benefits other than pensions 2007 | 2006 |
|---|---|---|---|---|
| Discount rates | **5.60** | 4.80 | **5.70** | 5.40 |
| Expected rates of salary increases (excluding promotion increases) | **2.80** | 2.75 | **3.20** | 3.50 |
| Medical cost trend rates | | | **7.00** | 6.10 |
| Consumer price inflation | **2.10** | 2.00 | **2.30** | 2.25 |

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 4 million at 31 December 2007 (2006: EUR 2 million) and nil increase in the charge for the year (2006: nil). A decrease of 1% in the medical cost trend rate for each future year would have resulted in lower defined benefit obligation of EUR 4 million at 31 December 2007 (2006: EUR 2 million) and nil decrease in the charge for the year (2006: nil).

*Expected Cash Flows*
During 2008 the expected contributions to pension plans are EUR 633 million (2007: EUR 904 million).

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

**Benefit payments**

| | **Pension benefits** | **Post-employment benefits other than pensions** |
|---|---|---|
| 2008 | **437** | **9** |
| 2009 | **466** | **9** |
| 2010 | **498** | **10** |
| 2011 | **514** | **10** |
| 2012 | **526** | **10** |
| Years 2013 – 2017 | **2,239** | **75** |

# Additional information to the consolidated balance sheet of ING Group, amounts in millions of euros, unless stated otherwise

## 22 ASSETS AND LIABILITIES BY CONTRACTUAL MATURITY

**Assets and liabilities by contractual maturity**

| 2007 | Less than 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Maturity not applicable | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and balances with central banks | 12,406 | | | | | | 12,406 |
| Amounts due from banks | 25,939 | 5,736 | 8,705 | 6,591 | 1,904 | | 48,875 |
| Financial assets at fair value through profit and loss | | | | | | | |
| – trading assets [(1)] | | | | | | 193,213 | 193,213 |
| – investments for risk of policyholders [(2)] | | | | | | 114,827 | 114,827 |
| – non-trading derivatives | 403 | 115 | 758 | 2,651 | 3,708 | 2 | 7,637 |
| – designated as at fair value through profit and loss | 1,504 | 610 | 1,894 | 1,999 | 5,043 | 403 | 11,453 |
| Investments | | | | | | | |
| – available-for-sale | 4,184 | 7,016 | 13,267 | 71,107 | 135,992 | 44,331 | 275,897 |
| – held-to-maturity | 232 | 287 | 1,093 | 8,504 | 6,637 | | 16,753 |
| Loans and advances to customers | 131,610 | 17,234 | 26,654 | 93,545 | 280,738 | 3,183 | 552,964 |
| Reinsurance contracts | 21 | 36 | 308 | 307 | 2,725 | 2,477 | 5,874 |
| Intangible assets | 2 | 4 | 111 | 391 | 1,120 | 4,112 | 5,740 |
| Deferred acquisition costs | | | | | | 10,692 | 10,692 |
| Other assets | 14,399 | 2,771 | 15,838 | 4,195 | 2,845 | 51 | 40,099 |
| Remaining assets (where maturities are not applicable) [(3)] | | | | | | 16,080 | 16,080 |
| Total assets | 190,700 | 33,809 | 68,628 | 189,290 | 440,712 | 389,371 | 1,312,510 |
| | | | | | | | |
| **LIABILITIES** | | | | | | | |
| Preference shares | | | | | | 21 | 21 |
| Subordinated loans | | | | | | 7,325 | 7,325 |
| Debt securities in issue | 22,277 | 13,899 | 6,210 | 14,787 | 9,822 | | 66,995 |
| Other borrowed funds | 434 | 4,847 | 916 | 7,059 | 13,802 | | 27,058 |
| Insurance and investment contracts | 1,855 | 3,907 | 10,712 | 33,854 | 97,244 | 118,140 | 265,712 |
| Amounts due to banks | 117,179 | 28,758 | 12,935 | 6,862 | 1,238 | | 166,972 |
| Customer deposits and other funds on deposit | 463,995 | 23,988 | 26,864 | 8,369 | 2,000 | | 525,216 |
| Financial liabilities at fair value through profit and loss | | | | | | | |
| – trading liabilities [(1)] | | | | | | 148,988 | 148,988 |
| – non-trading derivatives | 255 | 317 | 521 | 2,937 | 2,921 | | 6,951 |
| – designated as at fair value through profit and loss | 873 | 771 | 2,395 | 5,912 | 3,931 | | 13,882 |
| Other liabilities | 14,292 | 4,920 | 12,067 | 6,420 | 2,844 | 3,316 | 43,859 |
| Total liabilities | 621,160 | 81,407 | 72,620 | 86,200 | 133,802 | 277,790 | 1,272,979 |

[(1)] Trading assets and trading liabilities have been presented in the above table as maturity not applicable, because they are held for short term profit taking. The majority of items are debt instruments and equity instruments, where the contractual maturity is generally more than 5 years.

[(2)] Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of ING.

[(3)] Included in remaining assets where maturities are not applicable are:
- property and equipment
- real estate investments
- investments in associates.

Note: Due to their nature remaining assets consists mainly of assets expected to be recovered after more than 12 months.

**Assets and liabilities by contractual maturity**

| 2006 | Less than 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Maturity not applicable | Total |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and balances with central banks | 14,326 | | | | | | 14,326 |
| Amounts due from banks | 19,742 | 5,441 | 2,619 | 7,277 | 4,789 | | 39,868 |
| Financial assets at fair value through profit and loss | | | | | | | |
| – trading assets [(1)] | | | | | | 193,977 | 193,977 |
| – investments for risk of policyholders [(2)] | | | | | | 110,547 | 110,547 |
| – non-trading derivatives | 140 | 126 | 314 | 2,263 | 3,672 | 6 | 6,521 |
| – designated as at fair value through profit and loss | 187 | 420 | 1,435 | 874 | 3,509 | | 6,425 |
| Investments | | | | | | | |
| – available-for-sale | 6,399 | 7,522 | 11,626 | 76,959 | 148,254 | 43,161 | 293,921 |
| – held-to-maturity | 87 | 154 | 563 | 7,683 | 9,173 | | 17,660 |
| Loans and advances to customers | 107,295 | 13,919 | 23,795 | 84,601 | 241,539 | 3,288 | 474,437 |
| Reinsurance contracts | 23 | 60 | 440 | 571 | 2,281 | 3,154 | 6,529 |
| Intangible assets | | | 71 | 143 | | 3,308 | 3,522 |
| Deferred acquisition costs | | | | | | 10,163 | 10,163 |
| Other assets | 9,365 | 1,801 | 10,167 | 8,309 | 922 | 499 | 31,063 |
| Remaining assets (where maturities are not applicable) [(3)] | | | | | | 17,348 | 17,348 |
| Total assets | 157,564 | 29,443 | 51,030 | 188,680 | 414,139 | 385,451 | 1,226,307 |
| | | | | | | | |
| **LIABILITIES** | | | | | | | |
| Preference shares | | | | | | 215 | 215 |
| Subordinated loans | | | | | | 6,014 | 6,014 |
| Debt securities in issue | 17,580 | 26,946 | 9,803 | 13,701 | 10,103 | | 78,133 |
| Other borrowed funds | 2,636 | 4,475 | 1,837 | 9,987 | 10,704 | | 29,639 |
| Insurance and investment contracts | 2,327 | 3,556 | 11,677 | 34,003 | 103,524 | 113,596 | 268,683 |
| Amounts due to banks | 90,250 | 15,094 | 10,879 | 4,077 | 539 | | 120,839 |
| Customer deposits and other funds on deposit | 447,824 | 15,374 | 16,690 | 12,197 | 4,595 | | 496,680 |
| Financial liabilities at fair value through profit and loss | | | | | | | |
| – trading liabilities [(1)] | | | | | | 127,975 | 127,975 |
| – non-trading derivatives | 93 | 95 | 331 | 1,786 | 2,591 | 38 | 4,934 |
| – designated as at fair value through profit and loss | 617 | 581 | 2,081 | 6,285 | 4,138 | | 13,702 |
| Other liabilities | 8,562 | 714 | 5,117 | 6,300 | 1,229 | 16,356 | 38,278 |
| Total liabilities | 569,889 | 66,835 | 58,415 | 88,336 | 137,423 | 264,194 | 1,185,092 |

[(1)] Trading assets and trading liabilities have been presented in the above table as maturity not applicable, because they are held for short term profit taking. The majority of items are debt instruments and equity instruments, where the contractual maturity is generally more than 5 years.
[(2)] Investments for risk of policyholders are managed on behalf of policyholders on a fair value basis. Although individual instruments may (or may not) have a maturity depending on their nature, this does not impact the liquidity position of ING.
[(3)] Included in remaining assets where maturities are not applicable are:
– property and equipment
– real estate investments
– investments in associates.
Note: Due to their nature remaining assets consists mainly of assets expected to be recovered after more than 12 months.

## 23 DERIVATIVES AND HEDGE ACCOUNTING

### Use of derivatives and hedge accounting

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

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

# Additional information to the consolidated balance sheet of ING Group (continued)

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

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

**Fair value hedge accounting**
ING Group's fair value hedges principally consist of interest rate swaps and cross-currency interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates.

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

For the year ended 31 December 2007, ING Group recognised in the profit and loss account EUR 697 million (2006: EUR 41 million) of fair value changes on derivatives designated under fair value hedge accounting. This amount was partly offset by EUR 663 million (2006: EUR –8 million) fair value changes recognised on hedged items. This resulted in EUR 34 million (2006: EUR 49 million) net accounting ineffectiveness recognised in the profit and loss account. At 31 December 2007, the fair values of outstanding derivatives designated under fair value hedge accounting was EUR 994 million (2006: EUR 474 million), presented in the balance sheet as EUR 1,952 million (2006: EUR 1,080 million) positive fair values under assets and EUR 958 million (2006: EUR 606 million) negative fair values under liabilities.

ING Group applies fair value hedge accounting for portfolio hedges of interest rate risk (macro hedging) under the EU 'carve out' of IFRS-EU. The EU 'carve-out' macro hedging enables a group of derivatives (or proportions) to be viewed in combination and jointly designated as the hedging instrument and removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies. Under the IFRS-EU 'carve-out', hedge accounting may be applied to core deposits and ineffectiveness only arises when the revised estimate of the amount of cash flows in scheduled time buckets falls below the designated amount of that bucket.

**Cash flow hedge accounting**
ING Group's cash flow hedges principally consist of (forward) interest rate swaps and cross-currency interest rate swaps that are used to protect against its exposure to variability in future interest cash flows on non-trading assets and liabilities that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across for the respective portfolios form the basis for identifying the notional amount subject to interest rate risk that is designated under cash flow hedge accounting.

Gains and losses on the effective portions of derivatives designated under cash flow hedge accounting are recorded in Shareholders' equity. Interest cash flows on these derivatives are recognised in the profit and loss account in interest income consistently with the manner in which the forecast cash flows affect net profit. The gains and losses on ineffective portions of such derivatives are recognised immediately in the profit and loss account.

For the year ended 31 December 2007, ING Group recognised EUR –925 million (2006: EUR –690 million) after tax in equity as effective fair value changes on derivatives under cash flow hedge accounting. As a consequence, the balance of the cash flow hedge reserve in equity at 31 December 2007 was EUR 463 million (2006: EUR 1,819 million) gross and EUR 431 million (2006: EUR 1,356 million) after deferred tax. This cash flow hedge reserve will fluctuate with the fair value changes on the underlying derivatives and will be reflected in the profit and loss account under Interest income/expense over the remaining term of the underlying hedged items. The cash flow hedge reserve relates to a large number of derivatives and hedged items with varying maturities, up to 40 years for insurance operations and 21 years for banking operations, with the largest concentration in the range of 20 to 25 years for insurance operations and 5 to 10 years for banking operations. Accounting ineffectiveness on derivatives designated under cash flow hedge accounting of EUR –9 million (2006: EUR –7 million) was recognised in the profit and loss account.

At 31 December 2007, the fair values of outstanding derivatives designated under cash flow hedge accounting was EUR 229 million (2006: EUR 1,921 million), presented in the balance sheet as EUR 3,417 million (2006: EUR 3,617 million) positive fair values under assets and EUR 3,188 million (2006: EUR 1,696 million) negative fair values under liabilities.

At 31 December 2007 and 31 December 2006, there were no non-derivatives designated as hedging instruments for cash flow hedge accounting purposes.

Included in Interest income and interest expense on non-trading derivatives is EUR 2,317 million (2006: EUR 3,440 million) and EUR 2,042 million (2006: EUR 3,097 million) respectively relating to derivatives used in cash flow hedges.

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

Gains and losses on the effective portions of derivatives designated under net investment hedge accounting are recorded in Shareholders' equity. The balance in equity is recognised in the profit and loss account when the related foreign subsidiary is disposed. The gains and losses on ineffective portions are recognised immediately in the profit and loss account.

At 31 December 2007, the fair values of outstanding derivatives designated under net investment hedge accounting was EUR –71 million (2006: EUR –4 million), presented in the balance sheet as EUR 281 million (2006: EUR 3 million) positive fair values under assets and EUR 352 million (2006: EUR 7 million) negative fair values under liabilities.

At 31 December 2007, the fair values of outstanding non-derivatives designated under net investment hedge accounting was EUR –1,318 million (2006: EUR –1,520 million), presented in the balance sheet as negative fair values under liabilities. Non-derivatives designated as hedging instruments consist mainly of loan agreements.

Accounting ineffectiveness recognised in the profit and loss account for the year ended 31 December 2007 on derivatives and non-derivatives designated under net investment hedge accounting was EUR –14 million (2006: EUR –12 million).

# Additional information to the consolidated balance sheet of ING Group (continued)

## 24 MAXIMUM CREDIT EXPOSURE

ING's maximum credit exposure as at 31 December 2007 and 2006 is represented as follows:

**Maximum credit exposure**

| | 2007 | 2006 |
|---|---|---|
| Cash and balances with central banks | 12,406 | 14,326 |
| Amounts due from banks | | |
| – loans and advances to banks | 45,790 | 36,411 |
| – cash advances, overdrafts and other balances | 3,098 | 3,461 |
| Trading assets | | |
| – debt securities | 37,345 | 38,287 |
| – loans and receivables | 116,164 | 118,459 |
| – derivatives | 28,592 | 22,514 |
| Non-trading derivatives | 7,637 | 6,521 |
| Designated as at fair value through profit and loss | 11,453 | 6,425 |
| Available-for-sale debt securities | 255,950 | 275,696 |
| Held-to-maturity debt securities | 16,753 | 17,660 |
| Loans and advances to customers | | |
| – policy loans | 3,468 | 3,566 |
| – public authorities | 23,638 | 25,951 |
| – secured by mortgages | 290,933 | 235,812 |
| – guaranteed by credit institutions | 2,528 | 2,402 |
| – personal loans | 5,453 | 4,649 |
| – other personal lending | 24,204 | 22,141 |
| – other corporate lending | 204,528 | 181,939 |
| – other | 1,351 | 1,517 |
| Reinsurance contracts | 5,874 | 6,529 |
| Reinsurance and insurance receivables | 3,664 | 4,105 |
| Other receivables | 10,389 | 5,572 |
| Maximum credit exposure on balance sheet | 1,111,218 | 1,033,943 |
| | | |
| Off-balance sheet credit commitments | | |
| – commitments – Insurance | 4,477 | 4,636 |
| – guarantees – Insurance | 173 | 319 |
| – discounted bills – Bank | 1 | 3 |
| – guarantees – Bank | 19,018 | 17,297 |
| – irrevocable letters of credit – Bank | 11,551 | 8,456 |
| – other – Bank | 350 | 623 |
| – irrevocable facilities | 100,707 | 90,384 |
| Maximum credit exposure off balance sheet | 136,277 | 121,718 |
| | | |
| Maximum credit exposure | 1,247,495 | 1,155,661 |

The maximum credit exposure for relevant items on the balance sheet is the balance sheet carrying value for the relevant financial assets. For the off-balance sheet items the maximum credit exposure is the maximum amount that could be required to be paid. Collateral received is not taken into account.

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

## 25 ASSETS NOT FREELY DISPOSABLE

The assets not freely disposable primarily consist of interest bearing securities pledged to secure deposits from De Nederlandsche Bank (the Dutch Central Bank) and other banks, serve to secure margin accounts or are used for other purposes required by law. The assets not freely disposable and the items for which they are held are as follows:

**Assets not freely disposable**

| | Customer deposits and other funds on deposit and debt securities in issue | | Banks | | Other contingent liabilities | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| Investments | **1,601** | 2,686 | **3,803** | 4,483 | **403** | 590 | **5,807** | 7,759 |
| Loans and advances to customers | **130** | 548 | **781** | 2 | | 96 | **911** | 646 |
| Banks | | 8 | **1,596** | 1,100 | **6** | 7 | **1,602** | 1,115 |
| Other assets | **3,816** | 3,700 | **652** | 1,016 | **141** | 532 | **4,609** | 5,248 |
| | **5,547** | 6,942 | **6,832** | 6,601 | **550** | 1,225 | **12,929** | 14,768 |

Banks includes Amounts due from banks and balances with central banks. ING Bank N.V. has an obligation to maintain a reserve with an average monthly balance with the Dutch Central Bank. In December 2007 the required monthly average was EUR 5,676 million (2006: EUR 5,295 million). On 31 December 2007 the balance on this reserve was EUR 1,375 million (2006: EUR 4,076 million).

There are no material terms and conditions relating to the collateral represented in the above table which are individually significant.

## 26 CONTINGENT LIABILITIES AND COMMITMENTS

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

**Contingent liabilities and commitments**

| | **2007** | 2006 |
|---|---|---|
| **Insurance operations** | | |
| Commitments | **4,477** | 4,636 |
| Guarantees | **173** | 319 |
| | **4,650** | 4,955 |
| | | |
| **Banking operations** | | |
| Contingent liabilities in respect of | | |
| – discounted bills | **1** | 3 |
| – guarantees | **19,018** | 17,297 |
| – irrevocable letters of credit | **11,551** | 8,456 |
| – other | **350** | 623 |
| | **30,920** | 26,379 |
| | | |
| Irrevocable facilities | **100,707** | 90,384 |
| | **136,277** | 121,718 |

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

Irrevocable letters of credit mainly secure payments to third parties for a customer's foreign and domestic trade transactions in order to finance a shipment of goods. ING Group's credit risk in these transactions is limited since these transactions are collateralised by the commodity shipped and are of a short duration.

Other contingent liabilities include acceptances of bills and are of a short-term nature. Also included in Other contingent liabilities are contingent liabilities resulting from the normal operations of the Real Estate business including obligations under development and construction contracts. None of the items included in Other contingent liabilities are individually significant.

# Additional information to the consolidated balance sheet of ING Group (continued)

Irrevocable facilities mainly constitute unused portions of irrevocable credit facilities granted to corporate clients. Many of these facilities are for a fixed duration and bear interest at a floating rate. ING Group's credit risk and interest rate risk in these transactions is limited. Most of the unused portion of irrevocable credit facilities is secured by customers' assets or counter-guarantees by the central governments and exempted bodies under the regulatory requirements. Irrevocable facilities also include commitments made to purchase securities to be issued by governments and private issuers.

**Future rental commitments for operating lease contracts**

| | |
|---|---|
| 2008 | **213** |
| 2009 | **206** |
| 2010 | **185** |
| 2011 | **170** |
| 2012 | **156** |
| years after 2012 | **339** |

## 27 SPECIAL PURPOSE ENTITIES AND SECURITISATION

### Securitisation

*ING as originator*

ING Group enters into synthetic securitisation programmes in order to reduce credit risk on certain assets. In synthetic securitisations ING enters into a credit default swap with securitisation Special Purpose Entities (SPEs), in relation to which ING purchases credit protection in respect of residential mortgage loans and loans to small and medium-sized enterprises. The SPEs have in turn hedged their exposure with investors through the issue of credit linked notes or credit linked commercial paper. As a result of these transactions, ING Group has transferred a substantial part of the credit risk related to these loan portfolios to third-party investors. In general, the third-party investors in securities issued by the SPE have recourse only to the assets of the SPE and not to ING Group.

After securitisation of these assets ING Group continues to recognise these assets on its balance sheet under Loans and advances to customers.

**Assets under synthetic securitisation programmes**

| | **2007** | 2006 |
|---|---|---|
| Loans to small and medium-sized enterprises | **8,946** | 8,859 |
| Asset backed securities | | 7,126 |
| Corporate loans | **430** | 4,851 |
| Mortgages | **6,488** | 7,978 |
| Total | **15,864** | 28,814 |

The winding down of two conduits in 2007 caused a decrease in Assets under securitisation programmes amounting to EUR 10,968 million.

*ING as sponsor of multi-seller conduit*

In the normal course of business, ING Group structures financing transactions for its clients by assisting them in obtaining sources of liquidity by selling the clients' receivables or other financial assets to an SPE. The SPE issues asset-backed commercial paper to the market to fund the purchases. ING Group, in its role as administrative agent, facilitates these transactions by providing structuring, accounting, funding and operations services.

ING Group supports the commercial paper programmes by providing the SPE with short-term standby liquidity facilities. Primarily these liquidity facilities are meant to cover temporarily disruptions in the commercial paper market. Once drawn these facilities bear normal credit risk. A number of programs are supported by granting structured liquidity facilities to the SPE, in which ING Group covers at least some of the credit risk incorporated in these programs itself (in addition to normal liquidity facilities), and as a consequence might suffer credit losses from it. Furthermore, under a Program Wide Credit Enhancement ING Group guarantees to a limited amount all remaining losses incorporated in the SPE to the commercial paper investors. All facilities, which vary in risk profile, are granted to the SPE subject to normal ING Group analysis procedures regarding credit risk and liquidity risk. The fees received for services provided and for facilities are charged on market conditions.

The normal non-structured standby liquidity facilities and the structured facilities are reported under irrevocable facilities.

*Collateralised debt obligations (CDO)-transactions*
Within ING Group, SPEs are used for CDO transactions. In a typical CDO transaction an SPE is used to issue structured, rated securities which are backed (or collateralised) by a pool of transferable debt securities. Besides investing in CDOs ING often has different roles in these transactions:
- the arranger of the transaction; ING structures the SPE, acquires the assets for the SPE and sells the CDOs to investors;
- collateral manager of the assets in the SPE; ING manages the assets based on strict conditions of the SPEs charter.

ING Group receives market-rate fees for structuring, (asset) managing and distributing CDO-securities to investors. The total amount of these fees is not significant.

*ING as investor*
As part of its investment activities ING invests in securitisations by purchasing notes from securitisation SPEs. For certain own asset securitisation programs ING acts as a market maker and holds limited positions in this capacity.

Non-cash investments are made by ING by selling credit protection in the market using credit default swaps.

**Other entities**
ING Group is also a party in other SPEs used, for example, in structured finance and leasing transactions.

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

*ING as fund manager*
ING acts as fund manager for several funds. Fees related to these management activities are charged on an arm's-length basis. In general, ING as fund manager will hold these funds in a fiduciary capacity. Therefore, these funds are generally not included in the consolidated financial statement of the Group.

# Additional information to the consolidated balance sheet of ING Group (continued)

**28 PRINCIPAL SUBSIDIARIES**

The principal subsidiaries of ING Groep N.V. are as follows:

| **Companies treated as part of the insurance operations** | |
|---|---|
| ING Verzekeringen N.V. | The Netherlands |
| ING Verzekeringen Nederland N.V. | The Netherlands |
| ING Vastgoed Belegging B.V. | The Netherlands |
| Nationale-Nederlanden Levensverzekering Maatschappij N.V. | The Netherlands |
| Nationale-Nederlanden Schadeverzekering Maatschappij N.V. | The Netherlands |
| Parcom Ventures B.V. | The Netherlands |
| Postbank Levensverzekering N.V. | The Netherlands |
| Postbank Schadeverzekering N.V. | The Netherlands |
| RVS Levensverzekering N.V. | The Netherlands |
| RVS Schadeverzekering N.V. | The Netherlands |
| Movir N.V. | The Netherlands |
| ING Zivotna Poistovna a.s. | Slovakia |
| ING Nationale-Nederlanden Polska S.A. | Poland |
| ING Nationale-Nederlanden Polska Powszechne Towarzystwo Emerytaine S.A. | Poland |
| ING Asigurari de Viata S.A. | Romania |
| ING Greek Life Insurance Company S.A. | Greece |
| ING Greek General Insurance Company S.A. | Greece |
| ING Nationale-Nederlanden Magyarorszagi Biztosito Rt. | Hungary |
| Nationale Nederlanden Vida, Compañia de Seguros y Reaseguros S.A. | Spain |
| Nationale Nederlanden Generales, Compañia de Seguros y Reaseguros S.A. | Spain |
| ING Canada Inc. | Canada |
| Belair Insurance Company Inc. | Canada |
| ING Insurance Company of Canada | Canada |
| ING Novex Insurance Company of Canada | Canada |
| ING America Insurance Holdings, Inc. | U.S.A. |
| ING International Insurance Holdings, Inc. | U.S.A. |
| ING Life Insurance and Annuity Company | U.S.A. |
| ING North America Insurance Corporation | U.S.A. |
| Lion Connecticut Holdings Inc. | U.S.A. |
| ReliaStar Life Insurance Company | U.S.A. |
| ReliaStar Life Insurance Company of New York | U.S.A. |
| Security Life of Denver Insurance Company | U.S.A. |
| ING USA Annuity and Life Insurance Company | U.S.A. |
| ING Seguros de Vida S.A. | Chile |
| ING Afore S.A. de C.V. | Mexico |
| Seguros Comercial America S.A. de C.V. | Mexico |
| ING Life Insurance Company (Japan) Limited | Japan |
| ING Life Insurance Company (Korea) Limited | South Korea |
| ING Life Insurance Company of America | U.S.A. |
| ING Australia Holdings Limited | Australia |
| ING Australia Pty Limited | Australia |
| ING Re (Netherlands) N.V. | The Netherlands |

**Companies treated as part of the banking operations**

| | |
|---|---|
| ING Bank N.V. | The Netherlands |
| ING Bank Nederland N.V. | The Netherlands |
| Bank Mendes Gans N.V. | The Netherlands |
| ING Lease Holding B.V. | The Netherlands |
| ING Corporate Investments B.V. | The Netherlands |
| ING Vastgoed Management Holding B.V. | The Netherlands |
| InterAdvies N.V. | The Netherlands |
| Nationale-Nederlanden Financiële Diensten B.V. | The Netherlands |
| ING Commercial Finance B.V. | The Netherlands |
| Postbank N.V. | The Netherlands |
| Postbank Groen N.V. | The Netherlands |
| Westland Utrecht Hypotheekbank N.V. | The Netherlands |
| ING België N.V. | Belgium |
| ING Bank Slaski S.A. | Poland |
| ING Bank Deutschland A.G. | Germany |
| ING Financial Holdings Corporation | U.S.A. |
| ING Middenbank Curaçao N.V. | Netherlands Antilles |
| ING Vysya Bank Ltd. | India |
| ING Direct N.V. | Canada, Germany, Spain, Australia, France, U.S.A., Italy, U.K. |
| Oyak Bank A.S. | Turkey |

# Additional information to the consolidated balance sheet of ING Group (continued)

## 29 COMPANIES ACQUIRED AND COMPANIES DISPOSED

The initial accounting for the fair value of the net assets of the companies acquired during the year has been determined only provisionally at 31 December 2007 given the proximity of the dates of acquisition to the year end. Also, the analysis of the contributory factors relating to goodwill will only be performed once the final values have been determined. The initial accounting shall be completed within a year of acquisition in accordance with IFRS 3 and the policies, procedures and risk management of the companies acquired shall be brought in line with ING during 2008.

**Most significant companies acquired in 2007**

| | Landmark | Latin American Pension business of Santander | Oyak Bank | Sharebuilder Corporation | Total |
|---|---|---|---|---|---|
| **General** | | | | | |
| Primary line of business | Insurance | Insurance | Bank | Bank | |
| | | | | | |
| Date of acquisition | 31 July 2007 | 4 December 2007 | 31 December 2007 | 15 November 2007 | |
| | | | | | |
| Percentage of voting shares acquired | 100% | 100% | 100% | 100% | |
| | | | | | |
| **Purchase price** | | | | | |
| Purchase price | 255 | 692 | 1,903 | 152 | 3,002 |
| Costs directly attributable to the acquisition | 2 | 8 | 2 | 1 | 13 |
| Cash purchase price | 257 | 700 | 1,905 | 153 | 3,015 |
| | | | | | |
| Cash in company acquired | 29 | 28 | 75 | 12 | 144 |
| Cash outflow on acquisition (2) | 228 | 672 | 1,830 | 141 | 2,871 |
| | | | | | |
| **Assets** | | | | | |
| Cash assets | 29 | 28 | 75 | 12 | 144 |
| Investments | | 86 | 1,332 | | 1,418 |
| Loans and advances to customers | | | 4,824 | 15 | 4,839 |
| Amounts due from banks | | | 508 | | 508 |
| Financial assets at fair value through profit and loss | | 520 | 41 | 2 | 563 |
| Intangible assets | | 154 | 236 | | 390 |
| Miscellaneous other assets | 18 | 85 | 474 | 80 | 657 |
| | | | | | |
| **Liabilities** | | | | | |
| Insurance and investment contracts | | 500 | | | 500 |
| Amounts due to banks | | | 632 | | 632 |
| Customer deposits and other funds on deposit | | | 5,369 | | 5,369 |
| Miscellaneous other liabilities | | 182 | 601 | 51 | 834 |
| Net assets | 47 | 191 | 888 | 58 | 1,184 |
| Minority interests | | | | | |
| Net assets acquired | 47 | 191 | 888 | 58 | 1,184 |
| | | | | | |
| Goodwill recognised (1) | 208 | 501 | 1,015 | 94 | 1,818 |
| | | | | | |
| Profit since date of acquisition | 1 | 8 | | –1 | 8 |
| Income if acquisition effected at start of year | 15 | 209 | | 38 | 262 |
| Profit if acquisition effected at start of year (3) | 4 | 46 | 80 | –2 | 128 |

(1) Goodwill recognised in 2007 on immaterial acquisitions and real estate portfolios was EUR 222 million, resulting in total Goodwill recognised in 2007 of EUR 2,040 million as disclosed in Note 9 'Intangible assets'.
(2) Cash outflow/inflow on group companies in the cash flow statement includes cash outflows/inflows on individually immaterial acquisitions and real estate portfolios in addition to the cash flows presented herein.
(3) Estimate of full year profit of acquired company based on local accounting principles.

**Acquisitions effective in 2007**
In September 2007 ING paid EUR 20 million to increase its shareholding in ING Piraeus Life (the joint venture between ING and Piraeus Bank) from 50 to 100%.

In April 2007 ING acquired 100% of AZL, an independent Dutch provider of pension fund management services, for EUR 65 million.

In July 2007 ING announced that it had reached agreement to acquire full ownership of Landmark Investment Co Ltd, the twelfth largest asset manager in Korea. The purchase price paid for Landmark was EUR 255 million.

In November 2007 ING acquired 100% of Sharebuilder Corporation, a Seattle-based brokerage company for EUR 152 million, to extend its retail investment products range and geographical spread in the United States.

In November and December 2007 ING acquired the Latin American pension businesses of Banco Santander in Mexico for EUR 349 million, Columbia for EUR 88 million, Uruguay for EUR 20 million and Argentina for EUR 235 million. The pension business in Chile was acquired in January 2008 for EUR 450 million. The total cost of the entire deal was approximately EUR 1,142 million.

In December 2007 ING announced the completion of the acquisition of 100% of the shares in Oyak Bank for an amount of EUR 1,903 million. Oyak Bank is a leading bank in the Turkish market, offering a full range of banking services with a focus on retail banking. Goodwill of EUR 1,015 million was recognised on acquisition. There was no significant difference in the carrying values of the net assets acquired immediately before the acquisition and their fair values. The profit for the year (before amortisation of the intangibles recognised on purchase accounting) was approximately EUR 80 million, but no profit or loss was included in the ING Group net profit in 2007.

**Most significant companies disposed in 2007**

| | Belgian Broker & employee benefits | ING Trust | ING Regio B.V. | Total |
|---|---|---|---|---|
| **General** | | | | |
| Primary line of business | **Insurance** | **Bank** | **Bank** | |
| | | | | |
| **Sales proceeds** | | | | |
| Sales proceeds | 777 | 25 | 51 | 853 |
| Cash proceeds | 777 | 25 | 51 | 853 |
| | | | | |
| Cash in company disposed | 11 | | | 11 |
| Cash inflow on disposal [1] | 766 | 25 | 51 | 842 |
| | | | | |
| **Assets** | | | | |
| Cash assets | 11 | | | 11 |
| Investments | 4,622 | | | 4,622 |
| Loans and advances to customers | 301 | 4 | 1,156 | 1,461 |
| Financial assets at fair value through profit and loss | 350 | | | 350 |
| Miscellaneous other assets | 463 | 10 | 110 | 583 |
| | | | | |
| **Liabilities** | | | | |
| Insurance and investment contracts | 5,075 | | | 5,075 |
| Customer deposits and other funds on deposit | | | 2,052 | 2,052 |
| Miscellaneous other liabilities | 178 | -4 | -811 | -637 |
| Net assets | 494 | 18 | 25 | 537 |
| % disposed | 100 | 100 | 100 | |
| Net assets disposed | 494 | 18 | 25 | 537 |
| | | | | |
| Gain/loss on disposal | 418 | 7 | 26 | 451 |

[1] Cash outflow/inflow on group companies in the cash flow statement includes cash outflows/inflows on individually immaterial disposals in addition to the cash flows presented.

# Additional information to the consolidated balance sheet of ING Group (continued)

**Disposals effective in 2007**
In June 2007 ING sold its investment in Nationale Borg, a specialist provider of guarantee insurance to HAL Investments BV and Egeria.

In July 2007 ING sold ING Trust to management and Foreman Capital, an independent investment company based in the Netherlands. The sale is part of ING's strategy to focus on its core banking, insurance and asset management businesses.

In July 2007 ING sold its entire shareholding in ING Regio B.V., a subsidiary of Regio Bank NV to SNS REAAL for EUR 50.5 million, resulting in a gain of EUR 26 million. This entity conducts most of the business of Regio Bank. The legal entity Regio Bank NV itself was not part of the transaction.

In September 2007 ING sold its Belgian Broker and Employee Benefits insurance business to P&V Verzekeringen for EUR 777 million, resulting in a gain of EUR 418 million.

**Disposals announced and expected to occur in 2008**
In December 2007 ING announced that agreement had been reached to sell NRG, a reinsurance unit, to Berkshire Hathaway. The sale for approximately EUR 300 million will result in a loss of approximately EUR 129 million. A provision has been recognised for this loss in Other liabilities. The net assets of NRG at 31 December 2007 amounted to EUR 397 million. Individually significant assets and liabilities consisted of Investments of EUR 578 million and Technical provisions of EUR 194 million, respectively.

In February 2008, ING Group announced that it has reached an agreement with AXA to sell part of its Mexican business, Seguros ING SA de CV and subsidiaries, for a price of approximately EUR 1.0 billion. Under the terms of the agreement, ING will divest companies that comprise its non-life businesses of P&C and Auto, plus its Health and Life insurance lines, its Health Maintenance Organization (ISES) and its Bonding Business. This sale, which is subject to regulatory approval and is expected during the course of 2008, will allow ING to focus on growing its existing Mexican pension (Afore) and Annuities businesses. Seguros ING SA de CV and subsidiaries are presented within the Insurance Americas segment in Note 49 'Primary reporting format – Business segments'.

**Most significant companies acquired in 2006**

| | ABN AMRO Asset Management (Taiwan) Ltd | Appleyard | Summit REIT | Total |
|---|---|---|---|---|
| **General** | | | | |
| Primary line of business | Insurance | Bank | Bank | |
| | | | | |
| Date of acquisition | 27 October 2006 | 1 July 2006 | 5 October 2006 | |
| | | | | |
| Percentage of voting shares acquired | 100% | 100% | 56% | |
| | | | | |
| **Purchase price** | | | | |
| Purchase price | 65 | 110 | 2,132 | 2,307 |
| Cash purchase price | 65 | 110 | 2,132 | 2,307 |
| | | | | |
| Cash in company acquired | 19 | | | 19 |
| Cash outflow on acquisition (2) | 46 | 110 | 2,132 | 2,288 |
| | | | | |
| **Assets** | | | | |
| Cash assets | 23 | | | 23 |
| Investments | 2 | | 2,132 | 2,134 |
| Amounts due from banks | 1 | | | 1 |
| Financial assets at fair value through profit and loss | 2 | | 793 | 795 |
| Miscellaneous other assets | | 332 | 34 | 366 |
| | | | | |
| **Liabilities** | | | | |
| Amounts due to banks | | 238 | | 238 |
| Miscellaneous other liabilities | 4 | 52 | 73 | 129 |
| Net assets | 24 | 42 | 2,886 | 2,952 |
| Minority interests | | | 754 | 754 |
| Net assets acquired | 24 | 42 | 2,132 | 2,198 |
| | | | | |
| Goodwill recognised (1) | 41 | 54 | | 95 |
| | | | | |
| Profit since date of acquisition | –1 | 1 | 8 | 8 |
| Income if acquisition effected at start of year | 2 | 33 | 131 | 166 |

(1) Goodwill recognised in 2006 on immaterial acquisitions and real estate portfolios was EUR 74 million, resulting in total Goodwill recognised in 2006 of EUR 169 million as disclosed in Note 9 'Intangible assets'.
(2) Cash outflow/inflow on group companies in the cash flow statement includes cash outflows/inflows on individually immaterial acquisitions and real estate portfolios in addition to the cash flows presented herein.

In July 2006 ING acquired 100% of Appleyard Vehicles Contracts, a U.K. based car leasing company. The purchase price paid for Appleyard was EUR 110 million.

In October 2006 ING acquired 56% of Summit Real Estate Investment Trust (Summit REIT) for an amount of EUR 2,132 million. Summit REIT owns a portfolio of high-quality light industrial properties in major markets across Canada.

In October 2006 ING acquired 100% of ABN AMRO Asset Management (Taiwan) Ltd, a registered Securities Investment Trust Enterprise, for EUR 65 million. The purchase will strengthen ING's existing position as the Taiwanese largest overall asset manager.

# Additional information to the consolidated balance sheet of ING Group (continued)

**Most significant companies disposed in 2006**

| | Williams de Broë | Deutsche Hypothekenbank AG | Degussa Bank | Total |
|---|---|---|---|---|
| **General** | | | | |
| Primary line of business | Bank | Bank | Bank | |
| | | | | |
| **Sales proceeds** | | | | |
| Sales proceeds | 19 | 275 | 195 | 489 |
| Cash proceeds | 19 | 275 | 195 | 489 |
| | | | | |
| Cash in company disposed | | 11 | 27 | 38 |
| Cash inflow on disposal [1] | 19 | 264 | 168 | 451 |
| | | | | |
| **Assets** | | | | |
| Cash assets | | 11 | 27 | 38 |
| Investments | | 9,556 | | 9,556 |
| Loans and advances to customers | 228 | 16,884 | 2,334 | 19,446 |
| Amounts due from banks | 14 | 5,928 | 187 | 6,129 |
| Financial assets at fair value through profit and loss | 5 | 3,280 | 162 | 3,447 |
| Miscellaneous other assets | 27 | 747 | 163 | 937 |
| | | | | |
| **Liabilities** | | | | |
| Amounts due to banks | 64 | 2,439 | 198 | 2,701 |
| Customer deposits and other funds on deposit | | 8,984 | 2,184 | 11,168 |
| Miscellaneous other liabilities | 198 | 24,541 | 286 | 25,025 |
| Net assets | 12 | 442 | 205 | 659 |
| % disposed | 100% | 84% | 100 | |
| Net assets disposed | 12 | 370 | 205 | 587 |

[1] Cash outflow/inflow on group companies in the cash flow statement includes cash outflows/inflows on individually immaterial disposals in addition to the cash flows presented.

In June 2006 ING sold its U.K. brokerage unit Williams de Broë Plc for EUR 22 million. The sale is part of ING Group's strategy to focus on core businesses. The result on the sale is subject to closing adjustments.

In September 2006 ING sold its 87.5% stake in Deutsche Hypothekenbank AG, a publicly listed mortgage bank in Germany, as part of ING's strategy to focus on its core business. The sale resulted in a loss of EUR 83 million.

In December 2006 ING sold its stake in Degussa Bank, a unit of ING-DiBa specialising in worksite banking for private customers. The sale results in a loss of EUR 23 million.

**Total of companies acquired and total of companies disposed in 2005**

| | Acquisition of Eural | Acquisition of New Zealand | Total acquisitions | Disposal of Baring Asset Management | Disposal of Life of Georgia | Total disposals |
|---|---|---|---|---|---|---|
| **General** | | | | | | |
| Primary line of business | Bank | Life Insurance | | Bank | Life Insurance | |
| | | | | | | |
| **Purchase price** | | | | | | |
| Purchase price | 83 | 98 | 181 | 663 | 235 | 898 |
| Cash in company acquired / disposed | | | | | 118 | 118 |
| Cash outflow / inflow on acquisition / disposal | 83 | 98 | 181 | 663 | 353 | 1,016 |
| | | | | | | |
| **Assets** | | | | | | |
| Investments | 1,535 | | 1,535 | | 1,809 | 1,809 |
| Loans and advances to customers | 819 | | 819 | 2,196 | | 2,196 |
| Amounts due from banks | 286 | | 286 | 1,419 | | 1,419 |
| Miscellaneous other assets | 65 | 151 | 216 | 696 | | 696 |
| | | | | | | |
| **Liabilities** | | | | | | |
| Insurance and investment contracts | | | | | 1,503 | 1,503 |
| Amounts due to banks | 7 | | 7 | 68 | | 68 |
| Customer deposits and other funds on deposit | 1,384 | | 1,384 | 2,470 | | 2,470 |
| Miscellaneous and other liabilities | 1,231 | | 1,231 | 910 | | 910 |
| Net assets | 83 | 151 | 234 | 863 | 306 | 1,169 |
| Minority interests | | | | | | |
| Net assets acquired | 83 | 151 | 234 | 863 | 306 | 1,169 |

In February 2005, ING sold internet service provider Freeler to KPN. The sale resulted in a net gain of EUR 10 million.

In March 2005, ING Group reduced its stake in ING Bank Slaski from 87.77% to 75% by selling shares on the market. By reducing the stake in ING Bank Slaski, ING Group complied with requirements set by the Polish regulator in 2001. ING Group has no intention to further reduce its stake of 75% in ING Bank Slaski.

In March 2005, ING Group acquired 19.9% of Bank of Beijing for an amount of EUR 166 million. Bank of Beijing is the second largest city commercial bank in China and the third largest bank in Beijing.

In March 2005, ING Group finalised the sale of Barings Asset Management to MassMutual Financial Group and Northern Trust Corp. The sale resulted in a net gain of EUR 254 million.

In May 2005, ING Group 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 June 2005, ING Group formed a private equity joint venture to purchase Gables Residential Trust, a U.S.-based real estate investment trust. Gables Residential Trust is a developer, builder, owner and manager of higher-end multifamily properties. ING will provide USD 400 million in equity to finance the transaction. The venture is managed by ING Clarion, a wholly-owned subsidiary of ING Group.

In June 2005, ING Group has purchased GE Commercial Finance's 50% stake in NMB-Heller's Dutch and Belgian factoring business. The factoring business has been transferred into a new company, which operates under the name ING Commercial Finance. GE Commercial Finance purchased ING's 50% stake in NMB-Heller's German unit, Heller GmbH. Both purchases took effect retroactively from 1 January 2005.

In August 2005, ING Group acquired a portfolio of properties located in the UK from Abbey National. The purchase price amounted to EUR 1.7 billion. The portfolio has been divided between various separate account clients.

In October 2005, ING Group acquired Eural NV from Dexia Bank Belgium. In the course of 2006, Eural is expected to be merged with ING Belgium's unit Record Bank.

In November 2005, ING Group 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.

# Additional information to the consolidated balance sheet of ING Group (continued)

In December 2005 ING Group sold Arenda Holding BV to ZBG, a Dutch private equity firm. Arenda is a provider of consumer finance products.

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

These legal proceedings included a dispute over certain hurricane damages claimed by a Mexican fertilizer producer Grupo Fertinal ('Fertinal') against ING Comercial América (now known as Seguros ING S.A. de C.V. and referred to hereinafter as 'Seguros'), a wholly owned subsidiary of ING Group. Fertinal claimed EUR 204 million (USD 300 million), the maximum coverage under the insurance policy of their mining operations. A judge in Mexico ruled in favour of Fertinal. This decision was appealed to a Mexican Court of Appeal, which reduced the judgment to EUR 64 million (USD 94 million) plus interest. This decision was appealed by all parties involved. Seguros' appeal was rejected and the decision of the Court of Appeal regarding the amount owed was affirmed. Seguros has paid the principal and interest into court, bringing the case to a close. Seguros also has been the subject of complaints and suits concerning the performance of certain interest sensitive life insurance products. These matters are being defended vigorously; however, at this time, we are unable to assess their final outcome.

In November 2006, the issue of amongst others the costs charged by the insurance industry to customers in respect of universal life insurance products (commonly referred to as 'beleggingsverzekeringen', 'beleggingspolissen' or 'beleggingshypotheken') has received attention both in the Dutch public media and from the Dutch regulator for the insurance industry and consumer protection organisations. The Dutch insurance industry (including subsidiaries of the ING Groep N.V., primarily Nationale-Nederlanden) sold these products to customers either directly or through intermediaries. In July 2007 a class action was lodged against Nationale-Nederlanden in relation to these products. The subject of this procedure is not a specific claim for compensation, but a request to the judge to pronounce that Nationale-Nederlanden provided clients with incomplete or misleading information about costs and risks. Such legal proceedings can also be lodged against other subsidiaries of ING Groep N.V. involved. Discussions are ongoing between the insurance industry and consumer organisations to find an out of court solution. Early March 2008 the Ombudsman Financial Services published a recommendation for an industrywide solution. This recommendation is not binding on the parties involved. While ING believes that it has complied with all relevant laws and regulations regarding consumer rights and consumer protection, ING's Dutch insurance companies will accept the recommendation. A provision has been taken to contribute to this possible solution. As consumer organisations criticize the recommendation and the policy holders have not formally agreed with the proposed solution, it is difficult to predict when and how the issue will be solved.

Like many other companies in the mutual funds, brokerage, investment, 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 Group.

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

## 31 JOINT VENTURES

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

**Most significant joint ventures**

| 2007 | Interest held (%) | Assets | Liabilities | Income | Expenses |
|---|---|---|---|---|---|
| ING Australia Ltd | **51** | **9,735** | **9,252** | **474** | **348** |
| Postkantoren B.V. | **50** | **159** | **126** | **205** | **203** |
| KB Life Insurance Company | **49** | **412** | **394** | **231** | **228** |
| ING (NZ) Ltd | **51** | **128** | **14** | **44** | **33** |
| Pacific-Antai Life Insurance Company Ltd | **50** | **150** | **117** | **42** | **36** |
| Total | | **10,584** | **9,903** | **996** | **848** |

**Most significant joint ventures**

| 2006 | Interest held (%) | Assets | Liabilities | Income | Expenses |
|---|---|---|---|---|---|
| ING Australia Ltd | 51 | 8,617 | 8,266 | 402 | 295 |
| Postkantoren B.V. | 50 | 168 | 137 | 219 | 220 |
| KB Life Insurance Company | 49 | 292 | 279 | 167 | 166 |
| ING (NZ) Ltd | 51 | 132 | 28 | 38 | 29 |
| Pacific-Antai Life Insurance Company Ltd | 50 | 136 | 106 | 37 | 36 |
| Total | | 9,345 | 8,816 | 863 | 746 |

## 32 RELATED PARTIES

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

**Transactions with joint ventures and associates**

| | Joint ventures | | Associates | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Receivables | **336** | 267 | **885** | 846 |
| Liabilities | **85** | 85 | **94** | 57 |
| Guarantees issued in favour of | | | **20** | 4 |
| | | | | |
| Income received | **16** | 14 | **213** | 154 |
| Expenses paid | **58** | 64 | **32** | 1 |

**Transactions with ING Verzekeringen N.V. and ING Bank N.V.**

| | ING Verzekeringen N.V. | | ING Bank N.V. | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Receivables | **2,315** | 2,604 | **8,137** | 6,190 |
| Liabilities | | 35 | **201** | 121 |
| | | | | |
| Income received | **112** | 120 | **619** | 367 |
| Expenses paid | | 5 | **228** | 33 |

Transactions with key management personnel (Executive Board and Supervisory Board) and post-employment benefit plans are transactions with related parties. These transactions are disclosed in more detail in the remuneration report in the annual report. For the post-employment benefit plans see Note 21 'Other liabilities'.

# Additional information to the consolidated balance sheet of ING Group (continued)

**Key management personnel compensation**

| | Executive Board | | Supervisory Board | | Total | |
|---|---|---|---|---|---|---|
| amounts in thousands of euros | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| Base salary and short-term bonus | **16,898** | 18,250 | **673** | 578 | **17,571** | 18,828 |
| Pension costs | **3,334** | 3,113 | | | **3,334** | 3,113 |
| Retirement benefit | **1,222** | 4,082 | | | **1,222** | 4,082 |
| Fair market value of long-term incentives | **9,072** | 8,576 | | | **9,072** | 8,576 |
| Total compensation | **30,526** | 34,021 | **673** | 578 | **31,199** | 34,599 |

**Loans and advances to key management personnel**

| | Amount outstanding 31 December | | Average Interest Rate | | Repayments | |
|---|---|---|---|---|---|---|
| amounts in thousands of euros | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| Executive Board members | **2,376** | 2,023 | **4.8%** | 4.3% | **216** | 20 |
| Total | **2,376** | 2,023 | | | **216** | 20 |

The total number of stock options on ING Groep N.V. shares held by the Executive Board members amounted to 2,744,887 at 31 December 2007 (2006: 2,176,641). As at 31 December 2007, members of the Executive Board held 201,252 ING Groep N.V. shares (2006: 80,055). Part of these shares are held in a trust. As at 31 December 2007, members of the Supervisory Board held 17,370 ING Groep N.V. shares (2006: 15,370).

There are no significant provisions for doubtful debts or individually significant bad debt expenses.

## 33 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

**Fair value of financial assets and liabilities**

| | Estimated fair value | | Balance sheet value | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| **Financial assets** | | | | |
| Cash and balances with central banks | **12,406** | 14,326 | **12,406** | 14,326 |
| Amounts due from banks | **48,461** | 39,861 | **48,875** | 39,868 |
| Financial assets at fair value through profit and loss | | | | |
| – trading assets | **193,213** | 193,977 | **193,213** | 193,977 |
| – investments for risk of policyholders | **114,827** | 110,547 | **114,827** | 110,547 |
| – non-trading derivatives | **7,637** | 6,521 | **7,637** | 6,521 |
| – designated as at fair value through profit and loss | **11,453** | 6,425 | **11,453** | 6,425 |
| Investments | | | | |
| – available-for-sale | **275,897** | 293,921 | **275,897** | 293,921 |
| – held-to-maturity | **16,354** | 17,494 | **16,753** | 17,660 |
| Loans and advances to customers | **546,358** | 474,922 | **552,964** | 474,437 |
| Other assets [(1)] | **32,970** | 25,379 | **32,970** | 25,379 |
| | **1,259,576** | 1,183,373 | **1,266,995** | 1,183,061 |
| | | | | |
| **Financial liabilities** | | | | |
| Preference shares | **21** | 215 | **21** | 215 |
| Subordinated loans | **6,731** | 6,439 | **7,325** | 6,014 |
| Debt securities in issue | **66,555** | 78,265 | **66,995** | 78,133 |
| Other borrowed funds | **32,595** | 31,052 | **27,058** | 29,639 |
| Investment contracts for risk of company | **9,520** | 7,505 | **9,520** | 7,505 |
| Investment contracts for risk of policyholders | **14,132** | 13,245 | **14,132** | 13,245 |
| Amounts due to banks | **167,365** | 121,680 | **166,972** | 120,839 |
| Customer deposits and other funds on deposit | **522,859** | 496,077 | **525,216** | 496,680 |
| Financial liabilities at fair value through profit and loss | | | | |
| – trading liabilities | **148,988** | 127,975 | **148,988** | 127,975 |
| – non-trading derivatives | **6,951** | 4,934 | **6,951** | 4,934 |
| – designated as at fair value through profit and loss | **13,882** | 13,702 | **13,882** | 13,702 |
| Other liabilities [(2)] | **35,724** | 29,656 | **35,724** | 29,656 |
| | **1,025,323** | 930,745 | **1,022,784** | 928,537 |

(1) Other assets do not include (deferred) tax assets, property held for sale, property under development for third parties and pension assets.
(2) Other liabilities do not include (deferred) tax liabilities, pension liabilities, insurance provisions, property under development for third parties, share-based payment plans, other provisions and other taxation and social security contributions.

The estimated fair values correspond with the amounts at which the financial instruments at our best estimate could have been traded at the balance sheet date between knowledgeable, willing parties in arm's-length transactions. The fair value of financial assets and liabilities is based on quoted market prices, where available. 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 relevant pricing factors. Changes in these assumptions could significantly affect the estimated fair values. Consequently, the fair values presented may not be indicative of the net realisable value. In addition, the calculation of the estimated fair value is based on market conditions at a specific point in time and may not be indicative of future fair values.

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

**Financial assets**

*Cash and balances with central banks*

The carrying amount of cash approximates its fair value.

*Amounts due from banks*

The fair values of receivables from banks are generally based on quoted market prices or, if unquoted, on estimates based on discounting future cash flows using available market interest rates offered for receivables with similar characteristics.

# Additional information to the consolidated balance sheet of ING Group (continued)

*Non-trading derivatives*
The fair values of derivatives held for non-trading purposes are based on quoted market prices. For those securities not actively traded, fair values are estimates based on valuation techniques.

*Financial assets at fair value through profit and loss*
The fair values of securities in the trading portfolio and other assets at fair value through profit and loss are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated based on internal valuation techniques.

*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.

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

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

*Other assets*
The carrying amount of other assets is not materially different to their 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 investment contracts for risk of company the fair values have been estimated using a discounted cash flow approach based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For investment contracts for risk of policyholder the fair value generally equals the fair value of the underlying assets.

*Amounts due to banks*
The fair values of payables to banks are generally based on quoted market prices or, if unquoted, on estimates based on discounting future cash flows using available market interest rates for payables to banks with similar characteristics.

*Customer deposits and other funds on deposit*
The carrying values of customer deposits and other funds on deposit with no stated maturity approximate their fair values. The fair values of deposits with stated maturities have been estimated based on discounting future cash flows using the interest rates currently applicable to deposits of similar maturities.

*Financial liabilities at fair value through profit and loss*
The fair values of securities in the trading portfolio and other liabilities at fair value through profit and loss are based on quoted market prices, where available. For those securities not actively traded, fair values are estimated based on internal valuation techniques.

*Debt securities in issue and other borrowed funds*
The fair value of debt securities in issue and other borrowed funds is generally based on quoted market prices or, if unquoted, on estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity.

*Other liabilities*
The fair value of debt securities in issue and other borrowed funds is generally based on quoted market prices or, if unquoted, on estimated by discounting expected future cash flows using a current market rate applicable to the yield, credit quality and maturity.

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

**Methods applied in determining fair values of financial assets and liabilities**

| **2007** | **Reference to published price quotations** | **Valuation technique supported by market inputs** | **Valuation technique not supported by market inputs** | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Trading assets | **122,448** | **70,279** | **486** | **193,213** |
| Investments for risk of policyholders | **111,723** | **2,976** | **128** | **114,827** |
| Non-trading derivatives | **6,928** | **693** | **16** | **7,637** |
| Financial assets designated at fair value through profit and loss | **5,012** | **4,608** | **1,833** | **11,453** |
| Available-for-sale investments | **204,838** | **69,306** | **1,753** | **275,897** |
| | **450,949** | **147,862** | **4,216** | **603,027** |
| | | | | |
| **Liabilities** | | | | |
| Trading liabilities | **75,131** | **73,841** | **16** | **148,988** |
| Non-trading derivatives | **6,234** | **620** | **97** | **6,951** |
| Financial liabilities designated at fair value through profit and loss | **7,723** | **6,159** | | **13,882** |
| Investment contracts (for contracts carried at fair value) | **12,074** | **2,058** | | **14,132** |
| | **101,162** | **82,678** | **113** | **183,953** |

**Methods applied in determining fair values of financial assets and liabilities**

| 2006 | Reference to published price quotations | Valuation technique supported by market inputs | Valuation technique not supported by market inputs | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Trading assets | 150,986 | 42,718 | 273 | 193,977 |
| Investments for risk of policyholders | 109,465 | 813 | 269 | 110,547 |
| Non-trading derivatives | 2,611 | 2,671 | 1,239 | 6,521 |
| Financial assets designated at fair value through profit and loss | 4,343 | 1,036 | 1,046 | 6,425 |
| Available-for-sale investments | 219,967 | 73,230 | 724 | 293,921 |
| | 487,372 | 120,468 | 3,551 | 611,391 |
| | | | | |
| **Liabilities** | | | | |
| Trading liabilities | 87,374 | 40,601 | | 127,975 |
| Non-trading derivatives | 1,833 | 2,672 | 429 | 4,934 |
| Financial liabilities designated at fair value through profit and loss | 10,914 | 2,788 | | 13,702 |
| Investment contracts (for contracts carried at fair value) | 13,235 | | 10 | 13,245 |
| | 113,356 | 46,061 | 439 | 159,856 |

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

This category includes instruments for which a model is used to determine fair value instead of using an externally available quoted price, but for which a quoted price is available and the outcome of the model is evaluated regularly against that quoted price, resulting in no or only an insignificant deviation from the quoted price. Furthermore, it also includes financial instruments for which it is market convention to price these based on a single published reference rate (e.g. a published yield curve in the case of plain vanilla interest rate swaps). Certain reverse repos with a very short tenor (i.e. a matter of days) for which the valuation is based on the actual prices on issuance and maturity, are included in this category on the basis that their valuation is highly objective and based on a third party source. In 2006, these were reported under 'valuation technique not supported by market inputs' (EUR 37,229 million at 31 December 2006), as ING then did not take into account market inputs becoming available at very short notice. Consistent with the classification in 2007, these have been reclassified in the 2006 comparatives.

# Additional information to the consolidated balance sheet of ING Group (continued)

*Valuation technique supported by market inputs*
This category includes financial instruments whose fair value is determined using a valuation technique (a model), where inputs in the model are taken from an active market or are market observable. If certain inputs in the model are not market observable, but all significant inputs are, the instrument is still classified in this category, provided that the impact of those elements on the overall valuation is insignificant. Included in this category are items whose value is derived from quoted prices of similar instruments, but for which the prices are (more than insignificantly) modified based on other market observable external data.

*Valuation technique not supported by market inputs*
This category includes financial assets/liabilities whose fair value is determined using a valuation technique (model) for which more than an insignificant level of the input in terms of the overall valuation are not market observable.

The total amount of changes in fair value estimated using a valuation technique not supported by market inputs recognised in net profit in 2007 was EUR 74 million (2006: EUR 19 million).

**Sensitivities of fair values**
Reasonably likely changes in the assumptions used in the valuation techniques not supported by recent market transactions would not have a significant impact on equity and net profit.

# Notes to the consolidated profit and loss account of ING Group
amounts in millions of euros, unless stated otherwise

## 34 INTEREST RESULT BANKING OPERATIONS

**Interest result banking operations**

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| Interest income on loans | **26,390** | 21,970 | 18,912 |
| Interest income on impaired loans | **–26** | 13 | –23 |
| Total interest income on loans | **26,364** | 21,983 | 18,889 |
| | | | |
| Interest income on available-for-sale securities | **7,397** | 6,989 | 5,989 |
| Interest income on held-to-maturity securities | **736** | 755 | 639 |
| Interest income on trading portfolio | **32,443** | 21,414 | 15,237 |
| Interest income on non-trading derivatives | **6,190** | 5,231 | 5,658 |
| Other interest income | **3,619** | 2,798 | 1,764 |
| Interest income banking operations | **76,749** | 59,170 | 48,176 |
| | | | |
| Interest expense on deposits by banks | **5,131** | 3,559 | 2,371 |
| Interest expense on customer deposits and other funds on deposit | **18,563** | 15,107 | 11,960 |
| Interest expense on debt securities | **3,648** | 3,173 | 2,911 |
| Interest expense on subordinated loans | **1,167** | 1,132 | 1,126 |
| Interest on trading liabilities | **29,383** | 18,821 | 13,369 |
| Interest on non-trading derivatives | **6,115** | 5,159 | 5,821 |
| Other interest expense | **3,766** | 3,027 | 1,551 |
| Interest expense banking operations | **67,773** | 49,978 | 39,109 |
| | | | |
| Interest result banking operations | **8,976** | 9,192 | 9,067 |

**Interest margin**

| in percentages | **2007** | 2006 | 2005 |
|---|---|---|---|
| Interest margin | **0.94** | 1.06 | 1.16 |

In 2007, the growth of the average total assets caused an increase of the interest result amounting to EUR 753 million (2006: EUR 1,040 million; 2005: EUR 1,214 million). The decrease of the interest margin by 12 basis points caused a decrease of the interest result with EUR 1,051 million (in 2006 the decrease of the interest margin by 10 basis points caused a decrease of the interest result with EUR 867 million; in 2005 the decrease of the interest margin by 6 basis points caused a decrease of the interest result with EUR 345 million).

## 35 GROSS PREMIUM INCOME

**Gross premium income**

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| Gross premium income from life insurance policies | **40,732** | 40,502 | 39,145 |
| Gross premium income from non-life insurance policies | **6,086** | 6,333 | 6,613 |
| | **46,818** | 46,835 | 45,758 |

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

**Effect of reinsurance on premiums written**

| | | | Non-life | | | Life | | | Total |
|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Direct premiums written gross | **6,062** | 6,279 | 6,556 | **39,170** | 38,838 | 37,644 | **45,232** | 45,117 | 44,200 |
| Reinsurance assumed premiums written gross | **24** | 54 | 57 | **1,562** | 1,664 | 1,501 | **1,586** | 1,718 | 1,558 |
| Total gross premiums written | **6,086** | 6,333 | 6,613 | **40,732** | 40,502 | 39,145 | **46,818** | 46,835 | 45,758 |
| | | | | | | | | | |
| Reinsurance ceded | **–306** | –339 | –526 | **–1,968** | –2,004 | –2,031 | **–2,274** | –2,343 | –2,557 |
| | **5,780** | 5,994 | 6,087 | **38,764** | 38,498 | 37,114 | **44,544** | 44,492 | 43,201 |

# Notes to the consolidated profit and loss account of ING Group (continued)

**Effect of reinsurance on non-life premiums earned**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Direct premiums earned, gross | **6,003** | 6,248 | 6,712 |
| Reinsurance assumed premiums earned, gross | **24** | 58 | 57 |
| Total gross premiums earned | **6,027** | 6,306 | 6,769 |
| | | | |
| Reinsurance ceded | **–326** | –377 | –636 |
| | **5,701** | 5,929 | 6,133 |

## 36 INVESTMENT INCOME

**Investment income by insurance and banking operations**

| | Insurance operations | | | Banking operations | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| Income from real estate investments | **80** | 184 | 206 | **252** | 134 | 194 | **332** | 318 | 400 |
| Dividend income | **750** | 604 | 479 | **70** | 84 | 71 | **820** | 688 | 550 |
| | **830** | 788 | 685 | **322** | 218 | 265 | **1,152** | 1,006 | 950 |
| | | | | | | | | | |
| Income from investments in debt securities | **6,857** | 6,359 | 5,757 | | | | **6,857** | 6,359 | 5,757 |
| Income from loans | | | | | | | | | |
| – personal loans | **76** | 200 | 259 | | | | **76** | 200 | 259 |
| – mortgage loans | **1,313** | 1,640 | 1,695 | | | | **1,313** | 1,640 | 1,695 |
| – policy loans | **215** | 212 | 223 | | | | **215** | 212 | 223 |
| – other | **323** | 345 | 406 | | 18 | 12 | **323** | 363 | 418 |
| Income from investments in debt securities and loans | **8,784** | 8,756 | 8,340 | | 18 | 12 | **8,784** | 8,774 | 8,352 |
| | | | | | | | | | |
| Realised gains/losses on disposal of debt securities | **–9** | –56 | 245 | **138** | 93 | 60 | **129** | 37 | 305 |
| Reversals/Impairments of available-for-sale debt securities | **–76** | 36 | 34 | **–57** | | | **–133** | 36 | 34 |
| Realised gains/losses and impairments of debt securities | **–85** | –20 | 279 | **81** | 93 | 60 | **–4** | 73 | 339 |
| | | | | | | | | | |
| Realised gains/losses on disposal of equity securities | **2,975** | 772 | 511 | **330** | 149 | 171 | **3,305** | 921 | 682 |
| Impairments of available-for-sale equity securities | **–36** | –25 | –46 | **–17** | –17 | –45 | **–53** | –42 | –91 |
| Realised gains/losses and impairments of equity securities | **2,939** | 747 | 465 | **313** | 132 | 126 | **3,252** | 879 | 591 |
| | | | | | | | | | |
| Change in fair value of real estate investments | **75** | 108 | 143 | **93** | 67 | 59 | **168** | 175 | 202 |
| Investment income | **12,543** | 10,379 | 9,912 | **809** | 528 | 522 | **13,352** | 10,907 | 10,434 |

## 37 COMMISSION INCOME

**Gross fee and commission income**

| | Insurance operations | | | Banking operations | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| Funds transfer | | | | **746** | 704 | 645 | **746** | 704 | 645 |
| Securities business | | | | **1,049** | 1,064 | 905 | **1,049** | 1,064 | 905 |
| Insurance broking | **1,124** | 992 | 584 | **180** | 171 | 115 | **1,304** | 1,163 | 699 |
| Management fees | **1,025** | 860 | 1,420 | **1,140** | 944 | 787 | **2,165** | 1,804 | 2,207 |
| Brokerage and advisory fees | **1,014** | 951 | 473 | **233** | 207 | 152 | **1,247** | 1,158 | 625 |
| Other | **364** | 270 | 119 | **818** | 704 | 645 | **1,182** | 974 | 764 |
| | **3,527** | 3,073 | 2,596 | **4,166** | 3,794 | 3,249 | **7,693** | 6,867 | 5,845 |

| Fee and commission expenses | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Insurance operations | | | Banking operations | | | | Total |
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Funds transfer | | | | **144** | 140 | 56 | **144** | 140 | 56 |
| Securities business | | | | **370** | 347 | 264 | **370** | 347 | 264 |
| Insurance broking | **686** | 551 | 250 | | | | **686** | 551 | 250 |
| Management fees | **182** | 188 | 686 | **230** | 204 | 139 | **412** | 392 | 825 |
| Brokerage and advisory fees | **673** | 624 | 260 | **5** | 2 | 6 | **678** | 626 | 266 |
| Other | **85** | 75 | 54 | **491** | 420 | 383 | **576** | 495 | 437 |
| | **1,626** | 1,438 | 1,250 | **1,240** | 1,113 | 848 | **2,866** | 2,551 | 2,098 |

## 38 VALUATION RESULTS ON NON-TRADING DERIVATIVES

| Valuation results on non-trading derivatives | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Insurance operations | | | Banking operations | | | | Total |
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Change in fair value of derivatives relating to: | | | | | | | | | |
| – fair value hedges | **–227** | –162 | 87 | **924** | 203 | –425 | **697** | 41 | –338 |
| – cash-flow hedges (ineffective portion) | **–5** | | | **–4** | –7 | –1 | **–9** | –7 | –1 |
| – hedges of net investment in foreign entities (ineffective portion) | **–14** | –12 | –16 | | | | **–14** | –12 | –16 |
| – other non-trading derivatives | **–753** | –85 | –152 | **36** | 391 | 296 | **–717** | 306 | 144 |
| Net result on non-trading derivatives | **–999** | –259 | –81 | **956** | 587 | –130 | **–43** | 328 | –211 |
| | | | | | | | | | |
| Change in fair value of assets and liabilities (hedged items) | **223** | 211 | –98 | **–886** | –203 | 467 | **–663** | 8 | 369 |
| Valuation results on assets and liabilities designated as at fair value through profit and loss (excluding trading) | **89** | | | **56** | –247 | –111 | **145** | –247 | –111 |
| Net valuation results | **–687** | –48 | –179 | **126** | 137 | 226 | **–561** | 89 | 47 |

## 39 NET TRADING INCOME

| Net trading income | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Insurance operations | | | Banking operations | | | | Total |
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Results from securities trading | **246** | 159 | 84 | **–2,147** | –804 | 660 | **–1,901** | –645 | 744 |
| Results from foreign exchange transactions | **174** | 120 | –87 | **401** | 282 | 378 | **575** | 402 | 291 |
| Other | **–50** | –7 | 9 | **2,495** | 1,422 | –618 | **2,445** | 1,415 | –609 |
| | **370** | 272 | 6 | **749** | 900 | 420 | **1,119** | 1,172 | 426 |

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

The portion of trading gains and losses for the year ended 31 December 2007 that related to trading securities still held at 31 December, amounts to EUR –60 million (2006: EUR –121 million; 2005: EUR 7 million).

The majority of the risks involved in the security and currency trading is economically hedged with derivatives. The results on security trading is partly offset by results on these derivatives. The result of these derivatives is included in Other and amounts to EUR 408 million (2006: EUR 1,662 million).

# Notes to the consolidated profit and loss account of ING Group (continued)

## 40 OTHER INCOME

**Other income**

| | Insurance operations | | | Banking operations | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Net operating lease income | | | | **79** | 66 | 72 | **79** | 66 | 72 |
| Other | **305** | –5 | 149 | **501** | 410 | 489 | **806** | 405 | 638 |
| | **305** | –5 | 149 | **580** | 476 | 561 | **885** | 471 | 710 |

Net operating lease income comprises income of EUR 803 million (2006: EUR 691 million; 2005: EUR 627 million), depreciation of EUR 724 million (2006: EUR 626 million; 2005: EUR 555 million) and other expenses of nil (2006: nil; 2005: nil).

## 41 UNDERWRITING EXPENDITURE

**Underwriting expenditure**

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| Gross underwriting expenditure | **51,818** | 53,065 | 54,594 |
| Investment income for risk of policyholders | **–1,079** | –2,702 | –5,074 |
| Reinsurance recoveries | **–1,906** | –2,175 | –2,400 |
| Underwriting expenditure | **48,833** | 48,188 | 47,120 |

**Underwriting expenditure by class**

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| **Expenditure from life underwriting** | | | |
| Reinsurance and retrocession premiums | **1,968** | 2,004 | 2,031 |
| Gross benefits | **28,877** | 26,234 | 22,129 |
| Reinsurance recoveries | **–1,749** | –1,705 | –1,625 |
| Change in life insurance provisions for risk of company | **11,979** | 13,420 | 14,650 |
| Costs of acquiring insurance business | **1,098** | 1,083 | 1,060 |
| Other underwriting expenditure | **457** | 439 | 364 |
| Profit sharing and rebates | **424** | 801 | 2,214 |
| | **43,054** | 42,276 | 40,823 |
| | | | |
| **Expenditure from non-life underwriting** | | | |
| Reinsurance and retrocession premiums | **306** | 339 | 526 |
| Gross claims | **3,589** | 3,848 | 4,343 |
| Reinsurance recoveries | **–157** | –470 | –775 |
| Change in provision for unearned premiums | **79** | 65 | –46 |
| Change in claims provision | **13** | –209 | –49 |
| Costs of acquiring insurance business | **979** | 1,043 | 1,012 |
| Other underwriting expenditure | **–50** | –71 | –52 |
| | **4,759** | 4,545 | 4,959 |
| | | | |
| **Expenditure from investment contracts** | | | |
| Costs of acquiring investment contracts | **19** | 31 | 53 |
| Profit sharing and rebates | **16** | 64 | 17 |
| Other changes in investment contract liabilities | **985** | 1,272 | 1,268 |
| | **1,020** | 1,367 | 1,338 |
| | | | |
| | **48,833** | 48,188 | 47,120 |

| Profit sharing and rebates | 2007 | 2006 | 2005 |
|---|---|---|---|
| Distributions on account of interest or underwriting results | **–133** | 458 | 1,824 |
| Bonuses added to policies | **411** | 369 | 379 |
| Deferred profit sharing expense | **146** | –26 | 11 |
| | **424** | 801 | 2,214 |

Underwriting expenditure includes an amount of EUR 4,275 million in 2007 (2006: EUR 4,141 million; 2005: EUR 3,956 million) in respect of commission paid and payable with regard to the insurance operations. Amortisation of deferred acquisition costs amounted to EUR 1,552 million in 2007 (2006: EUR 1,444 million; 2005: EUR 1,475 million).

Expenditure from Life underwriting includes an amount of EUR 110 million in 2007 (2006: EUR 181 million; 2005: EUR 220 million) in relation to reserve strengthening for Insurance Asia/Pacific as further described under Segment reporting.

The investment income and valuation results regarding investments for risk of policyholders of EUR 1,079 million (2006: EUR 2,702 million; 2005: EUR 5,074 million) has not been recognised in Investment income and valuation results on assets and liabilities designated at fair value through profit and loss but is recognised in Underwriting expenditure together with the equal amount of change in insurance provisions for risk of policyholders.

ING transferred part of their life insurance business to Scottish Re in 2004 by means of a co-insurance contract. A loss amounting to EUR 160 million was recognised in Underwriting expenditure in 2004 on this transaction. This loss represented the reduction of the related deferred acquisition costs. In addition, an amount of EUR 240 million is being amortised over the life of the underlying business, starting in 2005 and gradually decreasing in subsequent years as the business tails off. The amount amortised in 2007 was EUR 15 million (2006: EUR 32 million; 2005: EUR 34 million). The cumulative amortisation as at 31 December 2007 was EUR 81 million (2006: EUR 66 million; 2005: EUR 34 million).

## 42 OTHER IMPAIRMENTS

**Other impairment losses and reversals of impairments recognised in the profit and loss account**

| | Impairment losses | | | Reversals of impairments | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Property and equipment | **2** | 1 | 82 | **–14** | –4 | –27 | **–12** | –3 | 55 |
| Property under development for third parties | **41** | 19 | | **–43** | | | **–2** | 19 | |
| Other intangible assets | **15** | 10 | 21 | | | | **15** | 10 | 21 |
| Other | | 3 | | **–4** | –2 | | **–4** | 1 | |
| | **58** | 33 | 103 | **–61** | –6 | –27 | **–3** | 27 | 76 |

Impairments on Loans and advances to customers are presented under Addition to loan loss provision. Impairments on Investments are presented under Investment income.

## 43 STAFF EXPENSES

**Staff expenses**

| | Insurance operations | | | Banking operations | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Salaries | **2,050** | 2,012 | 2,038 | **3,646** | 3,480 | 3,286 | **5,696** | 5,492 | 5,324 |
| Pension and other staff-related benefit costs | **48** | 79 | 143 | **159** | 206 | 256 | **207** | 285 | 399 |
| Social security costs | **201** | 196 | 214 | **466** | 444 | 444 | **667** | 640 | 658 |
| Share-based compensation arrangements | **54** | 54 | 36 | **73** | 58 | 33 | **127** | 112 | 69 |
| Other staff costs | **484** | 457 | 470 | **1,080** | 932 | 726 | **1,564** | 1,389 | 1,196 |
| | **2,837** | 2,798 | 2,901 | **5,424** | 5,120 | 4,745 | **8,261** | 7,918 | 7,646 |

Share-based compensation arrangements includes an amount of EUR 110 million (2006: EUR 109 million; 2005: EUR 63 million) relating to equity-settled share-based payment arrangements and EUR 17 million (2006: EUR 4 million; 2005: EUR 6 million) relating to cash-settled share-based payment arrangements.

# Notes to the consolidated profit and loss account of ING Group (continued)

**Pension and other staff-related benefits costs**

| | | | Pension benefits | | | Post-employment benefits other than pensions | | | Other | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Current service cost | **408** | 417 | 477 | **11** | 13 | 42 | **–13** | 23 | 32 | **406** | 453 | 551 |
| Past service cost | **–86** | 18 | 192 | | –1 | | **–1** | 1 | 5 | **–87** | 18 | 197 |
| Interest cost | **739** | 703 | 643 | **13** | 11 | 40 | **9** | 7 | 35 | **761** | 721 | 718 |
| Expected return on assets | **–869** | –820 | –710 | | | | | | –22 | **–869** | –820 | –732 |
| Amortisation of unrecognised past service cost | | | | **–5** | –5 | | | | | **–5** | –5 | |
| Amortisation of unrecognised actuarial (gains)/losses | **29** | 22 | | | | | **4** | | | **33** | 22 | |
| Effect of curtailment or settlement | **–32** | –6 | –12 | | –147 | –396 | | 4 | –3 | **–32** | –149 | –411 |
| Other | **–62** | | | **–7** | | | **1** | | | **–68** | | |
| Defined benefit plans | **127** | 334 | 590 | **12** | –129 | –314 | | 35 | 47 | **139** | 240 | 323 |
| | | | | | | | | | | | | |
| Defined contribution plans | | | | | | | | | | **68** | 45 | 76 |
| | | | | | | | | | | **207** | 285 | 399 |

**Remuneration of Senior Management, Executive Board and Supervisory Board**
The information on share based payment plans and remuneration of the members of the Executive Board and the Supervisory Board is included in the remuneration report in the annual report. This information is considered to be an integral part of the audited annual accounts.

**Stock option and share plans**
ING Group has granted option rights on ING Group shares and conditional rights on depository receipts (share awards) for ING shares to a number of senior executives (members of the Executive Board, general managers and other officers nominated by the Executive Board), to all ING Group 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 Group, is to attract, retain and motivate senior executives and staff.

ING Group holds 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 2007, 36,028,881 own shares (2006: 52,722,755; 2005: 38,722,934) were held in connection with the option plan compared to 76,888,553 options outstanding (2006: 74,175,909; 2005: 85,128,950). 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.

In March 2008 shares will be issued in relation to the vesting of share plans. The actual number of shares to be issued is dependent on ING's TSR ranking. Reference is made to the remuneration report on page 76 up to and including page 86 in the annual report.

Exposure arising out of the share plan is not hedged. The obligations with regard to these plans will be funded by issuing own shares. On 15 March 2007 5.2 million own shares were issued in relation to the vesting of share plans.

The option rights are valid for a period of 5 or 10 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 share awards is granted conditionally. If the participant remains in employment for an uninterrupted period of three years from the grant date, the entitlement becomes unconditional. In 2007 139,113 shares (2006: 52,100; 2005: 73,500) have been granted to the members of the Executive Board and 2,415,649 shares (2006: 2,432,686; 2005: 2,907,101) have been granted to senior management and other employees remaining in the service of ING Group.

Every 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.

**Changes in option rights outstanding**

| | Options outstanding | | | Weighted average exercise price | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Opening balance | **74,175,909** | 85,128,950 | 81,010,410 | **25.99** | 24.42 | 24.97 |
| Granted | **12,139,472** | 13,872,880 | 15,734,031 | **32.13** | 32.78 | 23.28 |
| Exercised | **–7,163,332** | –17,213,518 | –2,820,253 | **19.73** | 20.64 | 21.15 |
| Forfeited | **–2,263,496** | –1,338,877 | –298,315 | **27.68** | 25.78 | 23.60 |
| Expired | | –6,273,526 | –8,496,923 | | 25.99 | 30.26 |
| Closing balance | **76,888,553** | 74,175,909 | 85,128,950 | **26.66** | 25.99 | 24.42 |

The weighted average share price at the date of exercise for options exercised during 2007 is EUR 32.48.

**Changes in option rights non-vested**

| | Options non-vested | | | Weighted average grant date fair value | | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Opening balance | **38,551,921** | 41,407,132 | 48,317,040 | **4.57** | 3.65 | 4.85 |
| Granted | **12,139,472** | 13,872,880 | 15,734,031 | **6.52** | 6.49 | 3.49 |
| Vested | **–10,112,348** | –15,390,327 | –22,394,188 | **6.14** | 4.65 | 6.11 |
| Forfeited | **–2,173,887** | –1,337,764 | –249,751 | **5.46** | 3.85 | 3.54 |
| Closing balance | **38,405,158** | 38,551,921 | 41,407,132 | **5.83** | 4.57 | 3.65 |

**Summary of stock options outstanding and exercisable**

| **2007**<br>**Range of exercise price in euros** | **Options outstanding as at 31 December 2007** | **Weighted average remaining contractual life** | **Weighted average exercise price** | **Options exercisable as at 31 December 2007** | **Weighted average remaining contractual life** | **Weighted average exercise price** |
|---|---|---|---|---|---|---|
| 0.00 – 15.00 | **6,236,710** | **5.19** | **12.02** | **6,236,710** | **5.19** | **12.02** |
| 15.00 – 20.00 | **9,773,356** | **5.55** | **18.47** | **9,773,356** | **5.55** | **18.47** |
| 20.00 – 25.00 | **15,180,545** | **6.84** | **23.10** | **1,556,832** | **3.21** | **21.83** |
| 25.00 – 30.00 | **15,338,397** | **3.46** | **28.72** | **15,206,363** | **3.42** | **28.74** |
| 30.00 – 35.00 | **24,726,711** | **8.69** | **32.47** | **77,300** | **3.59** | **33.08** |
| 35.00 – 40.00 | **5,632,834** | **3.14** | **35.51** | **5,632,834** | **3.14** | **35.51** |
| | **76,888,553** | | | **38,483,395** | | |

**Summary of stock options outstanding and exercisable**

| 2006<br>Range of exercise price in euros | Options outstanding as at 31 December 2006 | Weighted average remaining contractual life | Weighted average exercise price | Options exercisable as at 31 December 2006 | Weighted average remaining contractual life | Weighted average exercise price |
|---|---|---|---|---|---|---|
| 0.00 – 15.00 | 7,953,108 | 6.18 | 12.72 | 7,953,108 | 6.19 | 12.72 |
| 15.00 – 20.00 | 10,162,164 | 7.20 | 18.69 | 121,471 | 6.66 | 18.49 |
| 20.00 – 25.00 | 14,820,967 | 8.24 | 23.25 | 44,875 | 5.65 | 23.12 |
| 25.00 – 30.00 | 19,937,148 | 4.44 | 28.73 | 19,796,024 | 4.43 | 28.74 |
| 30.00 – 35.00 | 13,696,046 | 9.20 | 32.78 | 102,034 | 4.59 | 32.93 |
| 35.00 – 40.00 | 7,606,476 | 4.09 | 35.58 | 7,606,476 | 4.16 | 35.58 |
| | 74,175,909 | | | 35,623,988 | | |

# Notes to the consolidated profit and loss account of ING Group (continued)

**Summary of stock options outstanding and exercisable**

| 2005<br>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 remaining contractual life | Weighted average exercise price |
|---|---|---|---|---|---|---|
| 0.00 – 15.00 | 16,872,752 | 7.18 | 12.71 | 2,423,643 | 7.20 | 12.89 |
| 15.00 – 20.00 | 10,797,877 | 8.20 | 18.69 | 301,461 | 7.97 | 18.70 |
| 20.00 – 25.00 | 15,423,891 | 9.23 | 23.25 | 172,095 | 8.11 | 23.21 |
| 25.00 – 30.00 | 27,110,926 | 5.28 | 28.59 | 25,901,115 | 5.21 | 28.57 |
| 30.00 – 35.00 | 361,530 | 2.86 | 33.15 | 361,530 | 2.86 | 33.15 |
| 35.00 – 40.00 | 14,561,974 | 3.48 | 35.47 | 14,561,974 | 3.48 | 35.47 |
| | 85,128,950 | | | 43,721,818 | | |

The aggregate intrinsic value of options outstanding and exercisable at 31 December 2007 was EUR 230 million and EUR 183 million, respectively.

As of 31 December 2007 there was EUR 69 million of total unrecognised compensation costs related to stock options (2006: EUR 90 million; 2005: EUR 50 million). These costs are expected to be recognised over a weighted average period of 1.7 years (2006: 1.9 years; 2005: 2.0 years). Cash received from stock option exercises for the year ended 31 December 2007 was EUR 131 million (2006: EUR 355 million; 2005: nil).

The fair value of options granted is recorded as an expense under staff expenses and is allocated over the vesting period of the options. The fair values of the option awards have been determined by using a Monte Carlo simulation. This model takes the risk free interest rate into account (4.04% to 4.51%), as well as the expected life of the options granted (1 year to 7 years), the exercise price, the current share price (EUR 30.02 – EUR 33.10), the expected volatility of the certificates of ING Group shares (25% – 27%) and the expected dividends yield (3.98% to 4.63%).

Due to timing differences in granting option rights and buying shares to hedge them, an equity difference can occur if shares are purchased at a different price than the exercise price of the options. However, ING Group does not intentionally create a position and occurring positions are closed as soon as possible. If option rights expire, the results on the (sale of) shares which were bought to hedge these option rights are recorded in Shareholders' equity.

**Changes in share awards**

| | | | Share awards | | | Weighted average grant date fair value |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Opening balance | **8,373,146** | 6,499,469 | 3,715,896 | **24.90** | 22.92 | 19.38 |
| Granted | **2,554,762** | 2,484,786 | 2,980,601 | **19.74** | 29.62 | 27.50 |
| Performance effect | **2,463,058** | | | **19.35** | | |
| Vested | **–5,569,061** | –155,522 | –152,006 | **19.35** | 22.48 | 20.26 |
| Forfeited | **–688,191** | –455,587 | –45,022 | **26.39** | 23.10 | 24.71 |
| Closing balance | **7,133,714** | 8,373,146 | 6,499,469 | **27.52** | 24.90 | 22.92 |

The fair value of share awards granted is recorded as an expense under staff expenses and is allocated over the vesting period of the share awards. The fair values of share awards have been determined by using a Monte Carlo Simulation based valuation model. The model takes into account the risk free interest rate, the current stock prices, expected volatilities and current divided yields of the performance peer group used to determine ING's Total Shareholder Return (TSR) ranking.

As of 31 December 2007 there were EUR 53 million (2006: EUR 88 million; 2005: EUR 81 million) of total unrecognised compensation costs related to share awards. These costs are expected to be recognised over a weighted average period of 1.7 years (2006: 1.8 years; 2005: 1.9 years).

### 44 OTHER INTEREST EXPENSES

Other interest expenses mainly consist of interest in connection with the insurance operations, including interest on the perpetual subordinated loans.

Other interest expenses includes EUR 7 million and EUR 92 million dividends paid on preference shares and trust preferred securities (2006: EUR 10 million and EUR 101 million; 2005: EUR 14 million and EUR 111 million).

Total interest income and total interest expense for items not valued at fair value through profit and loss for 2007 were EUR 46,900 million (2006: EUR 41,281 million; 2005: EUR 35,632 million) and EUR 31,173 million (2006: EUR 27,014 million; 2005: EUR 20,888 million) respectively. Net interest income of EUR 16,658 million is presented in the following profit and loss captions.

**Net interest income**

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| Interest result bank 34 | **8,976** | 9,192 | 9,067 |
| Investment income – insurance 36 | **8,784** | 8,756 | 8,340 |
| Interest expense | **–1,102** | –1,016 | –969 |
| | **16,658** | 16,932 | 16,438 |

## 45 OTHER OPERATING EXPENSES

**Other operating expenses**

| | | Insurance operations | | | Banking operations | | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Depreciation of property and equipment | **98** | 102 | 113 | **321** | 361 | 376 | **419** | 463 | 489 |
| Amortisation of intangible assets | **117** | 107 | 108 | **122** | 101 | 112 | **239** | 208 | 220 |
| Computer costs | **393** | 331 | 319 | **678** | 705 | 669 | **1,071** | 1,036 | 988 |
| Office expenses | **660** | 629 | 595 | **628** | 634 | 622 | **1,288** | 1,263 | 1,217 |
| Travel and accommodation expenses | **102** | 102 | 104 | **153** | 139 | 133 | **255** | 241 | 237 |
| Advertising and public relations | **258** | 177 | 150 | **759** | 722 | 619 | **1,017** | 899 | 769 |
| External advisory fees | **455** | 581 | 505 | **491** | 449 | 356 | **946** | 1,030 | 861 |
| Addition/(releases) of provision for reorganisations and relocations | **11** | –16 | 38 | **434** | 63 | 86 | **445** | 47 | 124 |
| Other | **580** | 465 | 362 | **965** | 777 | 1,060 | **1,545** | 1,242 | 1,422 |
| | **2,674** | 2,478 | 2,294 | **4,551** | 3,951 | 4,033 | **7,225** | 6,429 | 6,327 |

Other operating expenses include lease and sublease payments in respect to operating leases, of EUR 156 million (2006: EUR 229 million; 2005: EUR 50 million) in which ING is the lessee.

## 46 TAXATION

**Taxation by type**

| | | Netherlands | | | International | | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Current taxation | **112** | 469 | 855 | **963** | 970 | 388 | **1,075** | 1,439 | 1,243 |
| Deferred taxation | **144** | 95 | –2 | **316** | 373 | 138 | **460** | 468 | 136 |
| | **256** | 564 | 853 | **1,279** | 1,343 | 526 | **1,535** | 1,907 | 1,379 |

# Notes to the consolidated profit and loss account of ING Group (continued)

**Reconciliation of the weighted average statutory income tax rate to ING Group's effective income tax rate**

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| Result before taxation | **11,043** | 9,940 | 8,894 |
| Weighted average statutory tax rate | **28.7%** | 30.9% | 31.8% |
| Weighted average statutory tax amount | **3,169** | 3,071 | 2,831 |
| | | | |
| Associates exemption | **–814** | –255 | –386 |
| Other income not subject to tax | **–577** | –336 | –222 |
| Expenses not deductible for tax purposes | **93** | 121 | 37 |
| Impact on deferred tax from change in tax rates | **–9** | –170 | –2 |
| Deferred tax benefit from previously unrecognised amounts | **–64** | –30 | –413 |
| Current tax benefit from previously unrecognised amounts | **–222** | –447 | –391 |
| Write down/reversal of deferred tax assets | **8** | –6 | 2 |
| Adjustment to prior periods | **–49** | –41 | –77 |
| Effective tax amount | **1,535** | 1,907 | 1,379 |
| | | | |
| Effective tax rate | **13.9%** | 19.2% | 15.5% |

As of 2007, the reconciliation is prepared on the basis of the weighted average statutory tax rate. Until 2006 , it was prepared on the basis of the Dutch statutory tax rate for the entire Group. The 2006 and 2005 comparatives have been restated to reflect this change.

The effect of the change in tax rates in 2006 is mainly attributable to a reduction in the tax rate in the Netherlands from 29.6% to 25.5%.

Tax benefits from previously unrecognised amounts includes releases of tax provisions resulting from settlements with tax authorities. Significant amounts included relate to closing of tax audits in the main tax jurisdictions of the Group.

## 47 EARNINGS PER ORDINARY SHARE

**Earnings per ordinary share**

| | Net profit (in millions of euros) | | | Weighted average number of ordinary shares outstanding during the period (in millions) | | | Net profit per ordinary share (in euros) | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Basic and net profit | **9,241** | 7,692 | 7,210 | **2,141.1** | 2,155.0 | 2,169.5 | **4.32** | 3.57 | 3.32 |
| | | | | | | | | | |
| Effect of dilutive securities: | | | | | | | | | |
| Warrants | | | | **3.2** | 7.6 | | | | |
| Stock option and share plans | | | | **12.3** | 14.4 | | | | |
| | | | | **15.5** | 22.0 | | | | |
| | | | | | | | | | |
| Diluted profit | **9,241** | 7,692 | 7,210 | **2,156.6** | 2,177.0 | 2,169.5 | **4.28** | 3.53 | 3.32 |

Diluted profit per share data are computed as if the stock options and warrants outstanding at year-end were exercised at the beginning of the period. It is also assumed that ING Group uses the cash thus received for stock options and warrants exercised to buy its own shares against the average market price in the financial year. The net increase in the number of shares resulting from the exercise of warrants and stock options is added to the average number of shares used for the calculation of net profit per share.

## 48 DIVIDEND PER ORDINARY SHARE

**Dividend per ordinary share**

| | 2007 [1] | 2006 | 2005 |
|---|---|---|---|
| Per ordinary share (in euros) | **1.48** | 1.32 | 1.18 |
| Total amount of dividend declared (in millions of euros) | **3,180** | 2,865 | 2,588 |

[1] The Executive Board, with the approval of the Supervisory Board, has proposed, subject to the ratification by the General Meeting of Shareholders, a cash dividend of EUR 1.48 per share for the year 2007. Following the decision of the General Meeting of Shareholders with regard to the profit appropriation, the final cash dividend will become payable on 5 May 2008.

# Segment reporting
amounts in millions of euros, unless stated otherwise

**49 PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS**
ING Group's business segments relate to the internal segmentation by business lines. These include the business lines: Insurance Europe, Insurance Americas, Insurance Asia/Pacific, Wholesale Banking, Retail Banking and ING Direct.

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 policies of the business segments are the same as those described under Accounting policies 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. With regard to capital gains on the share portfolio, a fixed return of 3% is allocated to the insurance business lines. The differences between the actual capital gains on the shares portfolio and the allocated return are included in Other.

ING applies a system of capital charging that makes the results of the banking business units globally comparable, irrespective of the book equity they have and the currency they operate in. ING has the policy that, for the banking business units, equity locally needs to be invested at the local risk free rate. Banking business units are charged by the Corporate Line for the income that they make on the book equity invested and, are given a benefit based on the risk free Euro rate on the economic capital they employ. Consequently, the results of the businesses as disclosed are the local results after Group overhead charges while the investment returns on equity are based on the risk free Euro rate on economic capital.

ING Group 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.

## Business segments

| 2007 | Insurance Europe | Insurance Americas | Insurance Asia/ Pacific | Wholesale Banking | Retail Banking | ING Direct | Other | Total segments | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Income | | | | | | | | | | |
| – external | 15,903 | 29,565 | 14,105 | 7,150 | 6,956 | 2,346 | 561 | 76,586 | | 76,586 |
| – inter-segment | 359 | 116 | 278 | –1,290 | –532 | –150 | 3,191 | 1,972 | –1,972 | |
| Total income | 16,262 | 29,681 | 14,383 | 5,860 | 6,424 | 2,196 | 3,752 | 78,558 | –1,972 | 76,586 |
| | | | | | | | | | | |
| Segment profit before taxation | 2,300 | 2,152 | 576 | 2,260 | 1,783 | 530 | 1,442 | 11,043 | | 11,043 |
| Divestments | –460 | –93 | | | –32 | | 129 | –456 | | –456 |
| Special items | | | | 139 | 311 | | 40 | 490 | | 490 |
| Underlying profit before taxation | 1,840 | 2,059 | 576 | 2,399 | 2,062 | 530 | 1,611 | 11,077 | | 11,077 |
| | | | | | | | | | | |
| Segment assets | 98,287 | 159,679 | 61,433 | 965,680 | 461,946 | 262,560 | 139,050 | 2,148,635 | –836,125 | 1,312,510 |
| Segment liabilities | 89,531 | 150,769 | 55,996 | 957,923 | 458,006 | 259,792 | 110,995 | 2,083,012 | –810,033 | 1,272,979 |
| | | | | | | | | | | |
| Share in profit or loss of associates | 316 | 191 | | 212 | 26 | | –5 | 740 | | 740 |
| Book value of associates | 2,894 | 252 | 1 | 1,502 | 461 | | –96 | 5,014 | | 5,014 |
| | | | | | | | | | | |
| Cost incurred in 2007 to acquire property, equipment, and intangibles | 219 | 766 | 122 | 177 | 1,227 | 296 | 344 | 3,151 | | 3,151 |
| | | | | | | | | | | |
| Significant non-cash expenses | | | | | | | | | | |
| – Depreciation and amortisation | 255 | 1,102 | 573 | 155 | 199 | 87 | 4 | 2,375 | | 2,375 |
| – Impairments | 4 | 114 | 1 | 38 | | 14 | | 171 | | 171 |
| – Reversal of impairments | | 5 | | 51 | 6 | | | 62 | | 62 |
| – Deferred acquisition costs and VOBA | 900 | 6,874 | 5,219 | | | | | 12,993 | | 12,993 |
| – Increase in provisions for Insurance and investment contracts | 4,339 | 12,036 | 10,060 | | | | 59 | 26,494 | | 26,494 |
| – Addition to loan loss provision | | | | –115 | 172 | 68 | | 125 | | 125 |

The segment Insurance Asia/Pacific has 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**

| 2006 | Insurance Europe | Insurance Americas | Insurance Asia/ Pacific | Wholesale Banking | Retail Banking | ING Direct | Other | Total segments | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Income | | | | | | | | | | |
| – external | 15,893 | 29,775 | 13,310 | 7,215 | 6,126 | 2,216 | –914 | 73,621 | | 73,621 |
| – inter-segment | 278 | 4 | 68 | –1,397 | –40 | 73 | 2,375 | 1,361 | –1,361 | |
| Total income | 16,171 | 29,779 | 13,378 | 5,818 | 6,086 | 2,289 | 1,461 | 74,982 | –1,361 | 73,621 |
| | | | | | | | | | | |
| Segment profit before taxation | 2,362 | 1,992 | 636 | 2,481 | 1,935 | 691 | –157 | 9,940 | | 9,940 |
| Divestments | –113 | | –15 | 44 | | 3 | | –81 | | –81 |
| Underlying profit before taxation | 2,249 | 1,992 | 621 | 2,525 | 1,935 | 694 | –157 | 9,859 | | 9,859 |
| | | | | | | | | | | |
| Segment assets | 117,106 | 162,229 | 54,454 | 764,882 | 314,191 | 253,160 | 205,236 | 1,871,258 | –644,951 | 1,226,307 |
| Segment liabilities | 102,827 | 152,599 | 50,204 | 756,645 | 310,078 | 249,792 | 159,635 | 1,781,780 | –596,688 | 1,185,092 |
| | | | | | | | | | | |
| Share in profit or loss of associates | 447 | 8 | | 176 | 11 | | –4 | 638 | | 638 |
| Book value of associates | 2,981 | 14 | 2 | 1,141 | 57 | | 148 | 4,343 | | 4,343 |
| | | | | | | | | | | |
| Cost incurred in 2006 to acquire property, equipment, and intangibles | 1,322 | 243 | 90 | 226 | 182 | 144 | 3 | 2,210 | | 2,210 |
| | | | | | | | | | | |
| Significant non-cash expenses | | | | | | | | | | |
| – Depreciation and amortisation | 287 | 915 | 627 | 171 | 216 | 74 | | 2,290 | | 2,290 |
| – Impairments | 1 | | 10 | 16 | 4 | | | 31 | | 31 |
| – Reversal of impairments | | | | | 4 | | | 4 | | 4 |
| – Addition to loan loss provision | | | | –118 | 161 | 60 | | 103 | | 103 |

**Business segments**

| 2005 | Insurance Europe | Insurance Americas | Insurance Asia/ Pacific | Wholesale Banking | Retail Banking | ING Direct | Other | Total segments | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Income | | | | | | | | | | |
| – external | 15,832 | 28,030 | 13,161 | 6,808 | 5,702 | 1,739 | –152 | 71,120 | | 71,120 |
| – inter-segment | 201 | 4 | 31 | –851 | 179 | 295 | 641 | 500 | –500 | |
| Total income | 16,033 | 28,034 | 13,192 | 5,957 | 5,881 | 2,034 | 489 | 71,620 | –500 | 71,120 |
| | | | | | | | | | | |
| Segment profit before taxation | 2,031 | 1,941 | 478 | 2,599 | 1,864 | 630 | –649 | 8,894 | | 8,894 |
| Divestments | –87 | 38 | –31 | –300 | –62 | –13 | | –455 | | –455 |
| Underlying profit before taxation | 1,945 | 1,979 | 447 | 2,299 | 1,802 | 617 | -649 | 8,440 | | 8,440 |
| | | | | | | | | | | |
| Segment assets | 113,900 | 165,719 | 48,326 | 677,869 | 312,021 | 232,773 | 27,856 | 1,578,464 | –419,825 | 1,158,639 |
| Segment liabilities | 101,855 | 158,330 | 44,697 | 669,352 | 308,558 | 229,778 | 21,018 | 1,533,588 | –413,374 | 1,120,214 |
| | | | | | | | | | | |
| Share in profit or loss of associates | 346 | 12 | 34 | 134 | 6 | | 9 | 541 | | 541 |
| Book value of associates | 2,421 | 15 | 1 | 1,114 | 45 | 2 | 24 | 3,622 | | 3,622 |
| | | | | | | | | | | |
| Cost incurred in 2007 to acquire property, equipment, and intangibles | 1,081 | 142 | 46 | 214 | 236 | 103 | 8 | 1,830 | | 1,830 |
| | | | | | | | | | | |
| Significant non-cash expenses | | | | | | | | | | |
| – Depreciation and amortisation | 405 | 934 | 613 | 181 | 229 | 63 | | 2,425 | | 2,425 |
| – Impairments | 29 | 15 | 19 | 75 | 6 | | | 144 | | 144 |
| – Reversal of impairments | | 41 | 1 | 15 | 12 | | | 69 | | 69 |
| – Addition to loan loss provision | | | | –108 | 111 | 85 | | 88 | | 88 |

# Segment reporting (continued)

**Interest income (external) and interest expense (external) breakdown by business line**

| 2007 | Insurance Europe | Insurance Americas | Insurance Asia/Pacific | Wholesale Banking | Retail Banking | ING Direct | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Interest income | 3,026 | 4,603 | 975 | 51,890 | 12,931 | 12,040 | 157 | 85,622 |
| Interest expense | 85 | 376 | 4 | 45,431 | 10,594 | 9,963 | 2,603 | 69,056 |
| | 2,941 | 4,227 | 971 | 6,459 | 2,337 | 2,077 | –2,446 | 16,566 |

**Interest income (external) and interest expense (external) breakdown by business line**

| 2006 | Insurance Europe | Insurance Americas | Insurance Asia/Pacific | Wholesale Banking | Retail Banking | ING Direct | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Interest income | 3,307 | 4,604 | 911 | 37,873 | 10,390 | 10,435 | 669 | 68,189 |
| Interest expense | 25 | 466 | 4 | 31,648 | 8,085 | 8,309 | 2,458 | 50,995 |
| | 3,282 | 4,138 | 907 | 6,225 | 2,305 | 2,126 | –1,789 | 17,194 |

**Interest income (external) and interest expense (external) breakdown by business line**

| 2005 | Insurance Europe | Insurance Americas | Insurance Asia/Pacific | Wholesale Banking | Retail Banking | ING Direct | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Interest income | 3,658 | 4,492 | 856 | 30,092 | 10,253 | 8,101 | –289 | 57,163 |
| Interest expense | 115 | 341 | 4 | 25,326 | 7,072 | 6,523 | 769 | 40,150 |
| | 3,543 | 4,151 | 852 | 4,766 | 3,181 | 1,578 | –1,058 | 17,013 |

## 50 SECONDARY REPORTING FORMAT – GEOGRAPHICAL SEGMENTS

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

**Geographical segments**

| 2007 | Netherlands | Belgium | Rest of Europe | North America | Latin America | Asia | Australia | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Income | | | | | | | | | | |
| – external | 15,577 | 5,850 | 6,424 | 28,240 | 3,186 | 13,999 | 1,005 | 2,307 | –2 | 76,586 |
| – inter-segment | 686 | –701 | 727 | –463 | 178 | 304 | 20 | 1,219 | –1,970 | |
| Total income | 16,263 | 5,149 | 7,151 | 27,777 | 3,364 | 14,303 | 1,025 | 3,526 | –1,972 | 76,586 |
| | | | | | | | | | | |
| Segment profit before taxation | 2,252 | 1,542 | 1,987 | 2,233 | 523 | 551 | 452 | 1,503 | | 11,043 |
| | | | | | | | | | | |
| Segment assets | 676,676 | 177,716 | 363,178 | 313,263 | 23,631 | 89,079 | 40,915 | 36,243 | –408,191 | 1,312,510 |
| Cost incurred in 2007 to acquire property, equipment, and intangibles | 370 | 61 | 1,215 | 316 | 679 | 113 | 56 | 341 | | 3,151 |

**Geographical segments**

| 2006 | Netherlands | Belgium | Rest of Europe | North America | Latin America | Asia | Australia | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Income | | | | | | | | | | |
| – external | 16,079 | 5,358 | 5,920 | 29,472 | 2,712 | 13,155 | 841 | 84 | | 73,621 |
| – inter-segment | 765 | –436 | 586 | –1,039 | 355 | 117 | 11 | 1,002 | –1,361 | |
| Total income | 16,844 | 4,922 | 6,506 | 28,433 | 3,067 | 13,272 | 852 | 1,086 | –1,361 | 73,621 |
| | | | | | | | | | | |
| Segment profit before taxation | 3,585 | 1,115 | 1,785 | 2,315 | 318 | 583 | 340 | –101 | | 9,940 |
| | | | | | | | | | | |
| Segment assets | 608,949 | 180,694 | 339,683 | 319,233 | 21,567 | 72,515 | 33,373 | 44,459 | –394,166 | 1,226,307 |
| Cost incurred in 2006 to acquire property, equipment, and intangibles | 1,506 | 62 | 253 | 228 | 40 | 75 | 46 | | | 2,210 |

## Geographical segments

| 2005 | Netherlands | Belgium | Rest of Europe | North America | Latin America | Asia | Australia | Other | Eliminations | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Income | | | | | | | | | | |
| – external | 16,779 | 5,142 | 5,586 | 26,871 | 2,771 | 12,996 | 783 | 324 | | 71,252 |
| – inter-segment | 217 | –358 | 460 | –161 | 55 | 89 | 21 | –455 | | –132 |
| Total income | 16,996 | 4,784 | 6,046 | 26,710 | 2,826 | 13,085 | 804 | –131 | | 71,120 |
| | | | | | | | | | | |
| Segment profit before taxation | 3,566 | 1,383 | 1,123 | 2,434 | 168 | 361 | 336 | –477 | | 8,894 |
| | | | | | | | | | | |
| Segment assets | 271,096 | 165,590 | 329,198 | 275,661 | 19,653 | 64,176 | 26,832 | 6,433 | | 1,158,639 |
| Cost incurred in 2005 to acquire property, equipment, and intangibles | 1,271 | 138 | 173 | 135 | 41 | 51 | 21 | | | 1,830 |

## Profit before taxation by geographical area

| | | Insurance operations | | | Banking operations | | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Netherlands | **1,446** | 2,182 | 1,714 | **806** | 1,403 | 1,693 | **2,252** | 3,585 | 3,407 |
| Belgium | **523** | 160 | 192 | **1,019** | 955 | 790 | **1,542** | 1,115 | 982 |
| Rest of Europe | **332** | 309 | 263 | **1,655** | 1,476 | 1,317 | **1,987** | 1,785 | 1,580 |
| North America | **1,826** | 1,564 | 1,443 | **407** | 751 | 705 | **2,233** | 2,315 | 2,148 |
| Latin America | **326** | 178 | 152 | **197** | 140 | 78 | **523** | 318 | 230 |
| Asia | **362** | 468 | 275 | **189** | 115 | 170 | **551** | 583 | 445 |
| Australia | **215** | 176 | 195 | **237** | 164 | 162 | **452** | 340 | 357 |
| Other | **1,503** | –101 | –256 | | | 1 | **1,503** | –101 | –255 |
| Total | **6,533** | 4,936 | 3,978 | **4,510** | 5,004 | 4,916 | **11,043** | 9,940 | 8,894 |

## Geographical analysis of claims, expense ratio and combined ratio for non-life insurance policies

| | | Claims ratio | | | Expense ratio | | | Combined ratio | |
|---|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 | **2007** | 2006 | 2005 |
| Netherlands | **50.2** | 44.7 | 56.0 | **41.2** | 40.3 | 39.0 | **91.4** | 85.0 | 95.0 |
| Belgium | **70.3** | 65.0 | 66.8 | **31.5** | 33.7 | 34.1 | **101.8** | 98.7 | 100.9 |
| Rest of Europe | **44.1** | 46.8 | 51.5 | **44.8** | 41.3 | 41.8 | **88.9** | 88.1 | 93.3 |
| North America | **65.7** | 59.2 | 59.7 | **28.5** | 29.9 | 29.4 | **94.2** | 89.1 | 89.1 |
| Latin America | **81.6** | 74.2 | 75.8 | **27.3** | 26.8 | 28.4 | **108.9** | 101.0 | 104.2 |
| Asia | **50.1** | 50.2 | 52.5 | **42.7** | 40.7 | 40.3 | **92.8** | 90.9 | 92.8 |
| Other | **144.3** | 60.1 | 119.7 | **18.7** | –36.4 | 14.6 | **163.0** | 23.7 | 134.3 |
| Total | **65.3** | 58.6 | 62.7 | **31.8** | 31.8 | 31.9 | **97.1** | 90.4 | 94.6 |

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

# Notes to the consolidated statement of cash flows of ING Group
## amounts in millions of euros, unless stated otherwise

### 51 NET CASH FLOW FROM INVESTING ACTIVITIES
Information on the impact of companies acquired or disposed of is presented in Note 29 'Companies acquired and companies disposed'.

### 52 INTEREST AND DIVIDEND INCLUDED IN NET CASH FLOW

**Interest and dividend received and paid**

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| Interest received | **82,707** | 66,471 | 53,015 |
| Interest paid | **–66,463** | –52,369 | –33,379 |
| | **16,244** | 14,102 | 19,636 |
| | | | |
| Dividend received | **820** | 715 | 522 |
| Dividend paid | **–3,039** | –2,716 | –2,461 |

### 53 CASH AND CASH EQUIVALENTS

**Cash and cash equivalents**

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| Treasury bills and other eligible bills | **4,130** | 4,333 | 11,572 |
| Amounts due from/to banks | **–33,347** | –20,454 | –21,321 |
| Cash and balances with central banks | **12,406** | 14,326 | 13,084 |
| Cash and cash equivalents at end of year | **–16,811** | –1,795 | 3,335 |

**Treasury bills and other eligible bills included in cash and cash equivalents**

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| Treasury bills and other eligible bills included in trading assets | **1,806** | 1,286 | 8,878 |
| Treasury bills and other eligible bills included in available-for-sale investments | **2,324** | 3,047 | 2,694 |
| | **4,130** | 4,333 | 11,572 |

**Amounts due to/from banks**

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| Included in cash and cash equivalents | | | |
| – amounts due to banks | **–42,154** | –26,498 | –25,441 |
| – amounts due from banks | **8,807** | 6,044 | 4,120 |
| | **–33,347** | –20,454 | –21,321 |
| | | | |
| Not included in cash and cash equivalents | | | |
| – amounts due to banks | **–124,818** | –94,341 | –96,793 |
| – amounts due from banks | **40,068** | 33,824 | 43,346 |
| | **–84,750** | –60,517 | –53,447 |
| | | | |
| Included in balance sheet | | | |
| – amounts due to banks | **–166,972** | –120,839 | –122,234 |
| – amounts due from banks | **48,875** | 39,868 | 47,466 |
| | **–118,097** | –80,971 | –74,768 |

Cash and cash equivalents include amounts due to/from banks with a term of less than 3 months from the date on which they were acquired.

ING's risk management (including liquidity) is explained in the Risk management section.

# Risk management
amounts in millions of euros, unless stated otherwise

**STRUCTURE OF RISK MANAGEMENT SECTION**



## KEY DEVELOPMENTS RISK MANAGEMENT 2007
Taking measured risks is part of ING's business. Like other financial services companies, ING faces several categories of risk, including credit, interest rate, real estate, equity, insurance and liquidity. Beyond that, there are also operational, information, security and compliance risks attached to doing business.

ING has systematically invested in improving its risk management capabilities over the past years, including investments in people, governance, processes, measurement tools and systems, etc. Recent examples are the introduction of the risk dashboard (discussed below) at the ING Group level, the company-wide embedding of the Compliance and Financial Economic Crime policies, the implementation of advanced measurement methods under Basel II (Credit Risk Internal Rating Based and Operational Risk Advanced Measurement Approach (AMA)) for the Bank and the roll-out of an intranet-based Economic Capital reporting system based on replicating portfolio techniques (ECAPS ) to consistently calculate Economic Capital for insurance businesses. The addition of the position of Chief Risk Officer as part of the Executive Board in April 2007 provides a strong commitment to ensuring that risk is a key component of management decisions. To show the commitment and improvements to its risk management ING chose risk management as its theme for its 14th Investor Relations Symposium in London on 20 September 2007.

### Effects of market developments during 2007
Throughout 2007, significant market turmoil was experienced in the credit markets, beginning with concerns over US sub-prime mortgages and then widening into a general banking liquidity crisis. For the year ended 31 December 2007, this crisis had only limited impact on the profit and loss account as a result of ING's investments in pressurised assets classes e.g. US sub-prime and Alt-A residential mortgage backed securities (RMBS), Collateralized Debt Obligations (CDOs) and Collateralized Loan Obligations (CLOs). Unrealised gains (losses) relating to available for sale (fixed income) asset backed securities, including RMBS, are taken to the revaluation reserve in shareholders equity, unless there is evidence of impairment, in which case the negative revaluation reserve is recognised in the profit and loss account.

ING's risk management organisation and its liquidity position helped it to manage the problems that occurred in the credit and other financial markets in 2007. It has been ING's policy to maintain a high quality and well diversified portfolio. To that effect ING has limits and investment policies in place which are defined in mandates for every portfolio. Investment and trading decisions are based on internal research, and not only on published ratings. Some limits were set at more stringent levels since early 2007, in anticipation of a potential downturn of the market. As a result ING's exposure to pressurised asset classes is of high quality and has not led to major impairments. The total direct pre-tax negative impact on ING's 2007 profit and loss account was EUR 255 million as a result of exposures in pressurised asset classes and leveraged finance as well as monoline insurers, Structured Investments Vehicles (SIVs) and Asset-Backed Commercial Paper. Pre-tax revaluation (via equity) for the pressurised asset classes (US subprime RMBS, Alt-A RMBS and CDOs/CLOs) at year-end 2007 was EUR –1,377 million. This runs through shareholders' equity in the balance sheet on an after-tax basis.

The Group's total exposure to US sub-prime assets, representing less than 0.2% of total assets, relates to non originated loans acquired as investments in RMBS. At 31 December 2007 approximately 96% of ING's US sub-prime portfolio was rated AA or higher. ING Group does not originate sub-prime mortgages. The vast majority of the total mortgage backed securitisations (MBS) contain (residential) mortgages that are not classified as sub-prime.

As at 31 December 2007 ING's well collateralised Alt-A RMBS portfolio was approximately 2% of total assets. Approximately 86% related to ING Direct; the average loan to value ratio is approximately 71% and more than 99% of the portfolio is AAA rated. ING's available for sale Alt-A investments are measured at fair value in the balance sheet. Net investments in CDOs/CLOs at 31 December 2007 were 0.1% of total assets and are measured at fair value in the balance sheet. An analysis of the method applied in determining the fair values of financial assets and liabilities is provided in Note 33 'Fair value of Financial Assets and Liabilities'.

ING has a limited exposure to monoline insurers. ING's direct exposure to monoline insurers is negligible. However, ING has some indirect exposure to monoline insurers as it has insured 0.3% of total assets, either through embedded financial guarantees ('wrapped bonds') or through credit derivatives. Changes in the monoline insurer's rating (and as a result the asset's fair value) impact the profit and loss account for financial assets at fair value through profit and loss. Underlying wrapped bonds in the available for sale securities portfolio are monitored through the regular credit review process and were not impaired as of 31 December 2007.

ING's approach to liquidity management requires a surplus of liquid assets, contingency plans and close monitoring of market conditions. Since the start of the market turmoil in August 2007, ING's Liquidity Crisis Committee has met on a regular basis in line with ING's liquidity policy. The Committee discusses ING's liquidity and funding profile and is chaired by the Chief Risk Officer. Other members include the Chief Financial Officer, all the main treasurers of ING Group, the head of Market Risk Management and the head of Corporate Communications and Affairs. The Liquidity strategy and market conditions are monitored on a daily basis. Large buffers of liquidity were retained throughout 2007, and as a result, contingency funding plans, in place at all levels, were not required to be executed as ING's liquidity position remained sound during the year.

ING Group's credit risk management is described below for both ING Bank and ING Insurance. ING's exposure to credit risk and the resulting credit risk losses in 2007 have been mitigated by maintaining a well diversified portfolio.

ING Group's capital management is described in the Capital Management section below. Throughout the market turmoil experienced during 2007, capital levels of ING Group, ING Bank and ING Insurance exceeded those required by regulators.

Developments during the year relating to ING Group's involvement in securitisation and asset backed commercial paper vehicles are described in Note 27 'Special Purpose Entities and Securitisation'.

**Ongoing volatility in the financial markets**

As a result of ongoing and unprecedented volatility in the global financial markets in recent quarters, we have incurred negative revaluations on our investment portfolio, which have impacted our shareholders' equity. Furthermore, we have incurred certain impairments and other losses, which have impacted our profit and loss accounts. Such impacts have arisen primarily as a result of valuation issues arising in connection with our exposures to US mortgage-related structured investment products, including sub-prime and Alt-A Residential Mortgage-Backed Securities (RMBS), Collateralized Debt Obligations (CDOs) and Collateralized Loan Obligations (CLOs), monoline insurer guarantees, Structured Investment Vehicles (SIVs) and other investments. In many cases, the markets for such instruments have become highly illiquid, and issues relating to counterparty credit ratings and other factors have exacerbated pricing and valuation uncertainties. Valuation of such instruments is a complex process involving the consideration of market transactions, pricing models, management judgment and other factors, and is also impacted by external factors such as underlying mortgage default rates, interest rates, rating agency actions and property valuations. While we continue to monitor our exposures in this area, in light of the ongoing market environment and the resulting uncertainties concerning valuations, there can be no assurances that we will not experience further negative impacts to our shareholders' equity or profit and loss accounts from such assets in future periods.

## ING GROUP

To ensure measured risk taking throughout the organisation, ING Group operates through a comprehensive risk management framework. This ensures the proper identification, measurement and control of risks at all levels of the organisation so that ING Group's financial strength is safeguarded.

The mission of ING Group's risk management function is to build a sustainable competitive advantage by fully integrating risk management into daily business activities and strategic planning. This mission is fully embedded in ING Group's business processes.

The following principles support this objective:
- Products and portfolios are structured, underwritten, priced, approved and managed appropriately and compliance with internal and external rules and guidelines is monitored;
- ING Group's risk profile is transparent, 'no surprises', and consistent with delegated authorities;
- Delegated authorities are consistent with the overall Group strategy and risk appetite;
- Transparent communication to internal and external stakeholders on risk management and value creation.

## RISK GOVERNANCE

ING's risk management framework is based on the 'three lines of defence' concept which ensures that risk is managed in line with the risk appetite as defined by the Executive Board and is cascaded throughout the Group. This concept provides a clear allocation of responsibilities for the ownership and management of risk, to avoid overlaps and/or gaps in risk governance. Business line management and the regional and local managers have primary responsibility for the day-to-day management of risk and form the first line of defence. The risk management function, both at corporate and regional/local level, belongs to the second line of defence and has the primary responsibility to align risk taking with strategic planning e.g. in limit setting. Risk managers in the business lines have a functional reporting line to the Corporate Risk General Managers described below. The internal audit function provides an ongoing independent (i.e. outside of the risk organisation) and objective assessment of the effectiveness of internal controls, including financial, operational, compliance and risk management and forms the third line of defence.

**Group Risk Management Function**
The risk management function is embedded in all levels of the ING Group organisation.

*Chief Risk Officer*
The Chief Risk Officer (CRO), who is a member of the Executive Board, bears primary overall responsibility for the Group risk management function. The CRO is responsible for the management and control of risk on a consolidated level to ensure that the ING Group's risk profile is consistent with its financial resources and the risk tolerance defined by the Executive Board. The CRO is also responsible for establishing a robust organisational basis for the management of risk throughout the ING organisation.

*Group Risk Organisation*
The organisation chart below illustrates the functional reporting lines within the ING Group risk organisation.


The risk organisation is structured independently from the business lines and is organised through five risk departments:
- Corporate Credit Risk Management (CCRM) is responsible for the credit risk management of ING Bank and ING Insurance;
- Corporate Market Risk Management (CMRM) is responsible for the market risk management and liquidity risk management of ING Bank;
- Corporate Insurance Risk Management (CIRM) is responsible for the insurance and market risk management of ING Insurance;
- Corporate Operational, Information and Security Risk Management (COISRM) is responsible for managing operational, information, and security risks within ING Bank and ING Insurance;
- Group Compliance Risk Management assists, supports and advises Management in fulfilling its compliance responsibilities, advises employees on their (personal) compliance obligations and oversees the embedding of Compliance Policies in both ING Bank and ING Insurance.

The heads of these departments (Corporate Risk General Managers) report to the CRO and bear direct responsibility for risk (mitigating) decisions at the Group level. The Corporate Risk General Managers and the CRO are responsible for the harmonisation and standardisation of risk management practices. The risk management function assists with the formulation of risk appetite, strategies, policies and limits. It also provides a review, oversight and support function throughout the Group on risk related issues.

In addition two staff departments report to the CRO:
- The Risk Integration and Analytics department is responsible for inter-risk aggregation processes and for providing Group-wide risk information to the CRO and Executive Board.
- The Model Validation department reviews the performance of all material risk models applied within ING. This department carries out periodic model validations of all risk models used by ING. To ensure independence from the business and the other risk departments, the head of this department reports directly to the CRO.

*Group Risk Committees*
The Group risk committees described below are also part of the second line of defence. They act within the overall risk policy and delegated authorities granted by the Executive Board and have an advisory role to the CRO. To ensure a close link between the business lines and the risk management function, the business line heads and the respective General Managers Corporate Risk are represented on each committee.

- ING Group Credit Committee – Policy (GCCP): Discusses and approves policies, methodologies and procedures related to credit, country and reputation risks within ING Group. The GCCP meets on a monthly basis;
- ING Group Credit Committee – Transaction Approval (GCCTA): Discusses and approves transactions which entail taking credit risk

# Risk management (continued)

(including issuer investment risk). The GCCTA meets two times a week;
- ING Provisioning Committee (IPC): Discusses and approves specific and collective loan loss provisions figures for ING Group. The IPC meets on a quarterly basis. The membership of the IPC, which is chaired by the CFO, consists of both Risk and Finance representatives and reflects the responsibilities of both departments;
- ING Group Investment Committee (GIC): Discusses and approves investment proposals for ING Real Estate. The GIC meets on a monthly basis;
- Asset and Liability Committee ING Bank (ALCO Bank): Discusses and approves the overall risk profile of all ING Bank's market risks that occur in its Wholesale Banking, Retail Banking and ING Direct activities. ALCO Bank defines the policy regarding funding, liquidity, interest rate mismatch and solvency for ING Bank. ALCO Bank meets on a monthly basis;
- Asset and Liability Committee ING Insurance (ALCO Insurance): Discusses and approves all risks associated with ING's Insurance activities. This includes volatility (affecting earnings and value), exposure (required capital and market risk) and insurance risks. ALCO Insurance meets six times a year.

In addition, a Finance and Risk Committee has been established as a platform for the CRO and the CFO, along with their respective staff, to discuss and decide on issues that relate to both the finance and risk domains.

ING Group has over the past several year increased its use of risk assessment and risk measurement to guide decision making. As a result, the quality of risk models becomes increasingly important. To meet sophisticated business and regulatory requirements ING revised its governance process for approval of risk models, methods and parameter setting in 2007. The governance process ensures a clear assignment of responsibility and accountability.

**Board level risk oversight**
At the highest level of the ING organisation, there are board committees which oversee risk taking, and have ultimate approval authority. ING Group has a two-tier board structure consisting of the Executive Board and the Supervisory Board; both bodies play a crucial role in managing and monitoring the risk management framework.

- The Executive Board is responsible for managing risks associated with the activities of ING Group. Its responsibilities include ensuring that internal risk management and control systems are effective and that ING Group complies with relevant legislation and regulations. On a regular basis, the Executive Board reports on these issues and discusses the internal risk management and control systems with the Supervisory Board. On a quarterly basis, the Executive Board reports on the Group's risk profile versus its risk appetite to the Audit Committee, explaining changes in the risk profile.
- The Audit Committee is a sub-committee of the Supervisory Board. It assists the Supervisory Board in reviewing and assessing ING Group's major risk exposures and the operation of internal risk management and control systems. Audit Committee membership is such that specific business know-how and expertise relating to the activities of ING is available. The CRO attends the Audit Committee meetings.

The CRO makes sure that the board committees are well informed and understand ING Group's risk position at all times. Every quarter the CRO reports to the board committees on ING's risk appetite levels and on ING Group's risk profile. In addition the CRO briefs the board committees on developments in internal and external risk related issues and makes sure the board committees understand specific risk concepts.

ING has fully integrated risk management into the annual strategic planning process. This process aligns strategic goals, business strategies and resources throughout ING Group. The process is such that the Executive Board issues a Planning Letter which provides the organisation with the corporate strategic direction, and addresses key risk issues. Based on this Planning Letter, the business lines and business units develop their business plans which align with the Group's strategic direction. The process includes a qualitative and quantitative assessment of the risks involved with the plans. It is part of the process to explicitly discuss strategic limits and group risk appetite levels. At each level, strategies and metrics are identified to measure success in achieving objectives and to assure adherence to the strategic plan. Based on the business unit and line of business plans, the Executive Board formulates the Group Strategic Plan which is submitted to the Supervisory Board for approval.

**Group risk policies**
ING has a framework of risk management policies, procedures and standards in place to create consistency throughout the organisation, and to define minimum requirements that are binding on all business units. The governance framework of the business units aligns with the Group level framework and, meets local (regulatory) requirements. Senior Management is responsible to ensure policies, procedures and standards are implemented and adhered to. Employees globally have access to the Group's governance framework through an internal website. Policies, procedures and standards are regularly reviewed and updated via the relevant risk committees to reflect changes in markets, products and emerging best practice.

**ING GROUP RISK PROFILE**
In 2007, ING Group made a significant step forward with its integrated risk management approach. At the Investor Day on 20 September 2007, the CRO presented for the first time the ING Group risk dashboard. This risk dashboard captures the risks in all Banking and Insurance business lines in terms of Earnings at Risk and Capital at Risk, and shows the impact of diversification across the Group. The

Executive Board uses the risk dashboard to monitor and manage the actual risk profile in relation to the Group risk appetite. It enables the Executive Board to identify possible risk concentrations and to support strategic decision making. The risk dashboard is reported to the Executive Board on a quarterly basis and is subsequently presented to the Audit Committee.

ING Group's risk appetite is defined by the Executive Board as part of the strategic planning process. Strict boundaries are established with regard to acceptable risk types and levels. ING's 'three lines of defence' governance framework ensures that the risk appetite is cascaded through the Group, thereby safeguarding proper and controlled risk taking. The role of the business lines is to maximise the value within established risk boundaries. Each quarter, the Executive Board monitors that the financial and non financial risks are within the boundaries of the risk appetite as set in the strategic planning process.

**ING Group risk metrics**

The Group's risk appetite is captured in three different metrics which are disclosed below:

- Earnings at Risk; the potential reduction in accounting earnings over the next year relative to expected accounting earnings, during a moderate (i.e. '1 in 10') stress scenario. Maintaining a high quality of earnings safeguards against ING being downgraded by the rating agencies;
- Capital at Risk; the potential reduction of the current net asset value (based on fair values) balance sheet over the next year relative to the expected value during a moderate (i.e. '1 in 10') stress scenario;
- Economic Capital; the amount of capital that is required to absorb unexpected losses in times of severe stress given ING Group's 'AA' target rating.

ING Group's risk metrics cover the most important aspects in terms of different severities (moderate vs. extreme stress) and performance measures where risk can materialise (value vs. earnings). The Earnings and Capital at Risk metrics are important metrics from a shareholder point of view since they provide insight in the level of risk ING takes under 'moderate stress' market expectations to generate return. From the debt and policy holder point of view, Economic Capital is more important since it is the buffer against extreme losses.

The main differences and similarities between the risk metrics are illustrated below;

| | Earnings at Risk | Capital at Risk | Economic Capital |
|---|---|---|---|
| Confidence interval | 90% | 90% | 99.95% (based on AA target rating) |
| Stressed metric | Accounting earnings | Value | Value |
| Deviation from | Expected accounting earnings (over next year) | Current net asset value based on fair values (over next year) | Current net asset value based on fair values (over next year) |
| Interpretation | Potential accounting earnings reduction against expectation during a 'moderate' stress scenario (i.e. 1 in 10) | Potential value reduction of net value during a 'moderate' stress scenario (i.e. 1 in 10) | Potential value reduction of net value during an 'extreme' stress scenario (i.e. 1 in 2000) |

When interpreting the Earnings and Capital at Risk metrics it is important to note that these are not loss estimates of a specific adverse scenario. Further, the metrics do not take into account discretionary management intervention in a specific crisis situation, and are based on instantaneous shock scenarios.

**Risk types**

ING's risk profile measures the following main types of risks that are associated with its business activities:

- Credit risk: the risk of potential loss due to default by ING's debtors (including bond issuers) or trading counterparties;
- Market risk: the risk of potential loss due to adverse movements in market variables, such as equity prices, real estate prices, interest rates and foreign exchange rates. These four market risks cover all market risks identified in ING's businesses;
- Insurance risk: risks such as mortality, morbidity and property and casualty associated with the claims under insurance policies it issues/underwrites; specifically, the risk that premium rate levels and provisions are not sufficient to cover insurance claims.

Operational and business risk are summarised as non-financial risk in the risk profiles:

- Operational risk: the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the risk of reputation loss;
- Business risk: the exposure to value loss due to fluctuations in volumes, margins and costs. These fluctuations can occur because of internal, industry, or wider market factors. It is the risk inherent to strategy decisions and internal efficiency.

The above risk metrics do not cover liquidity risk: the risk that ING or one of its subsidiaries cannot meet its financial liabilities when they fall due, at reasonable cost and in a timely manner. ING has a separate liquidity management framework in place to manage this risk. This framework is discussed in the ING Bank Liquidity Risk section below.

A description of the models, and underlying assumptions and key principles used by ING for calculating Earnings at Risk, Capital at Risk and Economic Capital is provided in the Model Disclosure section below.

### Earnings at Risk

The level of Earnings at Risk (EaR) provides insight into the level of risk ING can absorb relative to its earnings power. The risk appetite set by the Executive Board defines the maximum potential reduction in accounting earnings over the next year during a (moderate, i.e. '1 in 10') stress scenario as a percentage of forecast (pre tax) earnings over the next 12 months. Since ING does not disclose forecast earnings, the table below provides the Earnings at Risk per risk type compared to actual full year underlying earnings; i.e. underlying profit before tax. Under ING's accounting policy, accounting results in the Taiwan Insurance business are currently used to strengthen the provision for life insurance. Future earnings may therefore be (partly) offset by increases/decreases to the cumulative reserve strengthening balance. The offsetting effect of increases/decreases to the cumulative reserve strengthening balance is not reflected in the earnings sensitivities below.

**Earnings at Risk by risk type (Group diversified)**

| 2007 | Credit and Transfer | Market: Interest Rate | Market: Equity | Market: Real Estate | Market: FX | Insurance | Non financial | Total | Earnings 2007 | EaR/Earnings 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| ING Bank | 1,140 | 233 | 112 | 475 | 22 | | 223 | 2,205 | 4,967 | 44% |
| ING Insurance | 62 | 93 | 328 | 405 | 113 | 34 | 154 | 1,189 | 6,110 | 19% |
| Total ING Group | 1,202 | 326 | 440 | 880 | 135 | 34 | 377 | 3,394 | 11,077 | 31% |

**Earnings at Risk by risk type (Group diversified)**

| 2006 | Credit and Transfer | Market: Interest Rate | Market: Equity | Market: Real Estate | Market: FX | Insurance | Non financial | Total | Earnings 2006 | EaR/Earnings 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| ING Bank | 1,226 | 288 | 49 | 274 | 21 | | 251 | 2,109 | 5,052 | 42% |
| ING Insurance | 107 | 79 | 100 | 378 | 146 | 44 | 160 | 1,014 | 4,807 | 21% |
| Total ING Group | 1,333 | 367 | 149 | 652 | 167 | 44 | 411 | 3,123 | 9,859 | 32% |

The ING Group EaR over the actual (pre-tax) earnings decreased from 32% in 2006 to 31% in 2007. This is primarily due to the earnings increasing stronger than EaR. ING Bank's EaR dominates the overall ING Group EaR mainly due to credit and transfer risk. Furthermore, real estate risk combined for ING Bank and ING Insurance has a significant impact on EaR, especially when e.g. compared to interest rate risk. This is caused by the fact that, contrary to the accounting treatment of interest rate risk, most value changes in real estate assets directly impact earnings. The increase over 2007 in real estate risk for ING Bank was mainly due to a combination of an exposure increase in line with higher market values in 2007 (mainly in The Netherlands), and the introduction of improved risk modelling of business behaviour. The increase in equity risk for ING Bank was mainly caused by the inclusion of strategic equity interests, while the increase in ING Insurance is due to an increased earnings risk from potential equity impairments at year end 2007 and modelling refinements in Japan and US insurance entities.

An increase in credit risk (mainly Wholesale Banking) was more than compensated for by higher diversification benefits allocated to credit and transfer risk, leading to a slight decrease in 2007. The higher diversification benefit allocated to credit risk was a result of its reduced contribution to the overall risk profile, as real estate and equity risk grew much more relative to credit risk. In total, the overall diversification benefit between all major risk types remained stable in 2007.

### Capital at Risk

The level of Capital at Risk (CaR) measured against ING's financial position provides understanding as to whether ING can maintain a robust financial position under a 'moderate' (i.e. 1 in 10) stress scenario. The risk appetite set by the Executive Board defines the maximum potential value reduction over the next year during a (non extreme) stress scenario as a percentage of Available Financial Resources (AFR) (the definition of AFR is provided in the Capital Management section below).The tables below show the Capital at Risk per risk type.

**Capital at Risk by risk type (Group diversified)**

| 2007 | Credit and Transfer | Market: Interest Rate | Market: Equity | Market: Real Estate | Market: FX | Insurance | Non financial | Total | Available financial resources | CaR/Available financial resources |
|---|---|---|---|---|---|---|---|---|---|---|
| ING Bank | 1,282 | 716 | 675 | 505 | 81 | | 169 | 3,428 | 31,733 | 11% |
| ING Insurance | 307 | 3,365 | 2,439 | 378 | 169 | 273 | 172 | 7,103 | 22,710 | 31% |
| Total ING Group | 1,589 | 4,081 | 3,114 | 883 | 250 | 273 | 341 | 10,531 | 49,715 (1) | 21% |

(1) Total ING Group is comprised of ING Bank and ING Insurance, excluding core debt of EUR 4,728 million within ING Group.

**Capital at Risk by risk type (Group diversified)**

| 2006 | Credit and Transfer | Market: Interest Rate | Market: Equity | Market: Real Estate | Market: FX | Insurance | Non financial | Total | Available financial resources | CaR/Available financial resources |
|---|---|---|---|---|---|---|---|---|---|---|
| ING Bank | 1,252 | 450 | 176 | 293 | 63 | | 177 | 2,411 | 25,784 | 9% |
| ING Insurance | 382 | 2,730 | 1,394 | 350 | 571 | 348 | 161 | 5,936 | 27,200 | 22% |
| Total ING Group | 1,634 | 3,180 | 1,570 | 643 | 634 | 348 | 338 | 8,347 | 48,774 (1) | 17% |

(1) Total ING Group is comprised of ING Bank and ING Insurance, excluding core debt of EUR 4,210 million within ING Group.

The Capital at Risk figure tends to be dominated by ING insurance, mainly due to interest rate risk related to long-term client guarantees and equity risk.

The overall risk appetite for ING Group in 2007, measured as CaR/AFR, for ING Group increased to 21% (17% in 2006) as CaR increased more than AFR. This increase is mainly due to ING Insurance, where CaR grew while AFR decreased (for more information on AFR refer to the Capital Management section below).

The CaR figures show notable increases in equity and interest rate risks for both ING Bank and ING Insurance partly offset by a decrease in foreign exchange risk for ING Insurance. The decrease in foreign exchange risk within ING Insurance was largely due to a further alignment of business unit input with corporate aggregation in FX translation risk measurement and the positive impact of a US dollar hedge. The increase in equity risk in ING Bank is attributed to stakes in Bank of Beijing (IPO), the Indian Kotak Mahindra Bank and the TMB while ING Insurance's increase is largely related to refined risk modelling at a unit level rather than changes in actual equity risk taking. In addition, the diversification at group level decreased due to higher equity risk concentration, lower interest rate risk netting between ING Bank and ING Insurance, particularly in Europe and Americas, and changes to risk aggregation parameters.

**Capital at Risk and Earnings at Risk by line of business (Group diversified)**

| | Earnings at Risk 2007 | Earnings at Risk 2006 | Capital at Risk 2007 | Capital at Risk 2006 |
|---|---|---|---|---|
| Wholesale Banking | **1,551** | 1,283 | **1,634** | 1,259 |
| Retail Banking | **438** | 542 | **939** | 592 |
| ING Direct | **158** | 259 | **566** | 503 |
| Corporate Line Bank | **58** | 25 | **289** | 57 |
| ING Bank | **2,205** | 2,109 | **3,428** | 2,411 |
| | | | | |
| Insurance Americas | **430** | 281 | **2,022** | 1,346 |
| Insurance Asia/Pacific | **183** | 140 | **2,258** | 2,131 |
| Insurance Europe | **469** | 485 | **2,004** | 1,642 |
| Corporate Line Insurance | **107** | 108 | **819** | 817 |
| ING Insurance | **1,189** | 1,014 | **7,103** | 5,936 |
| | | | | |
| ING Group | **3,394** | 3,123 | **10,531** | 8,347 |

During 2007 Group CaR increased more than Group EaR mainly due to the fact that CaR tends to grow faster than EaR under accounting rules e.g. the earnings impact for interest rates and equity price changes are normally lower than their economic impact.

For ING Bank, both CaR and EaR of Wholesale Banking increased as a result of higher credit and transfer risk and higher real estate risk. The increased Corporate Line Bank is mainly due to higher equity risk driven by recent acquisitions, e.g. TMB. For Retail Banking and ING Direct, the CaR in 2007 is higher, while EaR decreased compared to 2006. These differences are mostly driven by various enhanced modelling for amongst others credit risk, as well as the accounting asymmetries for equity and interest rate risk. Examples of this asymmetry include the increase in equity risk at Retail Banking due to the Bank of Beijing IPO, and different dynamics in interest rate risk netting between earnings and value. For earnings (EaR) ING Bank and Insurance exhibit similar interest rate risk sensitivities, while for value (CaR) ING Bank and ING Insurance sensitivities net each other. For ING Direct, the EaR decrease is also caused by a larger percentage of assets repricing within 1 year.

The increase in EaR for ING Insurance is mainly the result of increases in equity risk due to higher potential equity impairments and modelling refinements as mentioned in the EaR section above. The increase in CaR for ING Insurance is mostly driven by increased interest rate risk in the US as rates have decreased leading to higher risk related to guarantees embedded in liabilities, lower interest rate risk netting across the US and Europe, and higher equity risk in the US from the refined modelling.

### Economic Capital ING Group

Since 1999 ING Bank has been disclosing Economic Capital information externally, whereas ING Insurance disclosed Economic Capital information for the first time in 2007. Although the fundamental principles are the same, ING Bank and ING Insurance Economic Capital information is currently calculated based on (partly) separately developed models (see Model Disclosure section below) that may differ in the calculation and aggregation approach due to different market practices and standards used in the banking and insurance industries.

ING's Group Economic Capital and Bank-Insurance diversification benefit is determined by applying one common aggregation approach to bank and insurance. As a result, a best-estimate diversification benefit of approximately 15% for ING Bank and Insurance is applied for 2007 (2006: conservative estimate applied of 10%). Due to inherent uncertainties associated with correlation assumptions and changes in risk exposures the calculations are subjected to extensive sensitivity tests. Combining the 2007 reported ING Bank and ING Insurance Economic Capital figures and the above diversification benefits results in a combined Bank - Insurance Economic Capital of EUR 35.0 billion for 2007 (2006: EUR 34.5 billion based on 10% bank-insurance diversification benefit).

On the Group level an additional net risk capital estimate of EUR 1.0 billion (2006: EUR 1.0 billion) is added to reflect any Economic Capital specifically allocated to the Group, leading to a total Group Economic Capital amount of EUR 36.0 billion (2006: EUR 35.5 billion; see also the AFR/EC reconciliation in the Capital Management section below). The potential risk capital impact for ING Group of the ING employee pension liability is currently not included in the aggregated group risk metrics. However, the standalone Economic Capital impact for ING employee pension liabilities is calculated separately. From a capital management perspective there is currently no need to reserve any additional capital for ING pension liabilities.

### Risk measurement ING Bank and ING Insurance

The overall ING Group risk appetite is translated into specific operational limits which are cascaded down into the organisation, e.g.

- Credit risk limits for bank and insurance business;
- Market Value at Risk limits for the insurance business;
- ALM/Value at Risk limits for bank operations.

The following risk disclosures provide more insight into how the risk measures used by the risk organisation are linked to the Group risk dashboard and Economic Capital.

## ING BANK

ING Bank is engaged in selling a broad range of products. The financial risks that arise from selling these products are managed by the Corporate Credit and Market Risk departments. Operational risks are managed by the Corporate Operational, Information and Security Risk department.

## ING BANK RISK PROFILE

### Economic Capital ING Bank

One of the core risk management tools for ING Bank is Economic Capital which is used to determine the amount of capital that a transaction or business unit requires to support the economic risks it faces. ING Bank implemented Economic Capital for internal use in 1998. Since 1999 ING Bank has been disclosing Economic Capital information externally. The tables below provide ING Bank's Economic Capital by risk type and business line. Figures shown reflect all diversification effects within ING Bank, including risk reduction between the risk categories. Diversification effects that arise as a result of combining ING Bank and ING Insurance activities are not taken into account. Business risk is included in the non-financial risk category to cover unexpected losses that may arise as a result of changes in volumes, margins and costs.

The ING Bank Economic Capital model is described in more detail in the Model Disclosure section.

The following table provides the Economic Capital break down by risk category including diversification benefits proportionally allocated to the risk types:

**Economic Capital (Bank diversified only) by risk category**

| | 2007 | 2006 |
|---|---|---|
| Credit risk (including Transfer risk) | **7,503** | 7,557 |
| Market risk | **7,407** | 4,816 |
| Non-financial risk* | **3,017** | 3,503 |
| Total banking operations | **17,927** | 15,876 |

* Non-financial risk includes operational risk as well as business risk.

In 2007 the Economic Capital models for the bank were reassessed following an enhancement program that was driven by preparation for Basel II and the further alignment with other risk measurement developments, such as the introduction of the ING Insurance economic capital models and the ING Group risk dashboard. This has lead to several changes and improvements that mainly relate to credit risk, real estate risk (part of market risk) and diversification. The figures reported for 2007 are based on the best estimate risk profile at the reporting date, whereas previously reported economic capital figures were based on year-to-date averages that are also used for RAROC performance measurement.

The overall increase in Economic Capital is mainly due the acquisition of Oyak Bank and the taking of several strategic equity interests. The latter, as well as the Bank of Beijing IPO, mainly explain the increase in market risk capital. The change in non-financial risk results predominantly stems from the diversification methodology adjustment.

The following table provides the Economic Capital break down by business line including diversification benefits proportionally allocated to the risk types:

**Economic Capital (Bank diversified only) by Line of Business**

| | **2007** | 2006 |
|---|---|---|
| Wholesale Banking | **8,646** | 8,136 |
| Retail Banking | **5,360** | 4,050 |
| ING Direct | **2,831** | 3,430 |
| Corporate Line Bank* | **1,090** | 260 |
| Total banking operations | **17,927** | 15,876 |

* Corporate Line includes funding activities at ING Bank level, internal transactions between business units and the Corporate Line, and is managed by Capital Management.

The growth of the Economic Capital figure for the Wholesale Banking business line can be mainly explained by the credit risk model enhancements, whereas the risk profile is relatively stable.

The Retail Banking Economic Capital figure increased predominantly as a result of the acquisition of Oyak Bank and the Bank of Beijing IPO. This increase is partly offset by the methodology enhancements for credit risk and the decrease of non-financial risks. Contrary to the portfolio growth of ING Direct the Economic Capital experienced a decrease mainly as a result of model enhancements following the Basel II implementation. The increase of the Economic Capital allocated to the Corporate Line can be explained by the increase in strategic equity interests.

**ING BANK – CREDIT RISKS**

Credit risk is the risk of loss from default by debtors (including bond issuers) or trading counterparties. Credit risks can be split into five principal risk categories: a) lending (including guarantees and letters of credit); b) investments; c) pre-settlement (derivatives, securities financing and foreign exchange trades); d) money markets and e) settlement. Corporate Credit Risk Management (CCRM) is responsible for the measurement and management of credit risk incurred by all ING Group entities, including country-related risks. CCRM is organised along the three business lines of ING Bank (e.g. Retail Banking, Wholesale Banking and ING Direct) and ING Insurance. The CCRM General Manager is functionally responsible for the global network of credit risk staff, while the heads of the risk management functions for the business lines report directly to him.

Credit risk management is supported by dedicated credit risk information systems and internal credit risk measurement methodologies for debtors, issuers and counterparties. CCRM creates consistency throughout the credit risk organisation by providing common credit risk policies, methodologies, manuals and tools across the Group.

ING Group's credit policy is to maintain an internationally diversified loan and bond portfolio, while avoiding large risk concentrations. The emphasis is on managing business developments within the business lines by means of top-down concentration limits for countries, individual borrowers and borrower groups. The aim within the banking sector is to expand relationship-banking activities, while maintaining stringent internal risk/return guidelines and controls.

Credit analysis is risk/reward-oriented in that the level of credit analysis is a function of the risk amount, tenor, structure (e.g. covers received) of the facility, and the risks entered into. For credit risk management purposes, financial obligations are classified into lending, (pre)-settlement, money market and investments as well in trading activities. ING Bank applies a Risk Adjusted Return on Capital framework (RAROC) which consistently measures the performance of different activities and links to shareholder value creation. The use of RAROC increases focus on risks versus rewards in the decision making process, and consequently stimulates the use of scarce capital in the most efficient way. More sophisticated RAROC-based tools are used internally to ensure a proper balance of risk and reward within the portfolio and concentration parameters. ING's credit analysts make use of publicly available information in combination with in-house analysis based on information provided by the customer, peer group comparisons, industry comparisons and other quantitative techniques.

**Lending risk**
Lending risk arises when ING grants a loan to a customer, or issues guarantees on behalf of a customer. This is the most common risk category, and includes term loans, mortgages, revolving credits, overdrafts, guarantees, letters of credit, etc. The risk is measured at the notional amount of the financial obligation that the customer has to repay to ING, excluding any accrued and unpaid interest, or discount/premium amortisations.

**Investment risk**
Investment risk is the credit default and migration risk that is associated with ING's investments in bonds, commercial paper, securitizations, and other similar publicly traded securities. Investment risk arises when ING purchases a (synthetic) bond with the intent to hold the bond for a longer period of time (generally through maturity). Bonds that are purchased with the intent to re-sell in a short period of time are considered to be trading risks, which are measured and monitored by the Corporate Market Risk Management department.

**Money market risk**
Money market risk arises when ING places short term deposits with a counterparty in order to manage excess liquidity, as such, money market deposits tend to be short term in nature (1-7 days is common). In the event of a counterparty default, ING may lose the deposit placed. Money market risk is therefore measured simply as the notional value of the deposit.

**Pre-settlement risk**
Pre-settlement risk arises when a counterparty defaults on a transaction before settlement and ING has to replace the contract by a trade with another counterparty at the then prevailing (possibly unfavourable) market price. The pre-settlement risk (potential or expected risk) is the cost of ING replacing a trade in the market. This credit risk category is associated with dealing room products such as options, swaps, and securities financing transactions. Where there is a mutual exchange of value, the amount of outstanding is generally based on the replacement value (mark-to-market) plus potential future volatility concept, using an historical 7 year time horizon and a 99% confidence level.

**Settlement risk**
Settlement risk arises when there is an exchange of value (funds, instruments or commodities) for the same or different value dates and receipt is not verified or expected until ING has paid or delivered its side of the trade. The risk is that ING delivers, but does not receive delivery from the counterparty. Settlement risk can most commonly be contained and reduced by entering into transactions with delivery-versus-payment (DVP) settlement methods, as is common with most clearing houses, or settlement netting agreements.

For those transactions where DVP settlement is not possible, ING establishes settlement limits through the credit approval process. Settlement risk is then monitored and managed by the credit risk management units. Risk is further mitigated by operational procedures requiring trade confirmations to counterparties with all transaction details, and entering into internationally accepted documentation, such as International Swaps and Derivatives Association (ISDA) Master Agreements for derivative transactions. Additionally, ING regularly participates in projects with other financial institutions to improve and develop new clearing systems and clearing mechanisms to further reduce the level of settlement risk. Due to the very short term nature of settlement exposure (daily), settlement risks do not attract economic or regulatory capital and are excluded from risk reporting disclosures.

**Country risk**
Country risk is the risk specifically attributable to events in a specific country (or group of countries). It can occur within each of the five above described risk categories. All transactions and trading positions generated by ING include country risk which is further divided into economic and transfer risk. Economic risk is the concentration risk relating to any event in the risk country which may affect transactions and other exposure in that country, regardless of the currency. Transfer risk is the risk incurred through the inability of ING or its counterparties to meet their respective foreign currency obligations due to a specific country event.

In countries where ING is active, the relevant country's risk profile is regularly evaluated, resulting in a country rating. Country limits are based on this rating and ING's risk appetite. Exposures derived from lending, investment pre-settlement and money market activities are then measured and reported against these country limits on a daily basis. Country risk limits are assigned for transfer risk mainly for emerging markets.

**Collateral policies**
As with all financial institutions and banks in particular, ING is in the business of taking credit risks in an informed and measured fashion. As such, the creditworthiness of our customers, trading partners and investments is continually evaluated for their ability to meet their financial obligations to ING. During the assessment process of creating new loans, trading limits, or investments, as well as reviewing existing loans trading positions and investments, ING determines the amount and type of collateral, if any, that a customer may be required to pledge to ING. Generally, the lower the perceived creditworthiness of a borrower or financial counterparty, the more collateral the customer or counterparty will have to provide. Within counterparty trading activities, ING actively enters into various legal arrangements whereby ING and/or counterparties may have to post collateral to one another to cover market fluctuations of their relative positions. Laws in various jurisdictions also affect the type and amount of collateral that ING can receive or pledge. Additionally, ING 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. The type of collateral which is held as security is determined by the structure of the loan or position. Consequently, since ING's portfolio is diversified, the profile of collateral it receives is also diversified in nature and does not reflect any particular collateral type more than others.

**ING BANK CREDIT RISK PROFILE**
ING Bank's credit exposure is mainly related to traditional lending to individuals and businesses followed by investments in bonds and other securitised assets. Loans to individuals are mainly mortgage loans secured by residential property. Loans (including guarantees issued) to businesses are often collateralised, but can be unsecured based on internal analysis of the borrowers' creditworthiness. Bonds in the investment portfolio are generally unsecured. Securitised assets such as Mortgage Backed Securities (MBS) and Asset Backed Securities (ABS) are secured by the pro rata portion of the underlying diversified pool of assets (commercial or residential mortgages, car loans and other assets) held by the issuer of the security. The last major area of credit risk involves pre-settlement credit exposures which arise from trading activities, including derivatives, repurchase transactions and securities lending/borrowing and foreign exchange transactions.

For the banking operations, ING uses various market pricing and measurement techniques to determine the amount of credit risk on pre-settlement activities. These techniques estimate ING's potential future exposure on individual and portfolios of trades. Master agreements and collateral agreements are frequently entered into to reduce these credit risks.

**Problem loans**
*Renegotiated Loans*
ING's credit restructuring activities focus on managing the client relationships, improving the borrower's risk profile, maximising collection opportunities and, if possible, avoiding foreclosure or repossession. These activities are (pro-) actively pursued and primarily relate to Wholesale and SME borrowers ('Business'), which are not yet in default. Common actions taken include, but are not limited to, revising or extending repayment arrangements, assisting in financial reorganisation and/or turnaround management plans, deferring foreclosure, modifying loan conditions and deferring certain payments pending a change in circumstances. For consumer and mortgage loans ('Consumer') the approach is more portfolio oriented.

Restructuring activities for Business borrowers normally start with a watch list indication. Borrowers on the watch list maintain their rating (1-19). A watch list indication may develop into a restructuring status (15-19) or even a recovery status (20-22). Most borrowers with a watch list indication return to a regular status. For Consumer clients the watch list of 'potential problem loan' status is usually caused by payment arrears (less than 1 week) which are subsequently reflected in the risk rating of 18-19 (or comparable status based on an increased probability of default). A watch list indication may develop into a restructuring status (rating 15-19) or even a recovery (20-22) status. Most borrowers with a watch list indication return to a regular status. Following restructuring relationship management is either transferred to the regular commercial banking departments or terminated.

ING's renegotiated loans that would otherwise be past due or impaired are reflected below:

**ING Bank renegotiated loans that would otherwise be past due or impaired**

| | **2007** | 2006 |
|---|---|---|
| From restructuring (18-19) to regular (1-17) status | **1,170** | 877 |
| From recovery (20-22) to regular or restructuring status (1-19) | **4,359** | 4,004 |
| Total of renegotiated loans | **5,529** | 4,881 |

This total is split in Business and Consumer clients as follows:

**Renegotiated business loans that would otherwise be past due or impaired**

| | **2007** | 2006 |
|---|---|---|
| From restructuring (18-19) to regular (1-17) status | **1,170** | 877 |
| From recovery (20-22) to regular or restructuring status (1-19) | **1,414** | 1,996 |
| Total of renegotiated Business loans | **2,584** | 2,873 |

For Business clients, ING has taken a proactive approach to restructuring loans that may have otherwise experienced financial difficulties, which has led to an increase in the level of restructuring loans returning to a regular status. The decrease in the level of problem loans returning to performing (regular) status is related to the overall decrease in problem loans as whole.

# Risk management (continued)

**Renegotiated consumer and mortgage loans that would otherwise be past due or impaired**

| | 2007 | 2006 |
|---|---|---|
| From restructuring (18-19) to regular (1-17) status | | |
| From recovery (20-22) to regular or restructuring status (1-19) | **2,945** | 2,008 |
| Total of renegotiated consumer and mortgages loans ('Consumer') | **2,945** | 2,008 |

The increase in the total amount of renegotiated consumer and mortgage loans is a reflection of the growth of the portfolio and of ING's proactive (portfolio) management approach involving the automation of reminder and warning letters to Consumer borrowers who may otherwise be facing financial difficulties. Consumer borrowers do not have a restructuring status.

*Past-due obligations*
ING continually measures its portfolio in terms of payment arrears. Particularly the retail portfolios are closely monitored on a monthly basis to determine if there are any significant changes in the level of arrears. Generally, an obligation is considered 'past-due' if a payment of interest or principal is more than one day late. In practice, the first 5-7 days after an obligation becomes past due are considered to be operational in nature for the retail loans and small businesses. After this period, letters will be sent to the obligor reminding the obligor of its (past due) payment obligations. If the arrear still exists after 90 days, the obligation is transferred to one of the 'problem loan' units. In order to reduce the number of arrears, ING banking units encourage their obligors to set up automatic debits from their (current) accounts to ensure timely payments.

**Credit quality: ING Bank portfolio, outstandings**

| | 2007 | 2006 |
|---|---|---|
| Neither past due nor impaired | **750,049** | 644,318 |
| Past due but not impaired (1-90 days) [1] | **5,416** | 3,879 |
| Impaired | **5,219** | 6,299 |
| | **760,684** | 654,496 |

[1] Based on lending (consumer loans and residential mortgages only).

**Aging analysis (past due but not impaired): ING Bank portfolio, outstandings [1,2]**

| | 2007 | 2006 |
|---|---|---|
| Past due for 1-30 days | **4,709** | 3,143 |
| Past due for 31-60 days | **633** | 548 |
| Past due for 61-90 days | **74** | 188 |
| | **5,416** | 3,879 |

[1] Based on lending (consumer loans and residential mortgages only).
[2] The amount of past due but not impaired financial assets in respect of non-lending activities was not material.

There is no significant concentration of a particular type of loan structure in the past due or the impaired loan portfolio.

ING tracks past due but not impaired loans most closely for the consumer loan and residential mortgage portfolios. Generally, all loans with past due financial obligations of more than 90 days are automatically reclassified as impaired. For the wholesale lending portfolios and securities obligations, there are generally reasons for declaring a loan impaired prior to being 90 days past due. These include, but are not limited to, ING's assessment of the customer's perceived inability to meet its financial obligations, or the customer filing for bankruptcy or bankruptcy protection. In some cases, a material breach of financial covenants will also trigger a reclassification of a loan to the impaired category.

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

| Impaired Loans: ING Bank Portfolio, outstandings by economic sector | 2007 | 2006 |
|---|---|---|
| Private individuals | **2,356** | 2,227 |
| Services | **219** | 258 |
| Construction, Infrastructure and Real Estate | **635** | 964 |
| Financial Institutions | **538** | 639 |
| Food, Beverages and Personal Care | **264** | 366 |
| General Industries | **270** | 399 |
| Automotives | **200** | 133 |
| Transportation and Logistics | **110** | 361 |
| Other | **627** | 952 |
| Total | **5,219** | 6,299 |

The table above represents the breakdown of impaired loans by major industry sector across all of ING's banking operations. Against this portfolio, ING holds specific and collective provisions of EUR 711 million and EUR 680 million, respectively (2006 EUR 1,391 million and EUR 718 million respectively), representing the difference between the amortised cost of the portfolio and the estimated recoverable amount discounted at the effective rate of interest.

### Provisions

The credit portfolio is under constant review. A formal analysis takes place quarterly to determine the provisions for possible bad debts, using a bottom-up approach. Conclusions are discussed by the IPC, which advises the Executive Board on specific provisioning levels. ING Bank identifies as impaired loans those loans for which it is probable, based on current information and events that the principal and interest amounts contractually due will not be collected in accordance with the contractual terms of the loan agreements.

**Provisions: ING Bank portfolio [1]**

| | Wholesale Banking | | Retail Banking | | ING Direct | | Total ING Bank | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Opening balance | **1,610** | 2,294 | **741** | 725 | **291** | 294 | **2,642** | 3,313 |
| Changes in the composition of the Group | **2** | –78 | **95** | | **1** | –23 | **98** | –101 |
| Write-offs | **–593** | –404 | **–302** | –236 | **–57** | –51 | **–952** | –691 |
| Recoveries | **30** | 31 | **26** | 44 | **3** | 11 | **59** | 86 |
| Increase/(decrease) in loan loss provision | **–115** | –118 | **172** | 161 | **68** | 60 | **125** | 103 |
| Exchange differences | **–23** | –55 | **5** | –7 | **–1** | –5 | **-19** | –67 |
| Other changes | **10** | –60 | **34** | 54 | **4** | 5 | **48** | –1 |
| Closing balance | **921** | 1,610 | **771** | 741 | **309** | 291 | **2,001** | 2,642 |

[1] During 2007, ING Cards was moved from ING Direct to Retail Banking. In order to provide comparative figures, EUR 21 million of 'Increase/(decrease) in loan loss provision' in 2006 has been reclassified from ING Direct to Retail banking.

ING Bank's risk costs continued to be low in 2007, as a result of the low inflow of new problem loans and continued improvement of the average risk profile of our credit portfolio reflecting both the strength of the economy in our core markets in Wholesale Banking and the low risk growth strategy in Retail Banking and ING Direct. The total balance of Wholesale Banking provisions in 2007, like in 2006 experienced a material decrease as a result of significant write offs, while there was little or no compensating effect from provisions on new problem loans. The 2007 Wholesale Banking risk costs were also low due to a release of EUR 115 million from one single debtor.

### Collateral

As part of its securities financing business, ING entities actively enter into agreements to sell and buy back marketable securities. These transactions can take many legal forms. Repurchase and reverse repurchase agreements; buy/sellback and sell/buyback agreements; and securities borrowing and lending agreements are the most common. The amount of marketable securities that ING held as collateral under these types of agreements was EUR 120.2 billion at 31 December 2007 and EUR 95.2 billion at 31 December 2006. These amounts exclude the cash leg of the respective transactions, as well as any pledges of securities under Tri-Party agreements (as the underlying is not directly pledged to or owned by ING). As a general rule, the marketable securities that have been received under these transactions are eligible to be resold or repledged in other (similar) transactions. ING is obliged to return equivalent securities in such cases.

Risk classes are defined based upon the quality of the exposures in terms of creditworthiness, varying from investment grade to problem grade expressed in S&P equivalents.

# Risk management (continued)

## Risk classes ING Bank portfolio by business line, as % of total outstandings [1]

| | | Wholesale Banking 2007 | Wholesale Banking 2006 | Retail Banking 2007 | Retail Banking 2006 | ING Direct [2] 2007 | ING Direct [2] 2006 | Total ING Bank 2007 | Total ING Bank 2006 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | (AAA) | **5.6%** | 5.5% | **0.2%** | 0.4% | **31.5%** | 32.4% | **12.8%** | 13.6% |
| 2-4 | (AA) | **26.2%** | 26.3% | **4.8%** | 5.6% | **19.3%** | 24.6% | **18.6%** | 20.6% |
| 5-7 | (A) | **14.5%** | 13.8% | **3.4%** | 2.7% | **14.4%** | 13.3% | **11.8%** | 10.9% |
| 8-10 | (BBB) | **21.4%** | 19.7% | **35.3%** | 31.5% | **21.0%** | 15.8% | **24.7%** | 21.3% |
| 11-13 | (BB) | **24.5%** | 27.7% | **46.0%** | 48.6% | **12.3%** | 12.6% | **25.8%** | 27.6% |
| 14-16 | (B) | **5.9%** | 4.9% | **6.3%** | 7.4% | **0.8%** | 0.8% | **4.3%** | 4.1% |
| 17-22 | (CCC & Problem Grade) | **1.9%** | 2.1% | **4.0%** | 3.8% | **0.7%** | 0.5% | **2.0%** | 1.9% |
| | | **100.0%** | 100.0% | **100.0%** | 100.0% | **100.0%** | 100.0% | **100.0%** | 100.0% |

[1] Based on credit risk measurement contained in lending, pre-settlement, money market and investment activities. The table reflects probabilities of default and does not take collateral into consideration.
[2] Covered bonds are presented on the basis of the external credit rating of the issuer in question. Covered bond issues generally possess a better external credit rating than the issuer standalone, given structural features of such covered bonds.

## Risk classes ING Bank portfolio, as % of total outstandings [1]

| | | Lending 2007 | Lending 2006 | Investment 2007 | Investment 2006 | Money Market 2007 | Money Market 2006 | Pre-settlement 2007 | Pre-settlement 2006 | Total ING Bank 2007 | Total ING Bank 2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | (AAA) | **1.9%** | 1.1% | **48.4%** | 43.9% | **5.9%** | 4.8% | **5.4%** | 6.7% | **12.8%** | 13.6% |
| 2-4 | (AA) | **6.0%** | 5.9% | **35.2%** | 40.3% | **61.4%** | 51.7% | **58.2%** | 50.9% | **18.6%** | 20.6% |
| 5-7 | (A) | **9.5%** | 8.0% | **13.7%** | 12.3% | **16.8%** | 32.9% | **22.3%** | 18.6% | **11.8%** | 10.9% |
| 8-10 | (BBB) | **35.7%** | 32.8% | **1.5%** | 1.6% | **8.2%** | 6.5% | **7.1%** | 10.3% | **24.7%** | 21.3% |
| 11-13 | (BB) | **37.7%** | 42.3% | **0.9%** | 1.9% | **7.1%** | 3.8% | **5.3%** | 13.0% | **25.8%** | 27.6% |
| 14-16 | (B) | **6.3%** | 6.7% | **0.1%** | | **0.3%** | 0.3% | **1.2%** | 0.5% | **4.3%** | 4.1% |
| 17-22 | (CCC & Problem Grade) | **2.9%** | 3.2% | **0.2%** | | **0.3%** | | **0.5%** | | **2.0%** | 1.9% |
| | | **100.0%** | 100.0% | **100.0%** | 100.0% | **100.0%** | 100.0% | **100.0%** | 100.0% | **100.0%** | 100.0% |

[1] Based on credit risk measurement contained in lending, (pre)-settlement, money market and investment activities. The table reflects probabilities of default and does not take collateral into consideration.

ING banking units completed the implementation of Basel II compliant risk rating models in 2007 which led to small improvements in the average reported credit quality. During 2007 the residential mortgage portfolio of ING Direct grew significantly, most notably in Germany and the United States, while the size of its investment portfolio showed a moderate decrease in particular with respect to exposure regarding Public Administration and certain ABS sub-classes. As a result of ING's close management of its liquidity placements as a result of the general market turmoil experienced in the latter half of 2007, ING experienced a shift to higher quality counterparties for its money market activities. The increase in BB rated Money Market outstandings is largely due to the Oyak Bank acquisition.

## Risk concentration: ING Bank portfolio by economic sector [1]

| | Wholesale Banking 2007 | Wholesale Banking 2006 | Retail Banking 2007 | Retail Banking 2006 | ING Direct 2007 | ING Direct 2006 | Total ING Bank 2007 | Total ING Bank 2006 |
|---|---|---|---|---|---|---|---|---|
| Construction, infrastructure and Real Estate | **13.3%** | 12.3% | **2.4%** | 2.0% | **0.8%** | 0.8% | **6.5%** | 5.8% |
| Financial Institutions | **41.2%** | 39.0% | **3.7%** | 3.3% | **53.8%** | 59.0% | **36.2%** | 37.0% |
| Natural Resources | **6.2%** | 4.7% | **0.2%** | 0.2% | | | **2.7%** | 2.0% |
| Private Individuals | **0.4%** | 0.3% | **83.7%** | 81.8% | **39.8%** | 31.4% | **33.9%** | 31.3% |
| Public Administration | **8.4%** | 11.2% | **1.5%** | 1.8% | **5.3%** | 7.5% | **5.7%** | 7.6% |
| Services | **4.7%** | 4.6% | **1.7%** | 1.6% | | | **2.4%** | 2.3% |
| Transportation and Logistics | **4.7%** | 4.7% | **0.5%** | 0.5% | | | **2.1%** | 2.0% |
| Other | **21.1%** | 23.2% | **6.3%** | 8.8% | **0.3%** | 1.3% | **10.5%** | 12.0% |
| | **100.0%** | 100.0% | **100.0%** | 100.0% | **100.0%** | 100.0% | **100.0%** | 100.0% |

[1] Based on the total amount of credit risk in the respective column using ING's internal credit risk measurement methodologies.

ING Direct showed a shift towards private individuals reflecting the emphasis on building the ING Direct residential mortgage business. The other banking units showed no significant shift in the economic sector concentrations. All other industries not shown in the table above have less than 2.0% concentrations.

**Largest economic exposures: ING Bank lending portfolio, by country [1]**

| amounts in billions of euros | Wholesale Banking 2007 | Wholesale Banking 2006 | Retail Banking 2007 | Retail Banking 2006 | ING Direct 2007 | ING Direct 2006 | Total ING Bank 2007 | Total ING Bank 2006 |
|---|---|---|---|---|---|---|---|---|
| Netherlands | **68.7** | 62.0 | **141.1** | 122.1 | **1.6** | 1.8 | **211.4** | 185.9 |
| United States | **28.9** | 25.8 | **0.2** | 0.2 | **58.2** | 52.1 | **87.3** | 78.1 |
| Belgium | **44.4** | 36.2 | **27.5** | 26.2 | **1.4** | 1.6 | **73.3** | 64.0 |
| Germany | **9.4** | 10.3 | **0.2** | 0.3 | **54.8** | 45.3 | **64.4** | 55.9 |
| Spain | **12.4** | 11.0 | **0.4** | 0.4 | **38.5** | 36.0 | **51.3** | 47.4 |
| United Kingdom | **19.4** | 17.1 | **0.1** | 0.1 | **17.3** | 18.5 | **36.8** | 35.7 |
| Australia | **5.0** | 2.4 | | | **25.4** | 22.0 | **30.4** | 24.4 |
| Italy | **12.6** | 10.9 | **0.5** | 0.6 | **12.2** | 9.7 | **25.3** | 21.2 |
| France | **17.0** | 16.2 | **0.6** | 0.6 | **4.1** | 3.2 | **21.7** | 20.0 |
| Canada | **1.7** | 1.5 | **0.1** | | **15.7** | 15.1 | **17.5** | 16.6 |

[1] Only covers total exposures in excess of EUR 10 billion, including intercompany exposure with ING Insurance.

The growth in most countries presented above followed the growth pattern of the portfolio as a whole. The growth at ING Direct in Germany is driven by own originated mortgages as well as the acquisition of a residential mortgage portfolio, which closed in late 2007. This was offset by the sale of the former BHF problem loan portfolio within Wholesale Banking. Retail Banking in The Netherlands grew through organic growth as well as the purchase of Nationale Nederlanden Hypotheek Bedrijf (NNHB residential mortgages) from Nationale Nederlanden.

## ING BANK – MARKET RISKS

Market risk is the risk that movements in market variables, such as interest rates, equity prices, foreign exchange rates, negatively impact the bank's earnings or market value. Market risk either arises through positions in trading books or through the banking book positions. The trading positions are held for the purpose of benefiting from short-term price movements, while the banking book positions are intended to be held in the long-term (or until maturity) or for the purpose of hedging other banking book positions.

Within ING Bank, market risk (including liquidity risk) falls under the supervision of the ALCO function with ALCO Bank as the highest approval authority. ALCO Bank determines the overall risk appetite for market risk. The ALCO function is regionally organised with the exception of ING Direct, which has a separate ALCO. The business lines Retail Banking and Wholesale Banking are represented within the respective regional and local ALCO's. The ALCO structure within ING Bank facilitates top-down risk management, limit setting and the monitoring and control of market risk. This ensures a correct implementation of the ING Bank risk appetite.

The Corporate Market Risk Management department (CMRM) is the designated independent department that is responsible for the design and execution of the bank's market risk management functions in support of the ALCO function. The CMRM structure recognises that risk management to a large extent occurs at the regional/local level. Bottom-up reporting allows each management level to fully assess the market risk relevant at the respective levels.

CMRM is responsible for determining adequate policies and procedures for managing market risk and for monitoring the compliance with these guidelines. An important element of the market risk management function is the assessment of market risk in new products and businesses. Furthermore CMRM maintains an adequate limit framework in line with ING Bank's risk appetite. The businesses are responsible for adhering to the limits that ultimately are approved by ALCO Bank. Limit breaches are reported to senior management on a timely basis and the business is required to take the appropriate actions to reduce the risk position.

### Market Risk in Trading Portfolios

#### Organisation

Within the trading portfolios, positions are maintained in the professional financial markets for the purpose of benefiting from short term price movements. Market risk arises in the trading portfolios through the exposure to various market risk factors, including interest rates, equity prices and foreign exchange rates.

The Financial Markets Risk Committee (FMRC) is a market risk committee that, within the guidelines set by ALCO Bank, sets market risk limits both on an aggregated level and on a desk level, and approves new products. CMRM advises both the FMRC and ALCO Bank on the market risk appetite of Wholesale Banking activities.

CMRM Trading focuses on the management of market risks in the trading portfolios of Wholesale Banking (mainly Financial Markets) as this is the only business line where significant trading activities take place. Trading activities include facilitation of client business, market making and proprietary position taking in cash and derivatives markets. CMRM Trading is responsible for the development and implementation of trading risk policies and risk measurement methodologies, reporting and monitoring of risk exposures against approved trading limits and validation of pricing and risk models. CMRM also reviews trading mandates and limits, and performs the gatekeeper role in the product review process. Management of trading market risk is performed at various organisational levels, from CMRM Trading overall down to specific business areas and trading offices.

**Measurement**

ING Wholesale Banking uses the Value-at-Risk (VaR) methodology as its primary risk measure. The VaR for market risk quantifies, with a one-sided confidence level of 99%, the maximum overnight loss that could occur due to changes in risk factors (e.g. interest rates, foreign exchange rates, equity prices, credit spreads, implied volatilities) if positions remain unchanged for a time period of one day. The impact of historical market movements on today's portfolio is estimated, based on equally weighted observed market movements of the previous 250 business days. ING uses VaR with a 1-day horizon for internal risk measurement, control and backtesting, and VaR with a 10-day horizon for determining regulatory capital. ING's VaR model has been approved by the Dutch Central Bank to be used for the regulatory capital calculation of its most important trading activities.

Market risk management for the fixed income and equity markets is split into two components: general market risk and specific market risk. The general market risk component estimates the VaR resulting from general market-value movements (e.g. interest rate movements). The specific market risk component estimates the VaR resulting from market-value movements that relate to e.g. the underlying issuer of securities in the portfolios. This specific risk relates to all value movements not related to general market movements.

The VaR for linear portfolios is calculated using a variance – covariance approach. The market risk of all the important option portfolios within ING is measured by Monte Carlo and historical simulation methods.

**Limitations**

VaR as a risk measure has some limitations. VaR quantifies the potential loss under the assumption of normal market conditions only. This assumption may not always hold true in reality, especially when market events occur, and therefore could lead to an underestimation of the potential loss. VaR also uses historical data to forecast future price behaviour. Future price behaviour could differ substantially from past behaviour. Moreover, the use of a one-day holding period (or ten days for regulatory calculations) assumes that all positions in the portfolio can be liquidated or hedged in one day. In periods of illiquidity or market events, this assumption may not hold true. Also, the use of 99% confidence level means that VaR does not take into account any losses that occur beyond this confidence level.

**Backtesting**

Backtesting is a technique for the ongoing monitoring of the plausibility of the VaR model in use. Although VaR models estimate potential future results, estimates are based on historical market data. In a backtest, the actual daily result is compared with the 1-day VaR. In addition to using actual results for backtesting, ING also uses hypothetical results, which measures results excluding the effect of intraday trading, fees and commissions. When the actual or hypothetical loss exceeds the VaR an 'occurrence' has taken place. Based on ING's one-sided confidence level of 99% an occurrence is expected once in every 100 business days at maximum. In 2007, there was no occurrence (2006: none) where a daily trading loss exceeded the daily consolidated VaR of ING Wholesale Banking. ING reports the results of this backtesting to the Dutch Central Bank on a quarterly basis.

**Stress testing**

Stress tests are used for the monitoring of market risks under extreme market conditions. Since VaR in general does not produce an estimate of the potential losses that can occur as a result of extreme market movements, ING uses structured stress tests for monitoring the market risk under these extreme conditions. Stress scenarios are based on historical and hypothetical extreme events. The result of the stress testing is an event risk number, which is an estimate of the profit and loss account effect caused by a potential event and its world-wide impact for ING Wholesale Banking. The event risk number for the ING Wholesale Banking trading activity is generated on a weekly basis. Like VaR, event risk is limited by ALCO Bank. The event-risk policy (and its technical implementation) is specific to ING as there is no event risk calculation method that is generally accepted by other banks and regulators (like the Value-at-Risk model). ING's event risk policy basically consists of defined stress parameters per country and per market (fixed income, equity, foreign exchange, credit and related derivative markets). The scenarios and stress parameters are back-tested against extreme market movements that actually occurred in the markets. If and when necessary, ING evaluates specific stress scenarios, as an addition to its structured stress tests. These specific scenarios relate to current concerns, like political instability in certain regions, terrorist attacks or extreme movements in energy prices.

**Other risk limits**

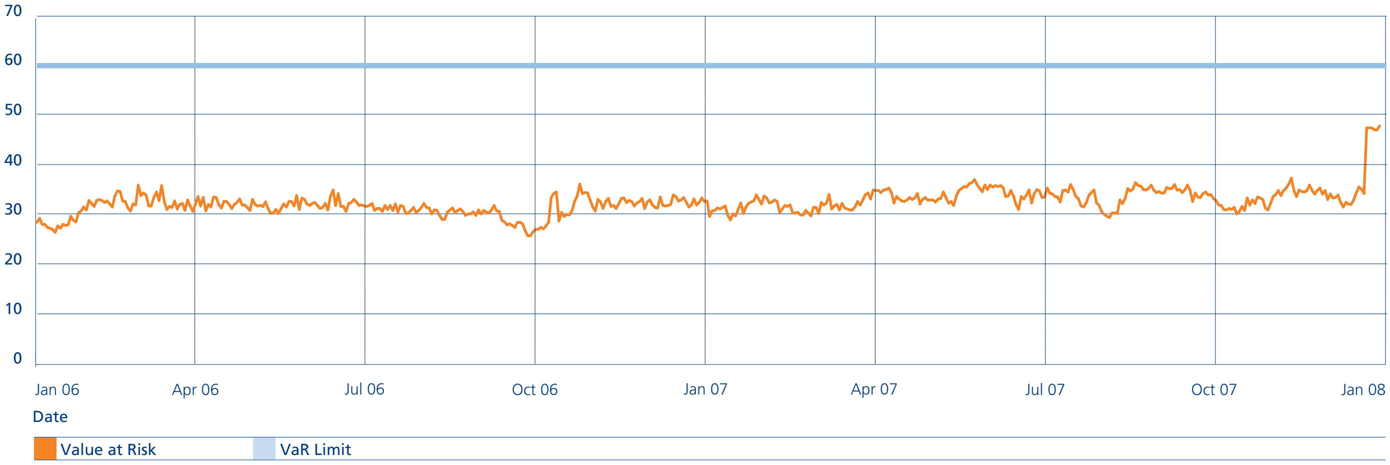
VaR and event risk limits are the most important limits to control the trading portfolios. Furthermore, ING uses a variety of other limits to supplement VaR and event risk. Position and sensitivity limits are used to prevent large concentrations in specific issuers, sectors or countries. In addition to this, other risk limits are set with respect to the activities in exotic derivatives trading. The market risk of these products is controlled by product specific limits and constraints.

**Development of trading market risks**

The following chart shows the development of the overnight VaR under a 99% confidence interval and a 1-day horizon. The overnight VaR is presented for the ING Wholesale Banking trading portfolio which was managed by CMRM Trading during 2006 and 2007. Several banking books are governed by the trading risk process and are therefore excluded from the non-trading risk table and included in the trading risk graph and table below.

## CONSOLIDATED TRADING VaR ING WHOLESALE BANKING 2006-2007

in EUR millions




During 2006 and 2007 the overnight VaR for the ING Wholesale Banking trading portfolio stayed within the range of EUR 26-48 million.

The average exposure over 2007 was higher than 2006 (average VaR 2007: EUR 34 million and average VaR 2006: EUR 31 million). The VaR remained well within the ING Wholesale Banking trading limit. Trading positions with interest rate exposures provided the largest contribution to the trading VaR. In the second half of December the trading VaR increased substantially to EUR 47 million. This increase is related to a counterparty downgrade in the structured credit trading book. As the transactions with this counterparty served as a hedge for other exposures in this book, the downgrade of this counterparty resulted in a rise of the trading VaR.

More details on the VaR of the ING Wholesale Banking trading portfolio for 2007 and 2006 are provided in the table below.

**Consolidated trading VaR: ING Wholesale Bank**

| | Minimum | | Maximum | | Average | | Year-end | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| Foreign exchange | **2** | 1 | **7** | 7 | **4** | 3 | **4** | 2 |
| Equities | **5** | 7 | **13** | 11 | **9** | 9 | **6** | 8 |
| Interest | **22** | 20 | **43** | 30 | **27** | 25 | **43** | 27 |
| Diversification [(1)] | | | | | **–6** | –6 | **–5** | –4 |
| Total VaR | | | | | **34** | 31 | **48** | 33 |

[(1)] The total VaR for the columns Minimum and Maximum can not be calculated by taking the sum of the individual components since the observations for both the individual markets as well as total VaR may occur on different dates.
Note: the above captions are consistent with those used for internal risk management purposes and do not relate to financial statement captions.

In general, the trading VaR showed larger movements in 2007 resulting in broader ranges for the equity and interest rate VaR. Due to a counterparty downgrade in December, in particular the interest rate VaR (including credit spread exposures) has risen substantially.

The following table shows the largest trading positions in foreign exchange, interest rate and corporate credit spread positions.

# Risk management (continued)

**Most important foreign exchange, interest rate and credit spread positions (year end 2007)**

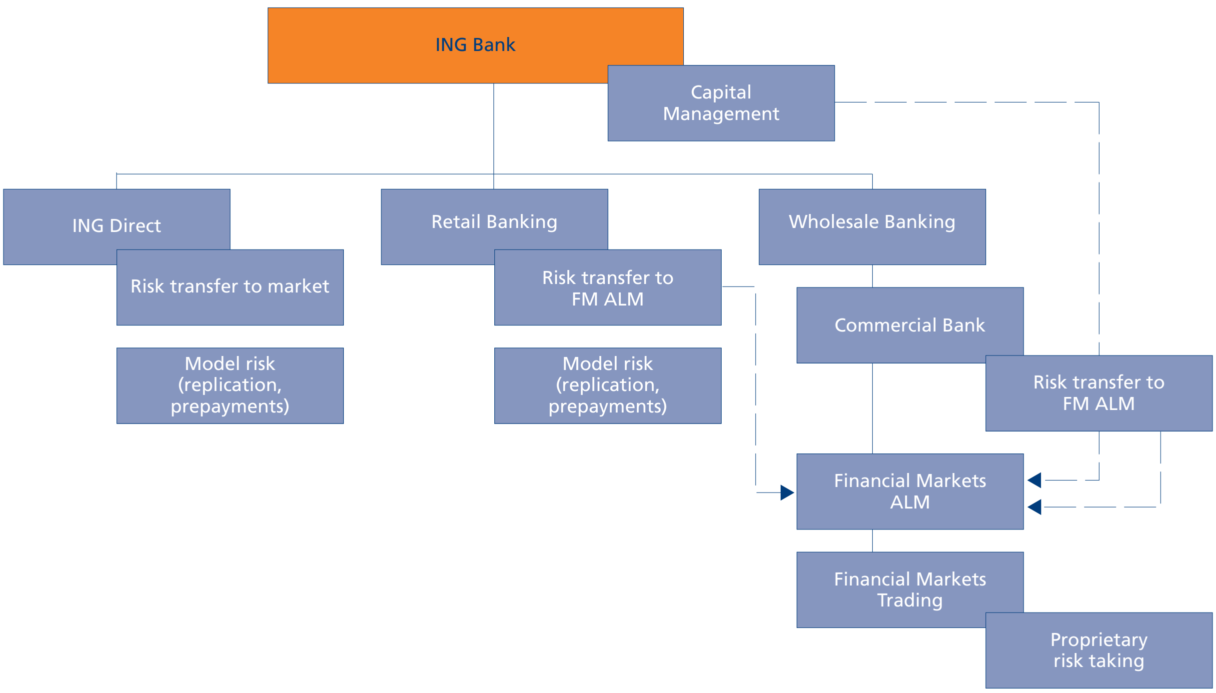
| | 2007 |
|---|---|
| **Foreign exchange** | |
| US dollar | –171 |
| Russian rouble | 108 |
| Japanese yen | –80 |
| Ukrainian Hryvnia | 58 |
| Swiss Franc | 52 |
| | |
| **Interest Rate (Bpv [1])** | |
| Eurozone | –1.2 |
| United States | –0.8 |
| Mexico | –0.4 |
| South Korea | –0.1 |
| United Kingdom | –0.1 |
| | |
| **Credit Spread (Bpv [1])** | |
| Eurozone | –1.2 |
| Mexico | –0.2 |
| United States | –0.2 |
| Russia | –0.2 |
| United Kingdom | –0.2 |

[1] Bpv (or basis point value) refers to profit and loss account sensitivity per 1bp increase in the interest rate or credit spread.

## Market risk in Non-Trading Portfolios

### Organisation
Within ING Bank, positions are either labelled as trading or non-trading (banking book) positions. The most important aspect in segregating the banking from the trading books is the intent of the positions held in these books. The banking book positions are intended to be held for the long-term (or until maturity) or for the purpose of hedging other banking book positions.

### Interest rate risk in banking books
The interest rate risk of the banking books is the risk that ING Bank's earnings or market value resulting from the non-trading positions is negatively impacted by movements in interest rates. To enable clear assignment of responsibilities for risk and return within the banking book structure an Asset and Liability Management (ALM) framework has been implemented by ALCO Bank. This framework enables a clear separation of three types of activities: the investment of own capital, the commercial business and the management of the bank's strategic interest rate risk position in the designated ALM books. The figure below presents the ALM framework of ING Bank:



ING Bank's capital management positions, i.e. the own funds (core capital) and the investments of these own funds, are isolated in the ING Bank corporate line. ALCO Bank determines the target maturity profile over which ING Bank's own funds must be invested. This maturity profile reflects the long term nature of the rate of return required by its investors and aims for both earnings maximisation and stabilisation. ALCO Bank considers a well balanced portfolio of long-dated fixed income investments as the risk neutral position.

Within ING Bank's ALM framework, the risk transfer principle is used. This refers to the principle whereby the outright interest rate risk resulting from the commercial business is transferred to the ALM books. The interest rate risk from the commercial business arises from the fact that own originated assets and liabilities do not reprice simultaneously. The transfer of the outright interest rate risk is to a large degree based on modelling client behaviour. Within CMRM, continuous research is being done in order to optimise this modelling. For this purpose, several methods are in place to replicate the interest rate risk, taking into account both the contractual and behavioural characteristics of demand deposits, saving accounts and mortgages. All models and assumptions are back-tested regularly and presented to the designated ALCO.

For the determination of the interest rate sensitivity of savings accounts and current accounts, several methods have been developed, e.g. historical simulation, Earnings at Risk analysis and valuation models. Pricing strategies, outstanding volumes and the level and shape of the yield curve are taken into account in these models. Based on these analyses, investment rules are determined for the various portfolios.

The hedging of the embedded prepayment options within mortgage portfolios is based on prepayment prediction models. These models include the incentive for clients to prepay. The parameters of these models are based on historical data and are regularly updated. The interest sensitivity of the embedded offered rate options is determined as well for the mortgage portfolio and a hedging process is in place to minimise the resulting interest rate risk.

After transferring the outright interest rate risk position to the ALM books, the residual interest rate risk that remains in the commercial banking books is caused by basis risk and optionality. The commercial business units bear responsibility for these residual interest rate risks that result from banking products of which future cash flows depend on client behaviour (e.g. optionality in mortgages) and from banking products of which the client rate earned and paid imperfectly correlate with the changing market rates (basis risk). Examples of products in which these risks are inherent are demand deposits, saving accounts and mortgages.

Within ING Direct the interest rate risk is managed and measured at the level of the local ING Direct entities. The interest rate risk that remains in the ING Direct entities also largely results from basis risk and optionality as the outright interest rate risk is to a large extent hedged.

The ALM books are managed within ING Wholesale Banking and contain the strategic interest rate risk position of ING Bank. The main objective is to maximise the economic value of the book and to generate adequate and stable yearly earnings within the risk appetite of ING Bank.

In the following sections, the risk figures for interest rate risk in the banking books are presented. ING Bank uses several measures to manage interest rate risk both from an earnings and a value perspective. Earnings-at-Risk is used to provide the earnings perspective and the Net Present Value (NPV)-at-Risk and Basis Point Value (BPV) figures provide the value perspective.

**Earnings at Risk (EaR)**
EaR measures the impact on accounting earnings (pre tax) resulting from changes of market rates over a time period of one year. Changes in balance sheet dynamics and management interventions are not incorporated in these calculations. The EaR figures in the table below are determined on the basis of an instantaneous upward 1% parallel shock in market rates. This shock is assumed to take place at the beginning of the year and the market rates are assumed to remain stable for the remainder of the year. For the ALM books EaR measures the potential loss of earnings due to the structural mismatch in interest rate positions. The calculations for the ALM books capture the EaR resulting from the current positions. For the commercial banking books the EaR captures the interest rate risks resulting from savings, demand deposits and the main mortgage portfolios. The impact of new business is included in the EaR calculations for the savings and demand deposits portfolios, as it is most relevant for these portfolios. The EaR of the Corporate Line, i.e. the investment of ING Bank's own funds, reflects the interest risk profile of the investments only. This ignores ALCO Bank's assumption that its shareholders expect ING Bank to invest the funds in such a way that it produces a long-term and stable income.

# Risk management (continued)

**Earnings at Risk (1% instantaneous upward shock market rates) (1)**

| | 2007 | 2006 |
|---|---|---|
| **By Business Line** | | |
| ING Wholesale Banking | **–87** | –19 |
| ING Retail Banking | **–121** | –107 |
| ING Direct | **–5** | –260 |
| ING Bank Corporate Line | **26** | 22 |
| ING Bank Total | **–187** | –364 |
| | | |
| **By Currency** | | |
| Euro | **–125** | –232 |
| US dollar | **9** | –80 |
| Pound sterling | **–13** | –4 |
| Other | **–58** | –48 |
| Total | **–187** | –364 |

(1) The impact of the newly acquired Oyak Bank has not been included in the tables for interest rate risk in the banking books

The total EaR figure as result of an upwards shock of the market rates of 1%, decreased over the course of this year. This was mainly caused by a sharp reduction of the ING Direct EaR figure. ING Direct reduced during 2007 its earnings sensitivity profile in order to increase flexibility in price setting. The EaR figure of ING Wholesale Banking was rather small last year and returned to more normal levels this year mainly due to the strategic interest rate positions maintained in the ALM books.

### Net Present Value-at-Risk

The Net Present Value (NPV)-at-Risk figures represent the full value impact (i.e. including convexity) to the banking books resulting from changing interest rates. This full value impact cannot be linked directly to the balance sheet or profit and loss account as the value mutations in the banking books only for a small part are fed directly through the profit and loss account or through equity. The largest part, namely the value mutations of the amortised cost balances, is neither recognised in the balance sheet nor directly in the profit and loss account. The NPV-at-Risk figures in the table below are determined on the basis of an instantaneous upward 1% parallel shock of market rates in line with the EaR calculations. For the ALM books the NPV-at-Risk figures again capture the potential change of value due to the structural mismatch in interest rate positions. For the commercial banking books the NPV-at-Risk calculations capture the convexity resulting from the optionality in the main mortgage portfolios. In these calculations it is assumed that savings and other demand deposits of Retail and Wholesale Banking are perfectly represented via the replicating methods and therefore fully hedged. The NPV-at-Risk of the Corporate Line again only reflects the interest risk profile of the investments of the bank's own funds.

**NPV-at-risk (1% instantaneous upward shock to market rates) (1)**

| | 2007 | 2006 |
|---|---|---|
| **By Business Line** | | |
| ING Wholesale Banking | **–442** | –559 |
| ING Retail Banking | **–222** | –134 |
| ING Direct | **–234** | –377 |
| ING Bank Corporate Line | **–892** | –818 |
| ING Bank Total | **–1,790** | –1,888 |
| | | |
| **By Currency** | | |
| Euro | **–1,498** | –1,465 |
| US dollar | **–439** | –402 |
| Pound sterling | **74** | –58 |
| Other | **73** | 37 |
| Total | **–1,790** | –1,888 |

(1) The impact of the newly acquired Oyak Bank has not been included in the tables for interest rate risk in the banking books

The end-of-year overall NPV-at-Risk figure as result of an upwards shock of the market rates of 1% is in line with the prior year. Within ING Direct the NPV-at-Risk figure decreased mainly because of the reduction of the duration of the investments. Within ING Retail Banking this figure increased mainly due to the larger impact of prepayment risk as result of newly produced mortgages with longer repricing tenors.

## Basis Point Values

The Basis Point Value (BPV) figures below represent the value impact to the banking books resulting from a change in interest rates of 1 basis point. The BPV figures represent the directional position under a small shift in interest rates and do not capture the convexity resulting from the optionality in mortgages under larger interest rate movements.

**BPV'S per currency**

| amounts in thousands of euros | 2007 |
|---|---|
| Euro | –15,165 |
| US dollar | –2,055 |
| Pound Sterling | 778 |
| Other | 706 |
| Total | –15,736 |

The outright interest rate risk that is represented through the BPV positions in the table above is mainly caused by the investments of the Bank's core capital. Again, under the view that this capital is not sensitive to interest movements. The remaining outright risk is mainly maintained in the Bank's ALM books in which the strategic position is maintained.

## Foreign exchange risk in Non-Trading Books

Foreign exchange (FX) exposures in non-trading books result from commercial banking business (business units doing business in other currencies than their base currency), realised non-EUR results and FX translation risk on foreign currency investments. The policy regarding these exposures is briefly explained below.

*Commercial banking business*

Every business unit hedges the FX risk as result of their commercial activities into the base currency of the unit. Consequently assets and liabilities are matched in terms of currency.

*Realised results*

Every unit hedges realised results to the base currency of the unit. On a monthly basis the central Capital Management department hedges the non-EUR results to EUR. ING does not hedge the future EUR value of projected results in non-EUR currency.

*FX Translation result*

ING's strategy is to protect its Tier 1 ratio against unfavourable currency fluctuations. The protection is largely achieved by the issuance of USD and GBP denominated capital, and furthermore by taking structural foreign currency positions. In general, open positions are deliberately taken in order to achieve protection of the Tier 1 ratio by aligning non-EUR denominated capital with risk weighted assets in these currencies. The US dollar, Pound sterling, Polish zloty, Australian dollar and Canadian dollar are the main currencies in this respect. With the acquisition of the Turkish Oyak Bank, the Turkish lira has been added to the list of main currencies. For other currencies the objective is to substantially mitigate the translation risk.

**Overnight exposure ING Bank, for primary non-trading currencies**

| 2007 | Foreign investments | Tier-1 | Gross exposure | Hedges | Net position |
|---|---|---|---|---|---|
| US dollar | 2,644 | –3,630 | –986 | –483 | –1,469 |
| Pound sterling | –848 | –817 | –1,665 | 1,635 | –30 |
| Polish zloty | 1,076 | | 1,076 | –656 | 420 |
| Australian dollar | 1,228 | | 1,228 | –136 | 1,092 |
| Canadian dollar | 822 | | 822 | –559 | 263 |
| Turkish lira | 1,848 | | 1,848 | | 1,848 |
| Other currency | 4,897 | | 4,897 | –3,312 | 1,585 |
| Total | 11,667 | –4,447 | 7,220 | –3,511 | 3,709 |

# Risk management (continued)

**Overnight exposure ING Bank, for primary non-trading currencies**

| 2006 | Foreign investments | Tier-1 | Gross exposure | Hedges | Net position |
|---|---|---|---|---|---|
| US dollar | 5,338 | –2,883 | 2,455 | –1,460 | 995 |
| Pound sterling | –1,044 | –894 | –1,938 | 1,930 | –8 |
| Polish zloty | 938 | | 938 | –523 | 415 |
| South Korean won | 1,124 | | 1,124 | –1,087 | 37 |
| Australian dollar | 1,048 | | 1,048 | –123 | 925 |
| Canadian dollar | 974 | | 974 | –704 | 270 |
| Other currency | 1,380 | | 1,380 | –1,335 | 45 |
| Total | 9,758 | –3,777 | 5,981 | –3,302 | 2,679 |

Foreign investments in US dollars decreased substantially due to the repatriation of capital out of the United States.

The net position in US dollars decreased in 2007 for two reasons. Firstly due to the issuance of 1,545 million Tier 1 capital denominated in US dollars. Secondly, in anticipation of the lower number of US dollar risk-weighted assets under the Basel II rules (starting January 1st, 2008), the net position was decreased.

The acquisition of the Turkish Oyak Bank was concluded in December 2007. As a result, the number of risk-weighted assets denominated in Turkish lira increased substantially. The net position is maintained to safeguard the Tier 1 ratio against currency fluctuations of the Turkish lira.

The FX risk in the non-trading books is measured by using the Value-at-Risk methodology as explained in the trading risk section. The VaR for FX quantifies with a one-sided confidence interval of 99%, the maximum overnight loss in 99% of the cases that could occur due to changes in foreign exchange rates.

**Consolidated non-trading FX VaR: ING Bank**

| | | Low | | High | | Average | | Year end |
|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| FX VaR | **14** | 7 | **62** | 22 | **22** | 17 | **62** | 21 |

During 2007, the FX VaR increased mainly for two reasons. Firstly, the IPO of the Bank of Beijing in November resulted in a EUR 1.6 billion value increase in exposure to Chinese Yuan, and consequently, a rise in the FX VaR. Secondly, the acquisition of the Turkish Oyak Bank in December resulted in a significant Turkish lira position.

### Equity Price Risk in Banking Books

Equity price risk arises from the possibility that equity security prices will fluctuate, affecting the value of equity securities and other instruments of which the price reacts similarly to a particular security, a defined basket of securities, or a securities index. ING Bank maintains a rather stable portfolio with substantial equity exposure in its banking books. This equity exposure mainly consists of the investments in associates of EUR 2,010 million (2006: EUR 1,223 million) and equity securities held in the Available-for-Sale portfolio of EUR 3,627 million (2006: EUR 1,898 million). The value of equity securities held in the Available-for-Sale portfolio is directly linked to equity security prices with increases/decreases being recognised (except in the case of impairment) in the revaluation reserve. During the year ended 31 December 2007 the revaluation reserve relating to equity securities held in the Available-for-Sale portfolio fluctuated between a month-end low amount of EUR 518 million (2006: EUR 463 million) and a high amount of EUR 2,580 million (2006: EUR 641 million). Investments in associates are measured in accordance with the equity method of accounting and the balance sheet value is therefore not directly linked to equity security prices.

### Real Estate Price Risk in Banking Books

Real Estate price risk arises from the possibility that real estate prices will fluctuate affecting both the value of real estate assets and earnings related to real estate activities.

ING Bank has three different categories of real estate exposure on its banking books. First, ING Bank owns buildings it occupies. Second, ING Bank has a Real Estate Development company for which results are dependent on the overall real estate market, although the general policy is to mitigate risk by pre-sale agreements where possible.

Third, ING Bank is the largest real estate investment management company in the world in terms of assets under management. For most of its real estate funds, ING Bank has co-invested seed capital. A decrease in real estate prices will cause the value of this seed capital to decrease and will lower the level of third party assets under management, which in turn will reduce the fee income from this activity.

Only for this last category, Real Estate price shocks will have a direct impact on reported net profit.

**ING BANK – LIQUIDITY RISK**
As with bank market risk, liquidity risk falls under the supervision of the ALCO function within ING bank with ALCO Bank as the highest approval authority.

**Definition**
Liquidity risk is the risk that ING Bank or one of its subsidiaries cannot meet its financial liabilities when they come due, at reasonable costs and in a timely manner. Liquidity risk can materialise both through trading and non-trading positions. Within ING Bank the liquidity risk framework has been determined by ALCO Bank, which bears the overall responsibility for liquidity risk. The liquidity risk framework is further cascaded down the organisation under the responsibility of the regional and local ALCO's. The main objective of ING's liquidity risk framework is to maintain sufficient liquidity in order to ensure safe and sound operations. For this purpose liquidity risk is considered from three different angles namely from a structural, tactical and a contingency point of view.

Liquidity Risk Management

Responsible:
ALCO Bank

Topics:
Policies and Procedures
Liquidity risk identification and monitoring

| Structural Liquidity Risk | Tactical Liquidity Risk | Contingent Liquidity Risk |
|---|---|---|
| Delegated Responsible:<br>Working group consisting of Corporate Market Risk Management, Capital Management and Financial Markets | Delegated Responsible:<br>Financial Markets and Corporate Market Risk Management | Delegated Responsible:<br>ING Crisis team consisting of the CFO, CRO, Head of CMRM, Head of Capital Management, all main Treasurers of ING Group (and ING Insurance), Head of Corporate Communications |
| Topics:<br>Structural liquidity gap<br>Funding mix<br>Marketable assets<br>Central Bank eligibility<br>Securitizations<br>Funds transfer pricing | Topics:<br>Stress testing and reporting<br>Cash and collateral reporting<br>Daily and intraday funding &<br>Liquidity risk management | Topics:<br>Liquidity risk management in times of crisis |

**Structural liquidity risk**
Structural liquidity risk is the risk that the structural, long term balance sheet can not be financed timely or at a reasonable cost. In this view of liquidity risk the total on and off balance sheet positions are considered from a structural asset and liability management perspective. For this purpose a working group consisting of Corporate Market Risk Management, Capital Management and Financial Markets focuses on liquidity risk aspects from a going concern perspective. The main objective of the working group is to maintain a sound liquidity profile through:

- Maintaining a well diversified mix of funding sources in terms of instrument types, fund providers, geographic markets and currencies;
- Actively managing access to the capital markets by regularly issuing public debt in all material markets and the maintenance of investor relations;
- Holding a broad portfolio of highly marketable assets that can be used to obtain secured funding;
- Maintaining an adequate structural liquidity gap taking into account the asset mix and both the secured and unsecured funding possibilities of ING Bank;
- Maintaining a funds transfer pricing methodology in which ING Bank's cost of liquidity is adequately reflected both under a going concern and a contingency perspective.

**Tactical liquidity risk**
From a tactical, short-term perspective the liquidity risk resulting from the short term cash and collateral positions is managed. ALCO Bank has delegated day-to-day liquidity management to Financial Markets Amsterdam, which is responsible for managing the overall liquidity risk position of ING Bank, while regional and local Financial Markets departments are responsible for managing liquidity in their respective regions and locations.

Within Financial Markets the focus is mainly on the daily and intraday cash and collateral positions and it is policy to sufficiently stagger day-to-day funding requirements. For this purpose the Treasury function monitors all maturing cash flows along with expected changes in core business funding requirements.

The liquidity risk management function is delegated to CMRM, which bears the responsibility for liquidity risk stress testing and for the identification, measurement and monitoring of the liquidity risk position. For the measurement and monitoring of the actual liquidity position the focus is on the daily cash and collateral position. For stress testing purposes the liquidity risk positions are calculated in line with the regulatory reporting requirements for liquidity risk of the Dutch Central Bank. For this purpose ING Bank's weekly and monthly liquidity positions are stress tested under a scenario that is a mix between a market event and an ING specific event. The resulting liquidity positions are corrected for liquidity surpluses in inconvertible currencies and in locations with restrictions on capital transfer.

**Contingency liquidity risk**

Contingency liquidity risk relates to the organisation and planning for liquidity management in times of stress. Within ING a specific crisis team is responsible for the liquidity management in times of crisis. This crisis team consists of the CRO the CFO, the Directors of CMRM and Capital Management and all the main treasurers of both ING Bank and ING Insurance. Within ING it is policy to have adequate and up-to-date contingency funding plans in place throughout the organisation. The main objective of ING's contingency funding plans is to enable senior management to act effectively and efficiently at times of crisis. The contingency funding plans are established for addressing temporary and long-term liquidity disruptions caused by a general event in the market or an ING specific event. These plans ensure that all roles and responsibilities are clearly defined and all necessary management information is in place. The contingency funding plans are regularly tested both on consolidated and local level in order to be best prepared for potential liquidity risk issues.

## ING INSURANCE

ING is engaged in selling a broad range of life and non-life insurance products. Risks from these products arise with respect to the adequacy of insurance premium rate levels and provisions for insurance liabilities and capital position, as well as uncertainty as to the future returns on investments of the insurance premiums. Risks are classified as insurance risk (actuarial and underwriting), market risk, credit risk, business risk and operational risk.

The responsibility for measurement and management of credit risk and operational risk resides with Corporate Credit Risk Management (CCRM) and Corporate Operational Information and Security Risk Management respectively. Corporate Insurance Risk Management (CIRM) is responsible for insurance (actuarial and underwriting) and market risk measurement and management, business risk measurement, as well as for ensuring that investment mandates adequately address credit portfolio risk.

**Risk management governance**

ING's Insurance Risk Management (IRM) is organised along a functional line comprising three levels within the organisation: the corporate, business line and business unit levels. As the General Manager of CIRM (Corporate IRM), the Chief Insurance Risk Officer (corporate CIRO) heads the functional line, reporting into the Corporate CRO. Each of the business lines and business units has a similar function headed by a Chief Insurance Risk Officer (business line and business unit CIRO). This layered, functional approach ensures consistent application of guidelines and procedures, regular reporting and appropriate communication vertically through the risk management function, as well as providing ongoing support for the business. The scope, roles, responsibilities and authorities of the risk management function at different levels are clearly described in an Insurance Risk Management Governance Framework to which all consolidated business units and business lines must adhere.

The objective of the insurance risk management function is to provide the business a sustainable competitive advantage by fully integrating risk management into the tactical daily business activities as well as ING's broader business strategy. Insurance Risk Management accomplishes this through four core activities. First, the IRM function ensures that products and portfolios are structured, underwritten, priced, approved and managed appropriately in compliance with internal and external rules and guidelines. Second, IRM ensures that the ING Insurance risk profile is transparent and well understood by management and that it stays within delegated authorities, with a 'no surprises' approach to reporting and monitoring risks. Third, IRM ensures that both risk and reward are adequately considered in the development of business strategy, for example by supporting the planning and allocation of Economic Capital and limits during the strategic planning process. Finally, IRM ensures that these steps are understood by ING's stakeholders, including shareholders, rating agencies, regulators and policy holders.

**Risk management policies and tools**

To ensure appropriate risk management, CIRM in close co-operation with the business line CIRO's, has developed Standards of Practice providing guidelines and tools to manage risks. While these standards are principle based, they include mandatory requirements to which the business unit CIRO must comply.

A critical aspect of risk management is that all new products are designed, underwritten and priced appropriately. This is explicitly covered by the Standard of Practice for the Product Approval and Review Process (PARP). This standard includes requirements related to risk profile, traditional and value-oriented pricing metrics and targets and documentation. In addition for insurance and market risks, the requirements also refer to operational risk, legal and compliance risk etc. For these risks, the IRM network works together with the other, relevant risk departments. The PARP also includes requirements to assess sensitivities to changes in financial markets and insurance risk (e.g. mortality and claims development), as well as assessment of the administration and accounting aspects of the product.

Other standards prescribe quarterly insurance risk reporting, ALM procedures and reporting, actuarial and economic assumption setting, reserve adequacy testing and embedded value measurement and reporting, amongst others.

ING Insurance has developed an Economic Capital approach similar to that used within ING Bank as one of its core risk measurement tools. More details on the Economic Capital model are described below. In 2007, ING Insurance introduced ECAPS, a new intranet-based Economic Capital reporting system which is based on replicating portfolio techniques. The ECAPS system provides a well controlled and automated basis for Economic Capital and risk reporting, and greatly enhanced market risk analysis tools for business units and corporate reporting purposes. ECAPS relies on an innovative replicating portfolio methodology; CIRM expects this system to be the foundation of its internal fair value and solvency model, including the calculation of capital requirements following the introduction of Solvency II.

To further manage risk, ING Insurance has implemented several limit structures. Examples include but are not limited to the following:
- Market Value at Risk (MVaR) limits provide the fundamental framework to manage the market and credit risks resulting from the Insurance operations' asset / liability mismatch;
- Credit risk concentration limits;
- Mortality concentration limits;
- Catastrophe and mortality exposure retention limits for its insurance risk; and
- Investment and derivative guidelines.

More information on some of these limits is included in the sections below.

**Reserve adequacy**
CIRM instructs and supervises all ING entities so as to make sure that the total insurance liabilities of ING Insurance (both reserves and capital) are tested for adequacy taking into account the insurance premium rate levels and the uncertainty of future returns on investments. This is done by evaluating insurance liabilities on current best estimate actuarial assumptions plus a risk margin, ensuring that the reserves remain adequate based on current assumptions.

ING's policy for reserve adequacy testing is disclosed in the 'Principles of valuation and determination of results' section. As of 31 December 2007 (and 31 December 2006), reserves for ING's life insurance businesses in aggregate are adequate at a 90% confidence level. All business lines are adequate on a stand alone basis at a 90% confidence level. Although the Asia/Pacific business line reserves were adequate as a whole at the end of 2007 at a 90% confidence level, there is a reserve inadequacy in Taiwan at the 90% confidence level. At the end of 2006 the inadequacy in Taiwan caused the reserves of the business line Asia/Pacific to be inadequate by EUR 1.0 billion.

*Taiwan*
As of 31 December 2007, the inadequacy for Taiwan is EUR 1.5 billion (2006: EUR 2.4 billion) based on a 90% confidence level, on a Taiwan reserve level (net of DAC and VOBA) of EUR 11.1 billion. The inadequacy results from a material exposure to a sustained low interest rate environment in Taiwan. 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 interest rate guarantees together with the future anticipated premiums on these contracts (which have a present value of approximately EUR 15 billion) create a liability for the portfolio with an effective duration of approximately 32, compared to an asset duration of approximately 11. ING stopped selling these high guarantees in its Taiwan life insurance products since 2002.

The post 2001 business is adequate at a 90% confidence level, which partially compensates for the inadequacy related to the business sold until 2001. Furthermore, ING has over time strengthened reserves by EUR 828 million (2006: EUR 770 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 2007 is based on the current 10-year swap rate in Taiwan at 31 December 2007 of 2.68% (2006: 2.21%), with the assumption that, in the long term, this swap rate will move to 5.75% (2006: 5.75%).

The Taiwan regulator currently allows mortality profits to be offset against losses from negative interest rate experience, thus eliminating the need to pay mortality dividends, and this practice is reflected in the reserve adequacy test.

**ING INSURANCE RISK PROFILE**
**Economic Capital ING Insurance**
The objective of the Economic Capital framework is to achieve an advanced risk and capital measurement and management structure that:
- Covers all the risks in the business units and is applied consistently across all risks and business units;
- Facilitates and encourages adequate risk and capital management, including the proper pricing of products and sound capital allocation decisions.

The ING Insurance Economic Capital model is described in more detail in the Model Disclosure section and is based on a 99.95% one year Value at Risk framework. It is important to note that since industry practice relating to Economic Capital is still evolving and moreover Solvency II standards are still under discussion ING Insurance models are expected to evolve as a result. Solvency II currently contemplates a 99.5% Value at Risk standard for internal models which is a lower risk threshold than used in ING's model.

Economic Capital disclosures relating to ING Insurance include diversification benefits that arise within ING Insurance. The following table provides an Economic Capital break down by risk category with diversification benefits proportionally allocated to the risk types:

**Economic capital break-down ING Insurance by risk category** (1)

| | **2007** | 2006 |
|---|---|---|
| Credit risk (including Transfer risk) | **1,021** | 1,411 |
| Market risk | **15,258** | 14,555 |
| Insurance risk | **3,293** | 3,110 |
| Non-financial risk (2) | **3,627** | 3,334 |
| Total insurance operations | **23,199** | 22,410 |

(1) The Economic Capital outcomes do not reflect any potential tax benefit resulting from the loss that occurs under the specified circumstances.
(2) Non-financial risk includes operational risk as well as business risk (covering expense risk and lapse risk).

Total diversification across these risk types is 31% for 2007 (31% for 2006).

The overall Economic Capital and risk profile remained stable during 2007. The primary increase came from model corrections/refinements and the acquisition of pension business in Latin America. There were offsetting changes to the risk profile in various businesses, but the overall impact to the ING Insurance risk profile was not large. Credit risk decreased during 2007 primarily due to refinements to the credit risk Economic Capital model. The Economic Capital for ING Insurance is mostly related to market risks, both hedgeable and non-hedgeable.

The following table provides the Economic Capital breakdown by business line with diversification benefits proportionally allocated to the business lines.

**Economic capital break-down by ING Insurance business line**

| | **2007** | 2006 |
|---|---|---|
| Insurance Americas | **6,541** | 5,987 |
| Insurance Asia/Pacific | **7,033** | 7,463 |
| Insurance Europe | **5,890** | 5,942 |
| Corporate Line Insurance (1) | **3,735** | 3,018 |
| Total insurance operations | **23,199** | 22,410 |

(1) Corporate Line includes funding activities at ING Insurance level, explicit internal transactions between business unit and Corporate Line, managed by Capital Management, and corporate reinsurance. The responsibility (and risk) of free assets located within the business line for which there is no explicit transfer via a Corporate Line transaction remain at the business unit level.

While the figures above are shown by business line, the diversification of risks across ING businesses is calculated across business units. Total diversification between ING Insurance's business units and the Corporate Line Insurance is 33% for 2007 (36% in 2006).

The overall split of Economic Capital is roughly similar across all three business lines. Asia/Pacific has the largest Economic Capital due to the significant non-hedgeable interest rate and morbidity risks in Taiwan. Taiwan Economic Capital was in the range 65-75% of the Asia/Pacific total. The Economic Capital in the Americas and Europe is driven primarily by interest rate, credit spread, and equity risk. The corporate line risk relates mostly to foreign exchange translation risk related to the potential loss of market value surplus in non-Euro denominated business units and an internal-only transaction with Taiwan relating to interest rate and foreign exchange risks.

**ING INSURANCE – MARKET RISKS**

ING Insurance is exposed to market risk to the extent to which the market value of surplus can be adversely impacted due to movements in financial markets; these include interest rates, equity prices, implied volatilities of options, foreign exchange rates and real estate prices. Changes in financial market prices impact the market value of ING's current asset portfolio and hedging derivatives directly as well as the calculated market value of ING's insurance liabilities. The following table provides information on Economic Capital split by risk category:

**Economic capital insurance market risks**

| | 2007 | 2006 |
|---|---|---|
| Interest rate | **6,021** | 6,362 |
| Credit Spread | **1,012** | 1,098 |
| Equity | **3,357** | 2,512 |
| Real Estate | **669** | 480 |
| Implied Volatility | **2,091** | 2,154 |
| Foreign Exchange | **2,108** | 1,949 |
| Total | **15,258** | 14,555 |

Interest rate and equity risks are the largest market risks for ING Insurance. Interest rate risks are most significant in Taiwan, United States, and Europe. In all cases, the primary exposure is to falling interest rates. The equity risk relates to both direct and indirect exposure. Direct exposure relates to the holding of shares and is most significant for ING in the Netherlands. Indirect exposure relates to the potential loss of fee income from unit linked, variable annuity, and pension fund business across all regions. Direct exposure represents approximately 60–70% of the equity risk. The table shows a notable increase in equity risk during 2007, but this is related to improved modelling of risk during 2007 and not in material changes to actual risk taking.

Credit spread risk relates to potential increases in credit spreads from investments in fixed income securities. ING Insurance does not adjust the market value of liabilities for credit spread widening. Real estate risk exists mostly in the Netherlands and relates in a large part to direct real estate investments. Implied volatility risk is the risk that market values of assets or liabilities change due to movements in market option prices. In general, ING is exposed to increases in implied volatility as the guarantees provided to customers become more expensive. Foreign exchange risk is small in the business units accordingly most of the exposure relates to the risk of change in the market value surplus of non-euro businesses.

ING has implemented Market Value at Risk (MVaR) limits to manage the market and credit risks resulting from its global Insurance operations. On at least an annual basis, ALCO Insurance sets an aggregate MVaR limit for ING Group Insurance and sub-limits for each of the business lines, which are ultimately allocated to the business units. The MVaR limit is measured in a manner consistent with the Economic Capital measure, i.e. based on a 99.95% confidence level over a one-year horizon.

These limits are managed by ALCO Insurance at the relevant organisational level. The Group Insurance ALCO determines the aggregate limit and ensures that the Group stays within the limit and allocates the sub-limits to business lines, with similar roles for the business line and business unit ALCOs. Limit breaches by business lines are reported to ALCO Insurance and resolved in accordance with policy within the next quarter.

CIRM consolidates and monitors the MVaR exposures of the business lines including diversification effects on a quarterly basis. Together with ING Capital Management, MVaR is managed within the limits. In 2007 and 2006 there were no breaches of the overall ING Insurance MVaR limit.

Complementing Economic Capital, which is based on a market value analysis, ING Insurance also measures risk based on accounting earnings. More specifically, using scenario analysis, ING Insurance measures the potential sensitivity of realised pre tax earnings of the insurance operations to an increase/decrease of different risk factors over a full year. These earnings sensitivities are used as input into the ING Group Earnings at Risk measure, where these sensitivities are fully diversified with the Bank. Interpretation of the underlying earnings sensitivities must be done individually as ING does not assume that all of the scenarios presented below will happen concurrently.

Earnings sensitivities are defined based on a shock scenario at the 90% confidence level on pre tax accounting earnings, projected one year forward from the calculation date. Therefore the table below provides earnings sensitivities to an instantaneous shock at the 90% confidence level projected through to 31 December 2008.

**Earnings sensitivities for insurance market risks**

| | 2007 | 2006 |
|---|---|---|
| Interest rate (1% up) | **–161** | –166 |
| Interest rate (1% down) | **125** | 172 |
| Equity (15% down) | **–613** | –262 |
| Real Estate (8% down) | **–570** | –553 |
| Foreign Exchange (10% worst case) | **–338** | –359 |

Note: The table above includes similar sensitivities to the 2006 Risk management section, but the figures represent different impacts than in 2006. Specifically, the figures include fully forward looking twelve month sensitivities, have different shock percentages, and are pre-tax. In addition,the interest rate risk sensitivities for 2006 and 2007 reflect the change in accounting policy for evaluating reserve adequacy at the business line level.

The previous table presents figures before diversification between risks. For interest rate risk, we present the effect of a parallel shock of 1% across all regions and take the sum of the shocks. For the Japan and Taiwan businesses, a shock of 0.5% is applied since these businesses operate in a lower interest rate environment. Foreign exchange risk includes the sum of both local business currency risk plus translation risk for earnings of non-Euro business units.

The table shows that real estate fluctuations can have a relatively large impact on earnings since all price volatility is fully reflected in earnings for real estate investments. The impact on earnings of interest rates and equity price changes are normally lower than the economic and shareholder's equity impact given current accounting rules. The sensitivity results do reflect the impacts of asymmetric accounting whereby the hedges must be marked-to-market through the earnings while the liability value is not.

The increase in earnings at risk from a 15% downward equity shock is mostly due to four factors:
- Potential impairments of individual direct holdings;
- Improved modelling of DAC/VOBA impacts for US business units;
- Refined modelling of earnings sensitivities for the Japan SPVA hedging program;
- These are offset by the market value change from put options held at the Corporate Line Insurance.

**ING INSURANCE – INSURANCE RISKS**

**General**

Actuarial and underwriting risks are risks such as mortality, longevity, morbidity, adverse motor or home claims development, etc., which result from the pricing and acceptance of insurance contracts. In general, these risks cannot be hedged directly in the financial markets and tend to be mitigated by diversification across large portfolios. They are therefore primarily managed at the contract level through standard underwriting policies, product design requirements as set by ING's IRM function, independent product approval processes and risk limitations related to insurance policy terms and conditions with the client.

**Measurement**

For portfolio risks which are not mitigated by diversification, the risks are managed primarily through concentration and exposure limits and through reinsurance and/or securitization. Aggregate portfolio level limits and risk tolerance levels are set in reference to potential losses stemming from adverse claims in ING's insurance portfolios which are reviewed annually by the ING Group Executive Board. ING Group has established actuarial and underwriting risk tolerance levels in specific areas of its insurance operations as described below. For non-life insurance, risk tolerance levels are set by line of business for catastrophic events (e.g. natural perils such as storms, earthquakes and floods) and for individual risks.

For the main non-life units (in the Benelux, Canada, Mexico) the risk tolerance for property and casualty (P&C) business is generally set at 2.5% of the Group's after-tax earnings. For 2007, this translated into an aggregated (pre-tax) risk tolerance level of EUR 235 million (2006: EUR 190 million). The aggregate risk tolerance limit relating to events was translated into separate risk tolerance levels for Mexico and the Benelux respectively (in 2007 EUR 235 million each). For Canada the pre-tax risk tolerance level is set at EUR 214 million (derived from the above EUR 235 million but allowing for outside interests) (2006: EUR 169 million). For motor business a sub-limit of EUR 10 million is applied (2006: EUR 7.5 million).

In order to determine how much reinsurance protection is required in each of the regions, these risk tolerance limits are compared to the estimated maximum probable loss resulting from catastrophic events with a 1 in 250 return period which is in line with industry practice. The maximum probable loss estimates for Fire business are based on risk assessment models that are widely accepted in the industry.

For the smaller non-life units, the (pre-tax) risk tolerance level for catastrophe related events for 2007 was set at EUR 5 million (2006: EUR 5 million) per event per business unit.

With respect to life business, ING Group's (pre-tax) risk tolerance level for 2007 was set at EUR 22 million (2006: EUR 22 million) per insured life for mortality risk. While life insurance risks are considered to be naturally diversifiable by virtue of each life being a separate risk, group contracts may result in significant exposures. For potential losses, resulting from significant mortality events (e.g. pandemics or events affecting life insurance contracts involving multiple lives), ING applies a separate risk tolerance level which equalled EUR 750 million in 2007 (2006: EUR 750 million). ING continues to model the possible impact of pandemics based on studies published by respected international organisations.

Overall exposures and concentrations are actively managed within limits and risk tolerance levels through the purchase of external reinsurance from approved reinsurers in accordance with ING's reinsurance credit risk policy. Particularly for the property and casualty portfolio, ING purchases protection which substantially mitigates ING's exposure due to natural catastrophes. In addition, ING believes that the credit risks to which it is exposed under reinsurance contracts are minor, with exposures being monitored regularly and limited by a reinsurance credit risk policy.

Regarding catastrophic losses arising from events such as terrorism, ING believes that it is not possible to develop models that support inclusion of such events in underwriting in a reliable manner. The very high uncertainty in both the frequency and severity of these events makes them, in ING's opinion, uninsurable. For the non-life business, losses that result from these events are generally not covered unless required by law. In various countries industry pools have been established to mitigate the terrorism risk to which the individual insurers are nevertheless still exposed. ING participates in such pools.

The following table provides an overview of the Economic Capital for insurance risks, split into mortality risk, morbidity risk and risk related to P&C products:

**Economic Capital Insurance risks**

| | **2007** | 2006 |
|---|---|---|
| Mortality | **803** | 738 |
| Morbidity | **2,141** | 2,116 |
| P&C | **349** | 256 |
| Total | **3,293** | 3,110 |

The largest exposure is for morbidity risk and is the risk, mostly in Taiwan, of future health claims exceeding current best estimate actuarial assumptions. In Taiwan, ING has a legacy block of guaranteed premium health riders that provide benefits for 30-60 years into the future. The mortality risk relates to the potential for increasing deaths (life risk) or decreasing deaths (longevity risk). This risk relates to a potential mortality catastrophe or to changes in long term mortality rates. As noted, ING manages these risks via limits and external reinsurance. Finally, property and casualty risk exists primarily in Canada, Mexico, and the Benelux. The increase in P&C Economic Capital during 2007 is mostly due to an improvement in the correlation model between P&C risks and not increased risk taking.

Through scenario analyses, ING Insurance measures the sensitivity of pre tax earnings of the insurance operations to an increase/decrease of the insurance risk factors over a one year period. These changes to earnings can relate to realised claims or any other profit item that would be affected by these factors. ING assumes that not all the shifts presented below will happen at the same time.

Earnings sensitivities are defined based on a shock scenario at the 90% confidence level on pre-tax accounting earnings, projected one year forward from the calculation. Therefore the table below provides earnings sensitivities to an instantaneous shock at the 90% confidence level projected through to 31 December 2008.

**Earnings sensitivities for Insurance risks**

| | **2007** | 2006 |
|---|---|---|
| Mortality | **–54** | –60 |
| Morbidity | **–124** | –147 |
| P&C | **–132** | –107 |

The table above presents figures after diversification between insurance risks and diversification across business units of ING Insurance. The largest earnings sensitivity relates to health claims in The Netherlands, Greece, and Asia and P&C claims in the Benelux, Canada, and Mexico. The increase in P&C earnings sensitivities in 2007 is mostly due to an improvement in the correlation model between P&C risks within Canada.

### ING INSURANCE – CREDIT RISKS

The credit risks in the general accounts portfolio within ING Insurance are subject to the same principles, policies, definitions and measurement as those of the banking operations. The credit risks are measured and monitored by Corporate Credit Risk Management (CCRM) as well as local credit risk managers within the various locations were credit risk is taken within ING Insurance and ING Investment Management. Within ING Insurance, the goal is to maintain a low risk, well diversified credit risk portfolio that meets or exceeds market based benchmark returns.

ING Insurance's credit exposure arises from the investment of insurance premiums into assets subject to credit risk, largely in the form of unsecured bond investments, and smaller amounts of residential mortgages and structured finance products. In addition, credit exposure also arises from derivatives, sell/repurchase transactions, securities lending/borrowing and reinsurance contracts used to hedge the portfolio. ING Insurance has a policy of maintaining a high quality investment grade portfolio.

Overall portfolio credit risk limits are established and integrated into investment mandates by ALCO Insurance based on asset or investment category and risk classes. Individual issuer limits are determined based on the obligor's rating. These limits are managed by the region where the parent company is domiciled but may be sub-allocated to regional or local portfolios. In addition, each Insurance company has one or more investment mandates that may differ by insurance portfolio specify credit risk appetite by issuer type and quality.

# Risk management (continued)

The credit risk classification of issuers, debtors and counterparties within the Insurance companies' credit risk portfolios continues its transition for aligning the methodology to that which is used by the banking operations. Similar to ING Bank, ING Insurance uses risk classes which are calibrated to the probability of default of the underlying issuer, debtor or counterparty. These ratings are defined based upon the quality of the issuer in terms of creditworthiness, varying from investment grade to problem grade expressed in S&P equivalents.

**Risk classes: ING Insurance portfolio, as % of total outstandings**

| | | Insurance Americas | | Insurance Europe | | Insurance Asia/Pacific | | Total ING Insurance | |
|---|---|---|---|---|---|---|---|---|---|
| | | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| 1 | (AAA) | **27.9%** | 26.9% | **28.8%** | 27.8% | **10.7%** | 12.1% | **25.5%** | 25.1% |
| 2-4 | (AA) | **18.5%** | 21.8% | **26.9%** | 19.8% | **37.3%** | 33.4% | **24.6%** | 22.6% |
| 5-7 | (A) | **22.3%** | 20.0% | **21.7%** | 20.5% | **32.8%** | 32.4% | **23.8%** | 22.0% |
| 8-10 | (BBB) | **18.4%** | 19.7% | **11.1%** | 14.6% | **6.9%** | 7.9% | **13.9%** | 15.8% |
| 11-13 | (BB) | **2.9%** | 7.0% | **10.0%** | 15.7% | **3.4%** | 4.1% | **5.5%** | 10.3% |
| 14-16 | (B) | **5.0%** | 4.6% | **1.0%** | 1.2% | **6.1%** | 10.1% | **3.7%** | 4.0% |
| 17-22 | (CCC & Problem Grade) | **5.0%** | 0.0% | **0.5%** | 0.4% | **2.8%** | 0.0% | **3.0%** | 0.2% |
| | | **100.0%** | 100.0% | **100.0%** | 100.0% | **100.0%** | 100.0% | **100.0%** | 100.0% |

The increase in Problem Grade assets and investments at the Insurance operations is a direct result of the change in treatment of investments which have not been internally or externally rated, which is often the case for equity investments, mutual fund investments and reinsurance contracts. Previously, these assets received a rating of 13 (BB-). However, in line with the ING Group policy to treat unrated assets similar to ING Bank, they now receive a rating of 17. As a result of the sale of the Nationale Nederlanden Hypotheek Bedrijf (NNHB, residential mortgages) to ING Bank and parts of the Belgian insurance business, there was a corresponding improvement in the rating quality of Insurance Europe investments away from BBB and BB.

**Risk concentration: ING Insurance portfolio, by economic sector**

| | Insurance Americas | | Insurance Europe | | Insurance Asia/Pacific | | Total ING Insurance | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| Construction, infrastructure and Real Estate | **9.3%** | 9.9% | **2.3%** | 2.4% | **2.5%** | 2.2% | **5.7%** | 5.6% |
| Financial Institutions | **63.5%** | 61.0% | **28.0%** | 25.4% | **33.0%** | 29.9% | **45.7%** | 41.3% |
| Private Individuals | **3.5%** | 3.4% | **13.9%** | 22.1% | **7.8%** | 9.1% | **7.9%** | 12.1% |
| Public Administration | **2.5%** | 3.4% | **36.8%** | 33.4% | **41.3%** | 40.0% | **21.2%** | 21.4% |
| Utilities | **4.0%** | 4.0% | **1.4%** | 1.7% | **2.9%** | 3.0% | **2.9%** | 2.9% |
| Food, Beverages and Personal Care | **1.9%** | 1.9% | **4.1%** | 3.8% | **0.6%** | 0.7% | **2.5%** | 2.5% |
| Natural Resources | **3.5%** | 3.3% | **1.1%** | 0.9% | **1.4%** | 0.7% | **2.3%** | 1.9% |
| Other | **11.8%** | 13.1% | **12.4%** | 10.3% | **10.5%** | 14.4% | **11.8%** | 12.3% |
| | **100.0%** | 100.0% | **100.0%** | 100.0% | **100.0%** | 100.0% | **100.0%** | 100.0% |

The sale of the Nationale Nederlanden Hypotheek Bedrijf (NNHB residential mortgages) to ING Bank is the reason for the reduction in the concentration to Private Individuals in Europe. There were no other significant shifts in the portfolio concentration. All other industries not shown in the table above have less than 2.0% concentrations.

**Largest economic exposures: ING Insurance portfolio, by country [(1)]**

| | Insurance Americas | | Insurance Europe | | Insurance Asia/Pacific | | Total ING Insurance | |
|---|---|---|---|---|---|---|---|---|
| amounts in billions of euros | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| United States | **56.2** | 57.4 | **1.7** | 2.0 | **2.3** | 2.3 | **60.2** | 61.7 |
| Netherlands | **0.7** | 0.7 | **22.0** | 34.2 | **0.3** | 0.5 | **23.0** | 35.4 |
| Taiwan | | | | | **7.3** | 6.9 | **7.3** | 6.9 |
| Italy | **0.3** | 0.3 | **6.4** | 7.5 | **0.2** | 0.1 | **6.9** | 7.9 |
| France | **0.4** | 0.4 | **5.9** | 5.6 | **0.5** | 0.5 | **6.8** | 6.5 |
| Germany | **0.3** | 0.2 | **6.1** | 6.6 | **0.3** | 0.3 | **6.7** | 7.1 |
| South Korea | **0.1** | | | | **6.6** | 5.4 | **6.7** | 5.4 |
| Canada | **6.0** | 6.3 | **0.1** | 0.3 | | | **6.1** | 6.6 |
| United Kingdom | **1.9** | 1.6 | **3.1** | 3.6 | **0.4** | 0.3 | **5.4** | 5.5 |

(1) Only covers total exposures in excess of EUR 5 billion, including intercompany exposure with ING Bank.

The portfolio in The Netherlands decreased principally due to the sale of Nationale Nederlanden Hypotheek Bedrijf (NNHB residential mortgages) to ING Bank. The decrease in Italy resulted from a reduction of ING's position in government bonds. Exposure to Spain amounted to EUR 5.2 billion in 2006, but decreased below the EUR 5 billion threshold in 2007. There were no other significant shifts in the portfolio concentration.

## COMPLIANCE AND OPERATIONAL RISKS

ING believes that good compliance management is in the best interest of its customers, shareholders and staff, and is important for the way ING does business. Complementary to this, effective control and management of operational risks leads to more stable business processes and lower operational risk costs.

Acting with integrity and preserving ING's reputation is of paramount importance. Complying with relevant laws, regulations and ethical and internal standards, in both letter and spirit, is a prerequisite for this. Reputation risk is defined as the current and prospective impact on earnings and capital arising from negative public opinion. This may affect the ability to establish new relationships or services or continue servicing existing relationships. This risk may also expose an institution to litigation, financial loss, or a decline in its customer base. Managing reputation risk is therefore an essential part of ING's business strategy, taking into account all stakeholders, whose perception of ING determines its reputation. Risks or uncertainties, both positive and negative, are carefully managed, as reputation risk does not exist in isolation – rather, all risks may impact on reputation.

Within ING everything centres on people and trust. ING's Executive Board and Senior Management share a clear vision of reputation management that goes well beyond the compliance and operational risk functions itself and drives the process of delivering on that vision. ING therefore expects the highest levels of personal conduct and integrity from all its employees and managers in order to safeguard its reputation.

### COMPLIANCE RISK

Compliance risk is defined as the risk of damage to ING's reputation as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies and procedures or ethical standards. In addition to reputation damage, failure to effectively manage compliance risk can expose financial institutions to fines, civil and criminal penalties, payment of damages, court orders and suspension or revocation of licenses. A failure (or perceived failure) can adversely impact customers, staff and shareholders of ING.

Compliance management is fundamental to driving value. The pursuit of long term business sustainability requires proper conduct of business activities in accordance with the high ethical standards of ING's Business Principles. These principles not only reflect laws and regulations, but are also based on ING's core values: integrity, entrepreneurship, professionalism, responsiveness and teamwork.

Clear and accessible policies and procedures are embedded in ING business processes in all business lines. An infrastructure is in place to enable management to track current and emerging compliance issues and to communicate these to internal and external stakeholders. A comprehensive system of internal controls and audit creates an environment of continuous improvement in managing compliance risk. ING understands that good compliance involves understanding and delivering on the expectations of customers and other stakeholders, thereby improving the quality of key relationships based on honesty, integrity and fairness.

#### The Scope of the Compliance function

The Compliance function focuses on managing the risks arising from laws, regulations and standards which are specific to the financial services industry and which are issued by legislative and regulatory bodies relevant to ING's businesses, or by ING Group Compliance. The Compliance function actively educates and supports the business in managing areas such as anti-money laundering, counter-terrorist financing, conflicts of interest management, sales and trading conduct and Customer interest and protection.

The following Compliance risk areas have been defined and highlighted for particular attention:

- Client related integrity risk; this includes Financial Economic Crime – money laundering, terrorist financing, other external crime and fraud. Following Customer and Business Partner Due Diligence processes and monitoring business transactions are key contributors to how this risk is managed;
- Personal conduct related integrity risk; this includes market abuse and personal insider trading. Business principles and (local) codes of conduct and specific policies on outside positions by ING officers, inducements, including gifts and entertainment assist with management of these risks;
- Financial services conduct related integrity risk; the primary focus of this area of compliance risk is on marketing, sales and trading conduct, conduct of advisory business, transparency of product offerings, customer interest and protection. To assist with management of these risks ING has complaint handling processes, internal standards with respect to new product approval and product review and policies for data protection and privacy;
- Organisational conduct related integrity risk covers; conflicts of interest, anti-trust and relationships with third parties and intermediaries. Policies and measures in place to manage this risk include conflicts of interest policies and procedures including Chinese Walls, regulatory registration requirements and outsourcing and Merger and Acquisition policies and due diligence processes.

ING has a Whistleblower Policy and procedure which encourages staff to speak up if they know of or suspect a breach of external regulations or internal policies or business principles. The Whistleblower Policy ensures that staff is protected when raising issues.

ING's global operations include business activities throughout the world, with subsidiaries and branches in many countries. Compliance activities in ING's businesses consequently embrace or relate to various legal and regulatory requirements, as well as a variety of business and commercial needs.

### The organisation of Compliance

The Chief Compliance Officer (Group Compliance) reports directly to the CRO and is responsible for developing and establishing the company-wide Compliance Policy. The Chief Compliance Officer also establishes and approves the minimum standards for Compliance and assists and supports the Executive Board in managing ING's Compliance risks. The Compliance function is organised along functional reporting lines.

The Group Compliance function comprises Corporate Compliance and Business Line Compliance. Corporate Compliance is responsible for developing and communicating ING's global compliance framework, policies and guidance for key areas of Compliance risk and provides advice to Business Line Compliance staff on Group policy matters.

ING uses a layered functional approach within Business Line Compliance to ensure systematic and consistent implementation of the company-wide Compliance Policy, minimum standards and the Compliance Framework. The local Compliance Officer has the responsibility to assist local management in managing compliance risk within that business unit. The regional or division Compliance Officer has a supervisory role in the compliance risk management process and manages and supervises all functional activities of the Compliance Officers in the respective region or division. The business line Compliance Officers perform this task for each respective business line and also provide leadership and overall direction to the regional or division Compliance Officers.

To avoid potential conflicts of interests, it is imperative that the Compliance Officer is impartial and objective when advising business management on compliance matters in their business unit, region, division or business line. To facilitate this, a strong functional reporting line to the next higher level Compliance Officer is in place. The functional reporting line has clear accountabilities around objective setting remuneration, performance management, and the appointment of new Compliance staff.

### Compliance Management Policies and Tools

The responsibility of the Compliance Function is to proactively:
- Identify, assess and monitor the compliance risks faced by ING;
- Assist, support and advise management in fulfilling its compliance responsibilities;
- Advise any employee or officer with respect to their (personal) compliance obligations.

To ensure robust compliance risk management, Corporate Compliance, in close cooperation with business line Compliance and the business operations, has developed policies, processes and tools to assist with management of compliance risks. This set of compliance risk management processes and tools consists of the following components:
- Compliance chart (outlining the local scope of compliance in terms of laws, regulations and standards);
- Compliance risk identification and assessment;
- Compliance risk mitigation, (including implementation of standards, procedures and guidelines);
- Compliance risk monitoring (adherence to the Compliance Policy, its minimum standards and applicable legal and regulatory standards; quarterly reporting);
- Incident management;
- Training and education;
- Action tracking;
- Provision of compliance advice;
- Compliance governance.

### Developments in 2007

Financial institutions continue to experience close scrutiny by regulatory authorities, governmental bodies, shareholders, rating agencies, customers and others to ensure they comply with the relevant laws, regulations, standards and expectations. Bank and Insurance regulators and other supervisory authorities in Europe, the US and elsewhere continue to oversee the activities of financial institutions to ensure that they operate with integrity and conduct business in an efficient, orderly and transparent manner. ING seeks to meet the standards and expectations of regulatory authorities and other interested parties through a number of initiatives and activities, including scrutinising account holder information, payment processing and other transactions to support compliance with regulations governing money-laundering, economic and trade sanctions, bribery and other corrupt practices. The failure or perceived failure by ING to meet applicable standards in these areas could result in, among other things, suspension or revocation of ING's licenses, cease and desist orders, fines, civil or criminal penalties and other disciplinary action which could materially damage ING's reputation and financial condition. However, ING's primary focus is to support these objectives as good business practice through Business Principles and group policies.

ING Bank N.V. has been in discussions with its Dutch bank regulator De Nederlandsche Bank (DNB) related to transactions involving persons in countries subject to sanctions by the EU, US and other authorities. These discussions prompted ING Bank N.V. to engage in a review regarding transactions involving sanctioned parties. In connection with this review and related discussions ING Bank has undertaken to complete the global implementation of enhanced compliance and risk management procedures, and to monitor the implementation of such procedures on an ongoing basis, as instructed by DNB. ING Bank also remains in discussions with authorities in the US and in other jurisdictions concerning these matters, and it is not possible to predict at this time the outcome thereof.

One of the key priorities in 2007 was to work closely with business management to further embed the company-wide Financial Economic Crime policy. An enhanced Financial Economic Crime policy has been rolled out globally, requiring the implementation of strict Know Your Customer and Customer Due Diligence programs as well as the use of technology for the screening of customers and transactions.

As a result of our frequent evaluation of all businesses from economic, strategic and risk perspectives, ING Bank N.V. has closed its representative office in Cuba. The Netherlands Caribbean Bank, which is now a 100% ING subsidiary, is being liquidated. In addition, ING has concluded that for business reasons doing business involving certain specified countries should be discontinued, which includes that ING will not enter into new relationships with clients from these countries while a process has started to discontinue existing relationships involving these countries. At present these countries include Myanmar, North Korea, Sudan, Syria, Iran and Cuba.

In addition a dedicated Sanctions Desk was established within Corporate Compliance in 2007 to help the businesses cope with the increasing amount of regulation and sanctions, such as the EU, UN and US Regulations on money laundering and terrorist financing and sanctions.

Also in 2007 ING continued to increase knowledge and understanding of compliance among its employees. The Executive Board stressed that ING's strategy of sustainable, profitable growth can only be achieved along with effective compliance management. Compliance support teams have been established to help business lines embed compliance within their activities and extensive programs have been initiated to increase compliance knowledge and understanding. These teams serve as a channel for education, coaching, communication and sharing good compliance practices.

The capability and capacity of the Corporate Compliance function have been increased, including a staff increase of 55% and the creation of a central team focusing on Financial Economic Crime and anti-money laundering policies and procedures.

A Compliance Programme Office was set up to support ING's continuing focus on building a culture where compliance is an integral part of 'how business is done'. To increase compliance awareness, a global communication programme was set up commencing with strong messages from the Executive Board.

## OPERATIONAL RISKS

Effective operational risk management leads to more stable business processes and lower operational risk costs. The operational risk management function comprises operational, information and security risks.

This is done by raising operational risk awareness, increasing transparency, improving early warning information and allocating risk ownership and responsibilities. It is the responsibility of group and local Operational Information and Security Risk Management (OISRM) to support general management in managing operational information and security risk (hereafter referred to as operational risk).

### Risk management governance

ING OISRM is organised along a functional line comprising three levels within the organisation: the corporate, business line and business unit levels. The General Manager of COISRM (Corporate OISRM) heads the functional line, reporting to the CRO. Each business unit has an OISRM manager that reports to the business line head of OISRM. This layered, functional approach ensures consistent application of guidelines and procedures, regular reporting and appropriate communication as well as the ongoing support for the business. The governance structure is implemented according to the Basel II requirements. The mandate, roles and responsibilities at different levels are clearly described in the OISRM policy house.

### Explanation of risk types

ING 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. It includes the risk of reputation loss as well as legal risk; whereas strategic risks are not included. The following eight risk categories are recognised:

- Control risk is the risk on loss due to non-compliance with business policies or guidelines;
- Unauthorised activity risk is the risk on loss caused by unauthorised employee trading, approvals or overstepping of authority;
- Processing risk is the risk on loss due to unintentional human error during (transaction) processing;
- Employment practice and workplace safety risk is the risk of loss due to acts inconsistent with employment, health or safety laws, or agreements, from payment of personal injury claims, or from diversity /discrimination events;
- Personal and physical security risk is the risk of criminal and environmental threats that might endanger the safety of ING personnel within ING locations and ING assets or might have an impact on the ING organisation;
- IT risk is the risk of loss due to inadequate data or information security of systems;
- Crisis management and Business Continuity Planning/Disaster Recovery Planning risk is the risk of loss due to external events (e.g. natural disasters, criminal activity and terrorist attacks) leading to a situation that threatens the safety of people within ING or the continuity of business conducted;
- Internal and external fraud risk is the risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations or the law.

During 2007 ING introduced internally the non-financial risk dashboard to provide integrated risk information on compliance, operational, information and security risk using a consistent approach and risk language. Besides the above mentioned risk categories the non-financial risk dashboard distinguishes compliance risk; i.e. the risk that ING does not comply with laws, regulations, standards and expectations, which can result in suspension or revocation of its licenses, cease and desist orders, fines civil penalties or other disciplinary action which could materially harm ING's results of operations and financial condition.

**Management**
ING has developed a comprehensive framework supporting the process of identifying, measuring and monitoring operational, information and security risks.

| Risk Management Processes | Examples of risk management tools |
|---|---|
| Risk Governance | – Operational Risk Committee<br>– Compliance program<br>– Product Approval process<br>– Risk awareness training |
| Risk Identification | – Risk and Control Self Assessments<br>– Risk Awareness Programs<br>– Fraud detection |
| Risk Measurement | – Incidents Reporting and Analysis<br>– RAROC<br>– Quality of Control Scorecards |
| Risk Monitoring | – Audit Findings Action Tracking<br>– Key Risk Indicator Reporting<br>– Operational risk dashboard |
| Risk Mitigation | – (Information) Security plans and implementation<br>– Crisis management planning<br>– Personal and physical security planning |

ING promotes effective management of operational, information and security risk by requiring business units to demonstrate that the appropriate steps have been taken to control operational risk. ING applies scorecards to measure the quality of operational, information and security risk processes within a business. Scoring is based on the ability to demonstrate that the required risk management processes are in place with the business units. The scorecards indicate the level of control with the business units. The scoring results in a decrease or increase of the risk capitals, depending on both the maturity of implemented operational, information and security risk and the control measures taken.

The overall scorecard outcome showed that ING Group satisfies the Basel II requirements in embedding the risk management framework.

**Personal and physical security**
ING has established policies on Personal and Physical Security. Entities need to ensure that all policy requirements are maintained. The ING Corporate Physical Security policy and minimum determine functional requirements about the areas of physical access security, theft protection, fire protection, cash and valuables protection, utilities and infrastructure protection and supporting security devices. Security plans per location are based on a risk assessment. All (major) ING assets (e.g. premises, information, equipment and valuables) must have a nominated asset-owner, which is accountable for the adequate protection of its entrusted ING asset. Each ING location has to be divided into classified security zones (compartmentalisation) to locate classified assets. Each ING entity must have an appointed physical security manager who is accountable for the implementation of physical security within its location(s).

The corporate policy on Personal Security states how ING's employees should be protected against exposure to the risks or the consequences of criminal and environmental threats. The policy includes minimum standards and some guidelines on business travelling (travel, accommodation and lodging), expatriates (e.g. selection process and accommodation), events by ING and projects in order to create and maintain a safe and secure environment for ING staff and visitors within ING locations and the availability, integrity and reliability of ING assets within and outside ING locations.

**Crisis Management**
Crisis management includes the process to detect, assess, solve and evaluate a crisis. The ING Crisis Management policy provides a cohesive overview of crisis management governance in relation to crisis management officer roles and responsibilities across the whole of ING Group. It does not address roles associated with ING customers or other third parties however.

The policy has prescribed requirements around planning and testing of crisis management organisation, crisis communication, building evacuation, emergency actions and business continuity and disaster recovery.

### Information security
The OISRM function operates with the mission of ensuring the confidentiality, integrity and availability of information and associated information processing assets through the disciplined used of risk management practices. The OISRM function is comprised of information security specialists within all Business Units and Business Lines, and is coordinated overall at the ING Group level.

The OISRM function has defined a comprehensive suite of policies, standards and guidelines, and compliance is measured and monitored on a regular basis.

The OISRM function actively measures and monitors information risk within the key risk areas noted below. The result of this process is used by ING Business Units to budget, plan, and implement appropriate risk mitigation actions.

### Measurement
The operational risk measurement model uses both external and internal loss data (exceeding EUR 1 million) within an actuarial model. The model is adjusted for the scorecard results, taking into account the specific quality of internal control in a business line and the occurrence of large incidents ('bonus/malus'). This provides an incentive to business unit management to better manage operational risk. The outcome is periodically challenged and benchmarked. The capital calculation model meets industry standards.

ING is member of the Operational Risk data eXchange Association (ORX), the world's leading operational risk loss data consortium for the financial services industry. In order to protect ING against financial consequences of uncertain operational events ING has acquired insurance policies issued by third-party insurers, with world-wide cover for (Computer) Crime, Professional Liability, Directors and Officers Liability, Employment Practices Liability and Fiduciary Liability. The portion of the risks that ING retains is of a similar magnitude to the risk retained for casualty business-related catastrophe exposures.

### Developments in 2007:
- In 2007 ING obtained DNB's approval to implement the advanced measurement approach for the operational risk capital calculation. ING has applied the AMA calculation as of 1 January 2008. Local implementation of Basel II is supported by the corporate OISRM function;
- The adjusted scorecard approach monitors the compliancy with the Compliance and OISRM framework and its controls while taking the maturity of the business units into account;
- The Anti-fraud Policy has been further upgraded. Defined measures include anti-fraud training, pre-employment screening, additional organisational controls, automated detection as well as reporting and response procedures. OISRM Policy house has been refreshed and reflects all OISRM policies;
- A powersupply issue in one of the datacentres (in the Netherlands) has prompted ING to accelerate an improvement programme for the business continuity and disaster recovery capability and platform security of its datacenters.
- The Non-Financial risk dashboard has been introduced and piloted;
- The integration of the operational, information and security functions at all levels within ING has lead to an organisation which consists of around 900 FTE's at the end of 2007.

## MODEL DISCLOSURES
The risk profile of ING Group, as described in the Risk management section is captured by three key risk metrics:
- Earning at Risk;
- Capital at Risk;
- Economic Capital.

The analyses set out in the risk management section provide a valuable guide to investors as to the risk profile of ING Group. Users of the information should bear in mind that the analyses provided are forward looking measures that rely on assumptions and estimates of future events, some of which are considered extreme and therefore unlikely to occur. In the normal course of business, ING Group continues to develop, recalibrate and refine the various models that support risk metrics, which may result in changes to the risk metrics as disclosed.

This model disclosure section explains the models applied in deriving these three metrics. The methodology to derive the Earnings at Risk and Capital at Risk metrics, as presented in the ING Group risk dashboard, is described first. Thereafter, the methodologies used to determine Economic Capital for ING Bank, ING Insurance and ING Group are described.

### MODEL VALIDATION
In 2007 all risk models used for the Economic Capital Bank calculations and the ING Group risk dashboard have been reviewed and validated by the internal Model Validation department. The review of the models underlying Economic Capital for ING Insurance is planned for 2008.

The ING Bank Economic Capital calculation is also used as part of the Basel II pillar 2 Supervisory Review and Evaluation Process (SREP) that is regularly performed by the Dutch Central Bank.

## EARNINGS AND CAPITAL RISK

### Earnings at Risk

Earnings at Risk (EaR) measures the potential reduction in accounting earnings over the next year relative to expected accounting earnings. EaR is measured using a 90% confidence level (i.e. '1 in 10' stress scenario). Discretionary Management interventions are not explicitly modelled unless their measurement can be based on historical performance tracking (e.g. regular or planned actions). It should be noted that the 90% confidence level used for EaR is not an absolute requirement, but regarded as a general guideline. For each major risk types the earnings sensitivities are calculated based on existing best-practice e.g. 1% instantaneous shock to interest rates. To reflect bottom-line accounting earnings as close as possible in EaR measurement the amount is compared to the forecast earnings to determine risk appetite levels, e.g. The ING Bank credit risk component of EaR bank is adjusted for forecast risk costs (addition to Loan Loss Provision).

### Capital at Risk

The Capital at Risk (CaR) measures the potential reduction of the net asset value (based on fair values) over the next year relative to expected value. CaR is measured using a 90% confidence level (i.e. '1 in 10' stress scenario). Discretionary Management interventions are not explicitly modelled unless their measurement can be based on historical performance tracking (e.g. regular or planned actions).

Economic value is defined as the marked-to-market net asset value (assets less liabilities). For each major risk type the value sensitivities are calculated based on the existing Economic Capital methodology, applying the 90% confidence level. CaR risk appetite is measured against available financial resources.

### Aggregation model risk dashboard

To derive the Earnings at Risk and Capital at Risk figures at an ING Group level, the underlying risk inputs from the ING Bank and ING Insurance business units are aggregated bottom-up, using a combination of the 'variance-covariance' method and Monte Carlo simulation. For aggregation up to Group level, two sets of correlation assumptions are required, namely the Bank-Insurance correlations per risk type and inter-risk correlations.

The basic data input for the group risk dashboard is provided along 13 major risk types (e.g. equity risk Europe; see table below) and diversified within ING Bank or ING Insurance.

The first aggregation step is between ING Bank and ING Insurance for each major risk type. All risk capitals, except for credit risk that is already aggregated for ING Bank and ING Insurance are delivered on a standalone basis for ING Bank and ING Insurance. These risk capitals are aggregated between ING Bank and ING Insurance using a variance-covariance approach. Depending on the accounting treatment the Bank - Insurance correlation factors used for EaR may differ from CaR correlation factors (e.g. for interest rate risk). The result of this aggregation step are Group diversified EaR and CaR figures for each major risk type.

Major risk types distinguished

| Risk type | Distribution used |
|---|---|
| Credit and transfer risk (2) | KMV distribution |
| Market risk (8)<br>– Interest rate risk Europe, Asia and America<br>– Equity risk Europe, Asia and America<br>– FX risk<br>– Real estate risk | Normal distribution |
| Insurance risk (1) | Normal distribution |
| Business risk (1) | Normal distribution |
| Operational risk (1) | Empirical distribution |

(Note numbers in parentheses indicates the number of risk types distinguished (total of 13)).

A second aggregation step exists between these major risk types at an ING Group level. The Group diversified EaR and CaR figure for each major risk type are aggregated using a Monte Carlo simulation in combination with an inter-risk correlation matrix to obtain the overall EaR and CaR figures for ING Group. The outcomes of the simulation represent the potential losses arising from the major risk types, which are summed together to derive the aggregate potential losses. The diversified Group EaR or CaR is then calculated as the $90^{th}$ percentile of the simulated aggregate potential losses.

**Principal assumptions of EaR and CaR measurement**

CaR and EaR figures should always be viewed in the context of principal assumptions made to enable both comparability and updated measurement of ING Group risk profile:

- Risk dynamics are based on historic observation; historical events are used as a proxy for future risk estimates e.g. price changes, defaults, dependencies of markets;
- Point-in-time risk profile of in-force business is presented; in general risk measurement does not include future volumes and margins;
- Discretionary Management interventions are not explicitly modelled unless their measurement can be based on historical performance tracking (e.g. regular or planned actions);
- Correlation factors between risk types used for diversification are based on best estimate assumptions supported by statistical analysis of historical data, ING risk expert judgement, external benchmark study and common logic;
- Behavioural assumptions for clients are included in risk measurement where applicable e.g. variable savings, embedded mortgage options or lapse ratios.

**Reporting Framework**

All data for each risk type and business line, as well as the empirical Group risk distributions, are uploaded to a web-based risk dashboard program. The aggregation and simulation steps, as described above, are performed in a secure server based environment.

**ECONOMIC CAPITAL ING BANK**

Economic Capital is defined as the amount of capital that a transaction or business unit requires in order to support the economic risks it originates. In general Economic Capital is measured as the unexpected loss above the expected value or loss at a given confidence level. Specific measurement by risk type is described in greater detail in the separate risk type sections; i.e. credit and transfer and operational risk as well as market and business risk bank.

This Economic Capital definition is in line with the net market value (or surplus) definition. The process of Economic Capital modelling enables ING Bank to allocate Economic Capital to the business units and support risk adjusted performance measurement (RAROC). By comparing Economic Capital figures with ING's available financial resources, adequate capital buffers can be ensured.

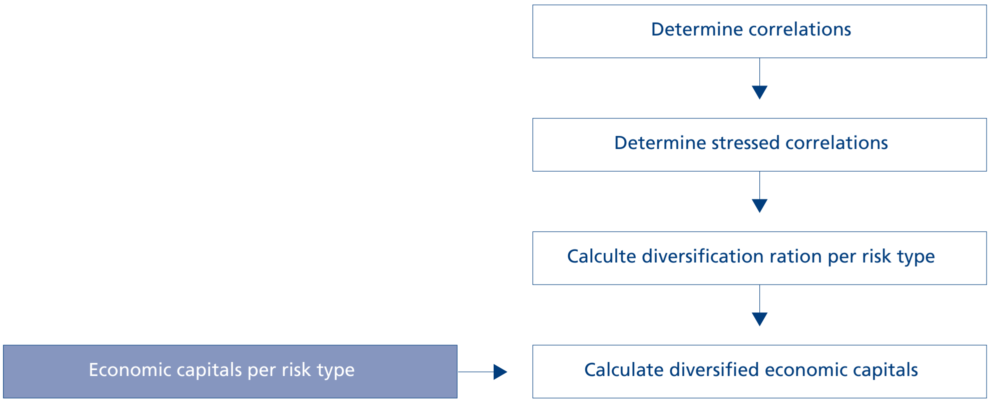
The following fundamental principles and definitions have been established for the model:

- ING Bank uses a one-sided confidence level of 99.95% - consistent with ING's target debt rating (AA) - and a one-year time horizon to calculate Economic Capital;
- It is assumed that all currently known measurable sources of risk are included;
- The best estimate risk assumptions are as objective as possible and based on proper analysis of statistical data. There is one set of best-estimate assumptions for each risk type to be used at ING Bank;
- The Economic Capital calculation is based on fair value principles. Where complete and efficient markets exist, fair value is equal to market value;
- The Economic Capital calculations reflect known embedded options and the influence of client behaviour in banking products;
- The Economic Capital calculations are on a pre-tax basis and do not consider the effect of regulatory accounting and solvency requirements on capital levels;
- The framework does not include any franchise value of the business, discretionary management intervention or future business volumes and margins.

Further details are provided in the relevant model descriptions for each risk area.

**Aggregation model**

The main processes executed in the ING Bank Economic Capital aggregation model are depicted in the flowchart below. The white boxes show the processes performed by the model while the shaded box indicates inputs from other corporate risk departments.




As a foundation the correlations in the risk dashboard are applied based on a 90% confidence level, i.e. they correspond to the correlations observed in the 10% largest downward movements (a '1 in 10' event). As shown in the flow-chart, these correlation factors are stressed upwards where necessary to account for potential measurement inaccuracy in extreme events due to limited historic data observations. For aggregating non-financial risks (business and operational) expert opinion is used.

The Economic Capital for ING Bank involves the aggregation of the underlying Economic Capitals of five distinct risk types, namely credit, transfer, market, operational and business risks. These risk types are aggregated to provide a total diversified ING Bank Economic Capital by applying the variance-covariance approach with a 5 x 5 inter-risk correlation matrix.

For allocation of Economic Capital to units and products, diversification factors are calculated for each risk type. These factors are applied consistently throughout ING Bank. The level of diversification benefit is dependent on both the inter-risk correlations as well as the relative size of the undiversified Economic Capital exposure for each risk type.

**Reporting Framework**

For each business unit and product line, the gross Economic Capital for each risk type is delivered to MISRAROC - the financial data warehouse for RAROC and Economic Capital reporting of ING Bank. The net Economic Capital figures are calculated by taking the product of the gross Economic Capital with one minus the diversification factor. Total Economic Capital is calculated as the sum of the net Economic Capital for each risk type at all reporting levels.

**CREDIT AND TRANSFER RISK**

Economic Capital for credit risk and for transfer risk is the portion of Economic Capital held to withstand unexpected losses inherent in the credit portfolios related to (unexpected) changes in the underlying creditworthiness of debtors, or the recovery value of underlying collateral (if any). Credit risk and transfer risk capital are calculated on all portfolios which contain credit or transfer risk, including investment portfolios. The same methodology is used for both the banking and the insurance operations.

Economic Capital for credit risk and for transfer risk are calculated using internally developed models with a 99.95% confidence level and a time horizon of one year, which represents ING's desired credit rating.

ING uses a series of credit risk models that can be grouped into three principal categories: Probability of Default (PD) models, which measure the standalone creditworthiness of individual debtors; Exposure at Default models (EAD) which estimate the size of the financial obligation at the moment of default in the future; and Loss Given Default Models (LGD), which estimate the recovery value of the underlying collateral or guarantees received (if any) and the unsecured part. Collectively, ING uses over 100 models for credit risk. The various models can be grouped into three categories: statistical, expert and hybrid. Each model is individually reviewed and validated annually by the Model Validation department (MV), in order to determine the continued viability or need to adjust each individual model.

The Economic Capital formula for credit and transfer risks relies on seven different risk drivers. In addition to the PD, EAD, and LGD models mentioned above, the formula also considers the industry and the country of the debtor as well as the remaining term of the respective underlying transactions. Lastly, the formula considers the correlation of the individual transactions to the portfolio as a whole. ING uses Monte Carlo simulation tools to determine certain parameters which are then applied to individual transactions in determining the level of Economic Capital related to credit and transfer risk in a bottom up approach. The correlations, which are updated quarterly, are determined at a Business Line level, and diversification effects are applied at the transactional level.

The underlying formulas and models that are used for determining Economic Capital for credit and transfer risk are the same as those used for determining the level of regulatory capital that is required under Basel II (Pillar 1). Despite the fact that the same underlying formulas are used, (internal) Economic Capital and regulatory capital are not the same, due to various specific rules imposed by Basel II, such as regulatory caps and floors, and the use of the standardized approach for certain portions of ING's portfolio. These differences are permitted under the Basel II guidelines.
The table below summarises different capital measures used for different purposes and shows the difference in key elements and purposes.

| Credit Risk Capital Measurements | Methodology | Location | Confidence level | Inputs | Purpose |
|---|---|---|---|---|---|
| Regulatory Capital | Basel II Formula | Vortex Basel Engine ('VBE') in the Central Risk Database | 99.90% | Basel II model outputs | RWA |
| Economic Capital | Risk adjusted capital Closed Algebraic Formula (RAC) | Vortex Risk Engine ('VRE') in the Central Risk Database | 99.95% | Basel II model outputs excluding Basel II caps and floors, maturity, repayment schedules, correlation factors, migration matrix. Some inputs come from EC-MC portfolio calculator but with 99.95% confidence level country and industry. | Pricing, Economic Capital for credit at transational level and above |
| Capital and earnings at risk | Monte Carlo simulation based on aggregate portfolio ('EC-MC portfolio calculator') | Stand alone tool using same data from Central Datawarehouse as VRE | 90.00% | Basel II model outputs excluding Basel II caps and correlation factors, migration matrix country and industry. | Risk Dashboard at Line of Business Level and above |

With regard to methodology, the EC-MC Portfolio calculator provides a sophisticated and consistent framework to measure capital numbers for credit risk. Because of its complexity and required calculation time the EC-MC Portfolio calculator is more suited for portfolio calculation, rather than to be implemented in an environment requiring real time reporting at a transactional level for day-to-day management, pricing of new transactions and limit setting. As a result, Economic Capital figures are based on RAC figures that are derived from the EC-MC Portfolio calculator but are not fully equivalent. The main characteristics are:
- **RAC** is calculated at facility level with closed algebraic formulas rather than from a Monte Carlo Simulation. The RAC algebraic formula includes parameters which incorporate the impact of portfolio dynamics, such as correlations and diversification effects. These parameters are derived through a regression of the outputs of the EC-MC portfolio calculator;
- Due to its proprietary nature the inputs in the **EC-MC Portfolio calculator** are subject to certain technical caps and floors (LGD/EaD is constant and PD migration matrix is capped) which are not applicable in RAC. Also, due to the implemented mathematical routines the EC-MC portfolio calculator is subject to a minimum PD and maximum tenor, which are not applicable in RAC.

Additionally the banking operations use the RAC model for determining the optimal pricing on (new) lending transactions in order to ensure that ING meets its desired RAROC returns.

During 2007, the Economic Capital levels for credit and transfer risk were calculated on a weekly basis for most of the Wholesale Bank, for ING Direct investment portfolios and for the SME portfolios within the Retail banking operations. For consumer loans, residential mortgages, credit cards, and the insurance portfolios, the calculations are made on a monthly basis. On a quarterly basis, the Economic Capital for credit risk and transfer risk figures are consolidated with the corresponding Economic Capital components from other disciplines.

**Governance of Economic Capital for Credit and Transfer Risk**
All PD, EAD and LGD models are approved by the Credit Risk Committee (CRC) after thorough review of documentation by the Model Development Steering Committee (MDSG) and MV. In addition, each model is validated on an annual basis by MV. Each model has both a credit risk and a front office co-sponsor. Both the MDSG and the CRC have participation from both credit risk officers as well as the front office to ensure maximum acceptance by the organisation.

**MARKET RISK BANK**

**General**

Economic Capital for market risk is the Economic Capital necessary to withstand unexpected value movements due to changes in model risks and market variables, such as interest rates, equity prices, foreign exchange rates and real estate prices. Economic Capital for market risk is calculated for exposures both in trading portfolios and non-trading portfolios.

**Measurement**

Economic capital for market risk is calculated using internally developed methodologies with a 99.95% confidence interval and a horizon of one year, which represents extreme events and ING's rating. The Economic Capital for market risk for non trading portfolios is calculated for each risk type, while for trading portfolios it is calculated on a portfolio level. The calculations for Economic Capital market risk include real estate risk (including development risk), foreign exchange rate risk, equity price risk, interest rate risk and model risks.

Real estate price risk includes both the market risks in the investment portfolio and the development risk of ING Real Estate. The real estate price risk for ING Real Estate is calculated by stressing the underlying market variables. The stress scenarios at a portfolio level take into account all diversification effects across regions and real estate sectors. Also, the leverage of participations in the real estate investment funds is taken into account.

For the real estate development process, in addition to price risk, the risk drivers of vacancy rate and construction delays are in addition taken into account. Furthermore the risk model differs for each development phase (i.e., research, development, and construction) to appropriately reflect the risk taken in each phase. Using correlations, all risk drivers, and stages are used to calculate a possible market value loss representing the Economic Capital for market risk for the development portfolio.

For the direct market risks, the actual VaR (measured at a 99% confidence interval, a one day holding period and under the assumption of an expected value of zero) of the trading and non-trading portfolios is taken as a starting point for the Economic Capital calculations for market risk. To arrive at the Economic Capital for market risk, a simulation based model is used which includes scaling to the required confidence interval and holding period. In determining this scaling factor, several other factors are also taken into account like the occurrence of large market movements (events) and management interventions.

Economic Capital for market risk for the large non-trading portfolios within ING Retail Banking and ING Wholesale Banking is calculated for embedded option risk (e.g. the prepayment option in mortgages) and model risk. The model risk is calculated by stressing the underlying assumptions in the models for behavioural assets and liabilities. For example, the hedge for savings portfolios is based on assumptions with respect to developments of volumes and client rates. Deviations in these assumptions can lead to (ex-post) incorrect estimation of the interest rate typical maturity of saving deposits. If there is more outflow than initially modelled, the duration of the savings money may be lower than the duration of the investments, which leads to losses if interest rates go up. The Economic Capital model for market risk is based on estimations of the 99% confidence savings duration error, combined with the 99% adverse interest rate movement. The combined probability represents a 99.95% confidence level. The economic capital figures of ING Direct capture the model risk of the behavioural liabilities in line with the model described above. The Economic Capital figure for ING Direct currently does not capture the embedded option risk and the model risk resulting from the mortgages maintained within this line of business. This will be implemented in 2008.

For the model applied to mortgage portfolios a similar rationale is employed. The quality of the hedge depends on assumptions with respect to prepayment behaviour. If these assumptions are wrong, the funding may be either too long or too short term. Similar to the above, the Economic Capital model for market risk is based on the estimated 99% confidence prepayment model error and the 99% confidence adverse interest rate change.

While aggregating the different Economic Capital market risk figures for the different portfolios, diversification benefits are taken into account as it is not expected that all extreme market movements will appear at the same moment.

The nature of market risk economic capital, evaluating the impact of extreme stress with a 99.95% confidence level, can sometimes be difficult to evidence in a statistical sound manner with the available historical data. The economic capital figures disclosed by ING Group are a best effort estimate based on available data and expert opinions.

**OPERATIONAL RISK**

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the risk of reputation loss, as well as legal risk; whereas strategic risks are not included. The main risk drivers are the quality of control and the volume of cash flows or other operational risk control measures, e.g. legal expenditures. While operational risk can be limited through management controls and insurance, many incidents still have a substantial impact on the profit and loss account of financial institutions. Operational risk is more difficult to quantify than other risk types, because of the far-reaching (mostly low probability - high impact) and historic data on business performance is scarce.

The capital model, an actuarial model, consists of a combination of three techniques:
- Loss Distribution approach (LDA), which applies statistical analysis to historical loss data;
- Scorecard approach, which focuses on the quality of risk control measures within a specific institution;
- 'Bonus/Malus' approach, which focuses on the actual operational incidents of a specific institution.

**Loss Distribution approach**
The main objective of the LDA approach is to derive an objective capital number based on the size and the risk appetite of an institution and its business units. This approach estimates the likely (fat-tailed) distribution of operational risk losses over some future horizon for each combination of business line and loss event type. The main characteristic of the LDA is the explicit derivation of a loss distribution, which is based on separate distributions for event frequency (Poisson) and severity (Inverse Gaussian). The model uses both external and internal loss data above one million EUR.

The calculation of operational risk capitals for the units follows five basic principles:
- Principle 1: If the world gets riskier, the business units need more Economic Capital;
- Principle 2: If a business unit's size increases, so does its capital;
- Principle 3: If the business of a business unit is more complex, it needs more capital;
- Principle 4: If the level of control of a business unit is higher, it needs less capital;
- Principle 5: If the business units' losses from internal incidents exceed the level of expected loss accounted for in the first four framework principles, it needs more capital.

The capital calculated according above principles is 'generic': if two business units operate in the same markets and have the same size, the resulting capital will be the same. The specific capital adjustments mentioned below adjust the generic capital of a specific institution to its specific operational risk capital.

**Scorecard approach**
The scorecard adjustment reflects the level of quality of control in a specific institution. Scorecards aim to measure the quality of key operational risk management processes. The scorecard procedure concerns questions that require quantitative data, qualitative judgements or simple yes/no questions (e.g. indicating compliance with certain group policies). The scorecards are completed by all business units using self-assessment and reviewed by an expert panel who determines the final score. The set of scorecards then leads to an increase or decrease of the capital of the specific institution.

**'Bonus/Malus' approach**
Units are assigned additional capital in case losses from internal incidents exceed the level of expected losses that have been accounted for in the LDA. When actual losses are lower than expected, the capital will be decreased. Only internal incidents above one million EUR from the last five years are used. The Bonus/Malus adjustments are capped at + and – 20% to prevent large capital fluctuations in total ING capital.

**ING BANK BUSINESS RISK CAPITAL**
The current calculation method applied within ING Bank defines business risk as the 'residual risk category' that includes all risks that are not covered by the explicitly defined (and managed/measured) credit/transfer, market and operational risk categories. In accordance with the residual risk definition, the measurement of business risk capital is based on a single risk factor; i.e. the volatility of the 'residual' profit and loss figures (for each BU) that are cleansed for the effects of other risk types. As a consequence there is no further gain in insight regarding sub business risks.

The level of the business risk capital is linked to the volatility of (cleansed historical) profit and loss data taking into account observed trends. In practice, this means that more stable earnings over time generally lead to less capital.

Using a T–distribution and the level of confidence, the volatility is then 'capitalised' to obtain a business risk capital. The T–distribution is a theoretical probability distribution, is symmetrical, bell-shaped and similar to the standard normal curve. However, the T-distribution has relatively more scores in its tails than the normal distribution.

As relatively short data series are available, a capital floor and cap are included in order to prevent that the business risk capital is under- or overestimated. The minimum (floor: 20%) and maximum (cap: 80%) are specified as a percentage of the operating costs and as such link business risk capital for units that operate at the floor to cost efficiency.

**ING INSURANCE ECONOMIC CAPITAL**
Economic Capital, 'EC', is defined by ING as the amount of assets that needs to be held in addition to the market value of liabilities to assure a non-negative surplus at a 99.95% level of confidence on a 1 year time horizon. ING measures Economic Capital by quantifying the impact on the market value surplus (MVS) as a result of adverse events that occur with a specified probability related to the AA rating. Therefore ING's Economic Capital model is based on a 'Surplus-at-Risk' concept. The confidence level consistent with an AA rating has been defined as the 99.95% one-sided confidence level over a one-year horizon. The change in market value surplus (MVS) is the combined effect of changes in market value of assets (MVA) minus market value of liabilities (MVL).

The MVL consist of the Financial Component of Liabilities (FCL) and a Market Value Margin (MVM) for non-hedgeable risks (e.g. insurance risk). The MVM is calculated using a Cost-of-Capital approach based on an estimate of required shareholder return on Economic Capital.

The following fundamental principles have been established for the model:
- Economic Capital requirements are calculated to achieve a target AA rating for policyholder liabilities;
- All sources of risk should be considered;
- The best estimate actuarial assumptions should be as objective as possible and based on a proper analysis of economic, industry, and company-specific statistical data. There is one set of best-estimate assumptions per product to be used for all purposes at ING;
- Valuation of assets and liabilities is based on fair value principles. Where complete and efficient markets exist, fair value is equal to market value;
- The Economic Capital and valuation calculations should reflect the embedded options in insurance contracts;
- The Economic Capital and valuation calculations do not consider the effect of local regulatory accounting and solvency requirements on capital levels. Capital is assumed to be fully transferable between legal entities;
- The framework does not include any franchise value of the business. It does, however, include the expense risk associated with the possibility of reduced sales volume in the coming year.

ING quantifies the impact of the following types of risk in its Economic Capital model:
- Market risk for ING Insurance is the change in value based on changes in interest rates, equity prices, real estate prices, credit spreads, implied volatilities (interest rate and equity), and foreign exchange rates. It occurs when there is less than perfect matching between assets and liabilities. Market risk may exist in the insurance activities as a result of selling products with guarantees or options (guaranteed crediting rates, surrender options, profit sharing, etc.) that cannot be hedged given the assets available in a certain market. Market risk may also occur when there is an intentional mismatch between asset and liability cash flows even when it is possible to match or hedge the cash flows;
- Credit risk is the risk of changes in the credit quality of issuers due to defaults or credit migration of securities (in the investment portfolio), counter parties (e.g. on reinsurance contracts, derivative contracts or deposits given) and intermediaries to whom ING has an exposure. In addition to credit risk, ING includes a calculation of transfer risk for the risk of being unable to repatriate funds when required due to government restrictions;
- Business risk is defined as the exposure to the possibility that experience differs from expectations with respect to expenses, the run-off of existing business (persistency) and future premium re-rating;
- Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk capital is difficult to quantify, since it is driven by infrequent events of high severity, and can be significantly mitigated or exacerbated by the quality of internal controls and guidelines. It may be partially managed through the purchase of insurance;
- Life risk relates to deviations in timing and amount of the cash flows (premium payments and benefits) due to the incidence or non-incidence of death. The risk of non-incidence of death is also referred to as longevity risk to distinguish it from the risk associated with death protection products. ING notes risks due to uncertainty of best estimate assumptions concerning level and trend of mortality rates, volatility around best estimates, and potential calamities and recognizes external reinsurance;
- Morbidity risk is the risk of variations in claims levels and timing due to fluctuations in policyholder morbidity (sickness or disability) recognizing external reinsurance. A wide variety of policy classes are subject to morbidity risk, including disability, accidental death and disability, accelerated death benefits, workers compensation, medical insurance, and long-term care insurance;
- P&C risk comprises the risk of variability of size, frequency and time to payment of future claims, development of outstanding claims and allocated loss adjustment expenses for P&C product lines recognizing external reinsurance.

Liquidity risk and strategic business risk have been excluded from the EC calculations of ING Insurance.

**Economic Capital Model**
The ING Economic Capital calculation is calculated based on a 'Surplus-at-Risk' concept. 'Surplus-at-Risk' is calculated based on the steps:
- Calculate the complete balance sheet (all assets and liabilities) on a Market Value basis;
- Generate Monte-Carlo shock scenarios for all of the relevant risk factors (market and non-market);
- Recalculate the complete balance sheet (all assets and liabilities) on a Market Value basis for each shock scenario. For practical purposes, the MVM is not recalculated under shock scenarios;
- Calculate the 99.95% worst case decrease in the Market Value Surplus over all the shock scenarios. This value will be the EC. Note that the shock scenario causing the Economic Capital will differ by business unit, business line, and at an ING Insurance level.

In 2007, ING Insurance has introduced ECAPS as an intranet-based Economic Capital reporting system utilising replicating portfolio techniques. The ECAPS system provides a well controlled and automated basis for Economic Capital and risk measurement. Each business unit enters the risk characteristics of its assets and liabilities into the ECAPS system on a regular basis. These risk characteristics are then translated to a uniform basis in the form of replicating portfolios of standardised financial instruments. Based on the constellation of replicating portfolios (including representations of non-market risks), the ECAPS system then is capable of calculating Economic Capitals at every level of aggregation. The following is a brief description of the model.

**1. Market Data and Scenario Generation**

- Automated retrieval of all current and historical market data
- 500 Risk scenarios sent to each business unit to locally develop stochastic asset and liability cash flows
- 20,000 Real World Monte-Carlo scenarios for Economic Capital calculation

**2. Stochastic Cash flows and Non-market Risk Capital**

- Actuarial software used to produce the stochastic cash flows by scenario
- Business units upload stochastic asset and liability cash flows for optimized replicating portfolio
- Non-market risk capitals calculated in accordance with ING Standards of Practice submitted to ECAPS for risk aggregation

**3. Replicating Portfolio**

- Capture the risk profile of the financial component of insurance liabilities by mapping onto a small set of standard financial instruments
- Standard instruments contain discount bond, swaption, equity forward/option and FX option
- Find a replicating portfolio that matches the cash flows as closely as possible for the 500 paths

**4. Economic Capital Calculation**

- Replicating portfolio used to capture the risk profile of Insurance assets and liabilities
- EC market shocks and diversification benefits from Monte-Carlo Scenarios
- Non-market risk aggregation
- Total diversified EC

**Further details on Economic Capital model**

*Market Data and Scenario Generation*

ING Insurance uses ING Bank's Global Market Database (GMDB) as a provider of market price and risk data for financial risk drivers. All market data is obtained from reputable data providers such as Reuters and Bloomberg. The GMDB operational team then validates the market data and calculates relevant risk parameters. This validated data is then automatically delivered to the ECAPS system.

Since ING Insurance operates in many developing financial markets, extrapolation algorithms are in place for extending beyond observable market data when this is needed for the calculation of the Market Value Liabilities and the Economic Capital. These algorithms are based on comparable data in mature markets.

Based on the market data from GMDB, ING calibrates two economic scenario generators:
- Risk Neutral Economic Scenario Generator (RN ESG): capable of generating multiple equity indices and exchange rates, consistent with a multi-currency dynamic term structure model. Scenarios are used in the cash flow projection to determine replicating portfolios. RN ESG scenarios are consistent with observed market prices of equity, FX and interest options;
- Real World Economic Scenario Generator (RW ESG): capable of jointly simulating all risk types, i.e. all market risks, credit risk, business risk, operational risk, life risk, morbidity risk and P&C risk. Diversification between risks is taken into account through a Gaussian copula, allowing for different marginal probability distributions at the risk driver level. RW ESG scenarios are consistent with historical time series of the market risk drivers using 5 years of weekly data observations. The volatilities are scaled from weekly to quarterly and the weekly correlations are used directly as estimates of quarterly correlations.

**Stochastic Cash Flows and Non-Market Risk Capital**

The market risks in assets and liabilities are captured in and represented by stochastic cash flows in 500 scenarios. Business Units are responsible for generating these cash flows, the modelling of embedded options and guarantees and a proper mapping of risk drivers in the scenario set to cash flow determinants such as policyholder behaviour and management actions restricted to dynamic hedge programs and setting of crediting rates/profit sharing. To better capture the behaviour in the tails of the distribution, the set of scenarios consist of 300 Risk Neutral scenarios and 200 'Risk Volatile' scenarios with double volatilities. The average of the 300 Risk Neutral scenarios provides a check on the market value of the replicating portfolio. It should be noted that this serves only as a check, and that the actual market value of liabilities is derived directly from the replicating portfolio. The 200 Risk Volatile scenarios ensure that the replicating portfolio is calibrated against enough extreme scenarios such that it can be used safely in Economic Capital calculations.

Non-market risk Economic Capital is calculated by business units, Corporate Credit Risk Management and Corporate Operational, Information and Security Risk Management and input into ECAPS at the sub risk level. ECAPS than aggregates 21 sub-risk types (e.g. mortality and trend risk) to 9 non market risk types using a bottom-up Economic Capital diversification approach based on a matrix of tail correlations. The information inputs relate to 9 sub risk types:
- Credit risk;
- Business risk;
- Operational risk;
- Life risk catastrophe;
- Life risk non-catastrophe;
- Morbidity risk catastrophe;
- Morbidity risk non-catastrophe;
- P&C risk catastrophe;
- P&C risk non-catastrophe.

The inputs are used to calibrate marginal distributions for these risk types. These distributions, in combination with the Gaussian copula, are then used in the Economic Capital Calculation to measure diversification between market and non-market risks.

**Replicating Portfolios**

To handle the full complexity of calculating diversification by Monte Carlo simulation, ING maps its assets and liabilities to a set of standard financial instruments. The set of standard instruments consists of zero coupon bonds, market indices, equity forwards, swaptions, F/X options and equity options. Assets and the financial components of the liabilities are represented by a portfolio of this standard set of instruments. A user interface allows the selection of different types of replicating instruments for different cash flow types. Then an optimal replicating portfolio is created that matches the risk profile of the stochastically generated cash flows as good as possible. The resulting replicating portfolio is used in the calculation of Economic Capital.

Through the inclusion of equity options, F/X options and swaptions in the set of replicating instruments, ING is able to incorporate implied volatility risk in the considered risk types. The same holds for the credit spread risk through the inclusion of credit risk bearing zero coupon bonds in the set of replicating instruments.

The quality of the replicating portfolio is monitored by several statistical criteria including R-squared and benchmarked against market value sensitivities such as duration, convexity, and changes in value for larger interest rate and equity shocks. High quality replicating portfolios are important in several ways. First, they ensure a good reflection of the actual risk profile and an accurate calculation of Economic Capital. Second, they assist Business Units in hedging strategies and management of Economic Capital. Third, the process of replicating portfolio calculations increases the understanding of the complex nature of insurance liabilities in a market consistent environment.

Replicating portfolios are currently determined from a single factor RN ESG interest rate model. This limits the ability of the replicating portfolios to pick up sensitivity to non-parallel shifts of the term structure of interest rates. Hence RW ESG interest rate scenarios for the Value at Risk calculations are generated using a single factor model as well. However both RN ESG and RW ESG models are consistent with respectively, the RN ESG and RW ESG volatility structure of interest rates.

**Economic Capital Calculation**

ECAPS uses Monte-Carlo simulation to determine diversification benefits for the complete 'portfolio hierarchy', from Business Unit level up to an ING Group level. All diversification calculations are done within ECAPS and are driven by the Gaussian copula of all risk drivers using the underlying distributions applicable for each risk type.

For the calculation of Economic Capital, ING uses a one- year time horizon. In practice, the model calculates instantaneous quarterly shocks and then annualises the resulting VaR statistic to determine an annualised EC. The quarterly shock is used to stabilise the results, to ensure the shocks are within a range that can be more credibly valued for assets and liabilities, to better capture the impact of dynamic hedge strategies, to more reasonably use weekly correlations of risk factors, and to get closer to actual risk practices and reporting cycles.

Using Monte-Carlo simulation, ING's Economic Capital model generates 20,000 possible 'states-of-the-world', by randomly simulating all risk drivers - simultaneously. For each state-of-the-world, the market value of assets and liabilities are recalculated and the change in value of the Market Value Surplus (MVS) is stored. All these changes in MVS are then sorted, and the 99.95% worst-case change in MVS is identified, to provide the Economic Capital level for the given level of aggregation.

**ECONOMIC CAPITAL GROUP**

ING's Group Economic Capital and Bank-Insurance diversification benefit is determined by applying one common aggregation approach to the banking and insurance businesses. The starting point is the actual reported Economic Capital figures for ING Bank and ING Insurance, excluding inter-risk diversification. In addition an aligned set of best-estimate correlation assumptions is constructed by applying the weighted average of the Bank and Insurance specific inter-risk correlation assumptions for each of the five major risk types i.e. credit, market, insurance, business, and operational; reference Economic Capital models of Bank and Insurance.

The group diversification benefit is calculated by applying a 'Gaussian-copula' simulation approach. Due to the inherent uncertainties around correlation assumptions and changes in risk exposures the results are subjected to extensive sensitivity tests.

# Capital management
## amounts in millions of euros, unless stated otherwise

**OBJECTIVES**

ING Group Capital Management (Capital Management) is responsible for the sufficient capitalisation of ING Group entities at all times in order to manage the risk associated with ING's business activities. This involves the management, planning and allocation of capital within ING Group. ING's Corporate Treasury is part of Capital Management. It executes the necessary capital market transactions, term (capital) funding and risk management transactions. Capital Management monitors and plans capital adequacy on a consolidated basis at three levels: ING Group, ING Insurance and ING Bank. The rating objective for these three entities is currently AA/Aa2. Capital Management takes into account the metrics and requirements of regulators (EU Solvency, Tier 1 and BIS ratios and limits for hybrid capital), rating agencies (leverage ratios, Adjusted Equity) and internal risk management models and market value balance sheets (economic capital (EC) and available financial resources (AFR)).

ING applies three main capital definitions:

- AFR – This is a market value concept, defined as market value of assets less the market value of liabilities on the balance sheet. The liabilities do not include the hybrid capital which is accounted for as equity. In the absence of a full market value balance sheet for ING Bank, AFR Bank is defined as Tier 1 capital plus the revaluation reserve for equity securities, less the difference between expected loss and loan loss provisions. AFR is used as the measure of available capital in comparison with EC employed. EC, or Economic Capital, is the amount of capital that is required to absorb unexpected losses in times of severe stress given ING Group's 'AA' target rating.
- Adjusted Equity – This rating agency concept is defined as shareholders' equity adjusted for hybrids, prudential filters and the Value in Force and Deferred Acquisition Cost. See 'Capital Base' disclosures below. This capital definition is applied in comparing available capital to core debt (leverage) for ING Group and ING Insurance.
- Tier 1 capital – Tier 1 capital and total BIS capital are regulatory concepts applicable to ING Bank. Tier 1 capital is defined as shareholders' equity plus hybrid capital less certain prudential filters and deductible items. Tier 1 and BIS capital divided by risk weighted assets equals the Tier 1 and BIS ratio respectively.

Increasingly Capital Management considers AFR and EC employed when managing capital. AFR should exceed EC and for ING Group as a whole there should be a prudent buffer. The target for the buffer at Group level is 20%.

**POLICIES**

The activities of Capital Management are executed on the basis of established policies, guidelines and procedures. The main documents that serve as guidelines for capital planning are the Capital Letter (comprising the approved targets and limits for capital), the Capital Planning Policy, the Dividend Policy and the Capital Request Policy. For the Corporate Treasury there are many policies and limits that guide the management of the balance sheets and the execution of capital market transactions.

The above capital definitions and policies have been approved by the ING Group Executive Board.

**PROCESSES FOR MANAGING CAPITAL**

In addition to measuring capital adequacy, Capital Management also ensures that sufficient capital is available through setting targets and limits relevant to the above mentioned metrics for ING Bank, ING Insurance and ING Group and ensuring adherence to the set limits and targets through planning and executing capital management transactions. The process is supplemented by stress testing and scenario analysis. The ongoing assessment and monitoring of capital adequacy is embedded in Capital Management's capital planning process and results in a quarterly Capital Adequacy Assessment Report which is presented to both the ING Group Finance and Risk Committee and the ING Group Executive Board. The main objective of the assessment is to ensure that ING Group as a whole has sufficient capital relative to its risk profile both in the short and the medium term.

**CAPITAL ADEQUACY ASSESSMENT**

As at 31 December 2007 and 2006, ING Group, ING Bank and ING Insurance met all major target capital ratios and metrics. As at 31 December 2007 and 2006, ING Group, ING Bank and ING Insurance were adequately capitalised in relation to their risk profile and strategic objectives.

**BASEL II**

As of 1 January 2008, ING Bank calculates its capital ratios under Basel II. In 2008, ING Bank will publish risk weighted assets (RWA), Tier 1 and BIS capital and the accompanying capital ratios based on Basel II data only. In addition, ING will publish the minimum required capital level according to Basel II and according to the Basel I floor. The Basel I floor is a temporary minimum capital requirement based on 90% of Basel I RWA for 2008 and 80% of Basel I RWA for 2009. The minimum requirements according to Basel II and Basel I will both be compared to total BIS capital according to Basel II.

## AVAILABLE FINANCIAL RESOURCES (AFR)

### ING Group

AFR ING Group is computed as follows:

**Available Financial Resources – ING Group**

| | 2007 | 2006 |
|---|---|---|
| Total AFR Bank and Insurance | **54,443** | 52,984 |
| less Core debt Group [1] | **4,728** | 4,210 |
| Total ING Group AFR | **49,715** | 48,774 |

[1] Investments in subsidiaries less equity (including hybrid capital) of the Group holding company. This net debt position is provided as equity to ING Insurance and ING Bank.

### ING Insurance

AFR insurance is computed as follows:

**Available Financial Resources – ING Insurance**

| | 2007 | 2006 |
|---|---|---|
| IFRS Equity [1] | **16,835** | 21,673 |
| Plus hybrid capital | **2,202** | 1,665 |
| Plus Mark-to-Market and tax adjustments | **3,673** | 3,862 |
| Total ING Insurance AFR | **22,710** | 27,200 |

[1] IFRS equity excluding goodwill. Goodwill amounted to EUR 1,076 million at 31 December 2007 (2006: EUR 245 million).

### ING Bank

**Available Financial Resources – ING Bank**

| | 2007 | 2006 |
|---|---|---|
| Total ING Bank AFR | **31,733** | 25,784 |

Beginning in 2007, the AFR mainly constitutes of Tier-1 capital plus the revaluation reserve for equity securities, less the difference between expected loss and loan loss provisions. Until 31 December 2006 AFR equalled Tier-1 capital. The revaluation reserve for equity securities amounted to EUR 2,952 million at 31 December 2007 (2006: EUR 1,256 million).

## AFR/EC RECONCILIATION

AFR should exceed EC and for ING Group as a whole there should be a prudent buffer. The target for the buffer at Group level is 20%. For details regarding the computation of EC see the section entitled 'Risk management'.

**AFR/EC Reconciliation**

| | 2007 | 2006 |
|---|---|---|
| ING Group Available Financial Resources [1] | **49,715** | 48,774 |
| less Group EC [2] | **35,000** | 34,500 |
| less EC Group [3] | **1,000** | 1,000 |
| Surplus/(deficit) | **13,715** | 13,274 |

[1] AFR ING Bank, amounting to EUR 31,733 million (2006: EUR 25,784 million) plus AFR ING Insurance, amounting to EUR 22,710 million (2006: EUR 27,200 million) less core debt ING Group, amounting to EUR 4,728 million (2006: EUR 4,210 million).
[2] EC Insurance plus EC Bank less 15% diversification effect (10% in 2006).
[3] EC of the ING Group parent company mainly includes market risk on share based payment plans and market risk on the assets backing ING Bank equity.

# Capital management (continued)

**Capital base**

| | Insurance 2007 | Insurance 2006 | Bank 2007 | Bank 2006 | Group 2007 | Group 2006 |
|---|---|---|---|---|---|---|
| Shareholders' equity (parent) | **17,911** | 21,917 | **25,511** | 21,298 | **37,208** | 38,266 |
| Group hybrid capital [(1)] | **2,202** | 1,665 | **6,397** | 5,726 | **8,620** | 7,606 |
| Group leverage/core debt [(2)] | | | | | **4,728** | 4,210 |
| Total capitalisation | **20,113** | 23,582 | **31,908** | 27,024 | **50,556** | 50,082 |
| | | | | | | |
| Adjustments to equity: | | | | | | |
| – Revaluation reserves fixed income & other [(3)] | **–289** | –2,097 | **–759** | –1,350 | **–963** | –3,352 |
| – Revaluation reserves excluded from Tier-1 [(4)] | | | **–2,952** | –1,256 | | |
| – Insurance hybrid capital [(5)] | **2,250** | 2,250 | | | | |
| – Minorities | **891** | 1,770 | **1,668** | 1,367 | | |
| Deductions Tier-1 (as of 2007) | | | **–93** | | | |
| Available regulatory capital | **22,965** | 25,505 | **29,772** | 25,785 | | |
| | | | | | | |
| Other qualifying capital [(6)] | | | **11,792** | 11,445 | | |
| DAC/ViF adjustments (50%) [(7)] | **4,070** | 3,618 | | | | |
| Group leverage (core debt) | | | | | **–4,728** | –4,210 |
| Adjusted Equity (a) | **27,035** | 29,123 | **41,564** | 37,230 | **44,865** | 42,520 |
| | | | | | | |
| Ratios | | | | | | |
| Core debt (b) | **4,267** | 4,802 | | | **4,728** | 4,210 |
| Debt/Equity ratio (b/(a+b)) | **13.63%** | 14.15% | | | **9.53%** | 9.01% |

[(1)] Tier-1 instruments issued by ING Group (e.g. perpetual debt securities and preference shares), at nominal value. Group hybrid Tier-1 instruments other than preference shares are provided as hybrid capital to ING Insurance or ING Bank.
[(2)] Investments in subsidiaries less equity (including hybrid capital) of the Group holding company. This net debt position is provided as equity to ING Insurance and ING Bank.
[(3)] Includes for ING Group EUR 1,895 million (2006: EUR –1,709 million) of the revaluation reserve relating to fixed income securities (net of the effect of shadow accounting), EUR –438 million (2006: EUR –1,357 million) cash flow hedge and EUR –2,420 million (2006: EUR –286 million) relating to goodwill. The Dutch banking regulator requires this deduction to be made from Tier-1 capital. ING applies this prudent method to ING Bank, ING Insurance and ING Group.
[(4)] Includes EUR –2,138 million (2006: EUR –579 million) in participations (e.g. Kookmin, Bank of Beijing), EUR –595 million (2006: EUR –386 million) for Real Estate for own use and EUR –220 million (2006: EUR –116 million) relating to ING Bank's investment portfolio. The Dutch banking regulator requires this deduction to be made from Tier-1 capital. This deduction is added back to Tier-2 capital.
[(5)] Tier-1 instruments issued by the ING Insurance e.g. perpetual debt securities, at nominal value.
[(6)] Includes EUR 14,199 million (2006: EUR 12,366 million) Tier-2 capital and nil (2006: EUR 330 million) Tier-3, offset by EUR 2,407 million (2006: EUR 1,251 million) consisting of financial participations and the residual risk remaining after securitisations.
[(7)] Mainly includes EUR 8,565 million (2006: EUR 7,701 million) representing 50% of the present value of future profits generated by policies in force (Value in Force), offset by EUR 4,494 million (2006: EUR 4,183 million) representing 50% of the non-Dutch deferred acquisition costs.

The capitalisation of ING Group remained strong throughout 2007. All leverage ratios were within their targets. The debt/equity ratio of ING Group as at year-end 2007 was at 9.53% (2006: 9.01%). The debt/equity ratio of ING Insurance as at year-end 2007 was at 13.63% (2006: 14.15%). The ING Bank Tier-1 ratio ended at 7.39% a slight decrease from 7.63% at December 2006.

## REGULATORY REQUIREMENTS

### ING Bank

Capital adequacy and the use of regulatory required capital are based on the guidelines developed by the Basel Committee on Banking Supervision (The Basel Committee) and the European Union Directives, as implemented by the Dutch Central Bank (DNB) for supervisory purposes. The minimum Tier-1 ratio is 4% and the minimum total capital ratio (known as the BIS ratio) is 8% of all risk-weighted assets including off-balance sheet items and market risk associated with trading portfolios.

**Capital position of ING Bank**

| | 2007 | 2006 |
|---|---|---|
| Shareholders' equity (parent) | **25,511** | 21,298 |
| Minority interests | **1,514** | 1,204 |
| Subordinated loans qualifying as Tier-1 capital [1] | **6,397** | 5,726 |
| Goodwill and intangibles deductible from Tier-1 | **–1,428** | –136 |
| Minority interest Record Bank | **154** | 162 |
| Deductions Tier-1 (as of 2007) | **–93** | |
| Revaluation reserve [2] | **–2,283** | –2,470 |
| Core capital – Tier-1 | **29,772** | 25,784 |
| | | |
| Supplementary capital – Tier-2 | **14,199** | 12,367 |
| Available Tier-3 funds | | 329 |
| Deductions | **–2,407** | –1,251 |
| Qualifying capital | **41,564** | 37,229 |
| | | |
| Risk-weighted assets | **402,727** | 337,926 |
| | | |
| Tier-1 | **7.39%** | 7.63% |
| BIS ratio | **10.32%** | 11.02% |

[1] Subordinated loans qualifying as Tier-1 capital have been placed by ING Groep N.V. with ING Bank N.V.
[2] Revaluation reserve is deducted as it is not part of Tier-1 capital (included in Tier-2) and includes the cumulative revaluations on real estate investments.

### ING Insurance

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 European Union requirement.

**Capital position of ING Insurance**

| | 2007 | 2006 |
|---|---|---|
| Available capital | **22,965** | 25,505 |
| Required capital | **9,405** | 9,296 |
| Surplus capital | **13,560** | 16,209 |
| | | |
| Ratio of available versus required capital | **244%** | 274% |

# Capital management (continued)

### ING Group

According to an agreement between the Dutch Central Bank and the former Pension and Insurance Board regarding the supervision of financial conglomerates, ING Group is required to have an amount of capital, reserves and subordinated loans which are at least equal to the sum of:

– the required capital for the banking activities; and
– the required capital for the insurance activities

Certain subordinated loans of ING Bank N.V. and ING Verzekeringen N.V. qualifying as capital for regulatory purposes are included in the capital base of ING Group. The financial conglomerates agreement ('protocol') is applicable as from 1 January 2007.

**Regulatory required capital ING Group**

| | **2007** | 2006 |
|---|---|---|
| Shareholders' equity (parent) | **37,208** | 38,266 |
| Excluding: Revaluation reserves | **1,457** | –3,066 |
| Preference shares | **21** | 215 |
| Preference shares issued by group companies | **1,019** | 1,138 |
| Goodwill and intangibles deductible from Tier-1 | **–2,420** | –286 |
| Subordinated loans | **7,580** | 6,253 |
| Capital base ING Group | **44,865** | 42,520 |
| | | |
| Subordinated loans ING Bank N.V. (included in Tier-2) | **11,154** | 11,110 |
| Subordinated loans ING Verzekeringen N.V. | **2,250** | 2,250 |
| Capital base including subordinated loans | **58,269** | 55,880 |
| | | |
| Required capital banking operations | **32,218** | 27,034 |
| Required capital insurance operations | **9,405** | 9,296 |
| Surplus capital | **16,646** | 19,550 |

### Capital adequacy and ratios

**Quantitative disclosures on capital measures and ratios**

| | | Group | | Insurance | | Bank |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| **Capital** | | | | | | |
| Available Financial Resources (AFR) | **49,715** | 48,774 | **22,710** | 27,200 | **31,733** | 25,784 |
| Required Economic Capital (EC) | **36,000** | 35,500 | **23,199** | 22,410 | **17,927** | 15,876 |
| Ratio EC vs. AFR | **138%** | 137% | **98%** | 121% | **177%** | 162% |
| Target Ratio EC vs. AFR | **120%** | 120% | **100%** | 100% | **100%** | 100% |
| | | | | | | |
| **Tier-1 ratio (Bank)** | | | | | | |
| Year-end actual Tier-1 ratio | | | | | **7.39** | 7.63 |
| Regulatory minimum Tier-1 ratio | | | | | **4.00** | 4.00 |
| Target Tier-1 ratio | | | | | **7.20** | 7.20 |
| | | | | | | |
| **BIS ratio (Bank)** | | | | | | |
| Year-end actual BIS ratio | | | | | **10.32** | 11.02 |
| Regulatory minimum BIS ratio | | | | | **8.00** | 8.00 |
| Target BIS ratio | | | | | **10.80** | 10.80 |
| | | | | | | |
| **EU Solvency ratio (Insurance)** | | | | | | |
| Year-end actual EU Solvency ratio | | | **244** | 274 | | |
| Regulatory minimum EU Solvency ratio | | | **100** | 100 | | |
| Target EU Solvency ratio | | | **150** | 150 | | |
| | | | | | | |
| **Debt/Equity ratio** | | | | | | |
| Debt/Equity ratio | **9.53** | 9.01 | **13.63** | 14.15 | | |
| Target Debt/Equity ratio | **10.00** | 10.00 | **15.00** | 15.00 | | |

**Main credit ratings of ING** [1]

| | Standard & Poor's | Moody's | Fitch |
|---|---|---|---|
| **ING Group** | AA– | Aa2 | AA– |
| | | | |
| **ING Insurance** | | | |
| – short term | A-1+ | P-1 | |
| – long term | AA– | Aa3 | AA– |
| | | | |
| **ING Bank** | | | |
| – short term | A-1+ | P-1 | F1+ |
| – long term | AA | Aa1 | AA |
| – financial strength | | B | |

[1] The Standard & Poor's, Moody's and Fitch ratings all have a stable outlook.

ING's long-term credit ratings are shown in the table above. Each of these ratings reflects only the view of the applicable rating agency at the time the rating was issued, and any explanation of the significance of a rating may be obtained only from the rating agency.

A security rating is not a recommendation to buy, sell or hold securities and each rating should be evaluated independently of any other rating. There is no assurance that any credit rating will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the rating agency if, in the rating agency's judgment, circumstances so warrant. ING accepts no responsibility for the accuracy or reliability of the ratings.

## AUTHORISATION OF ANNUAL ACCOUNTS

Amsterdam, 17 March 2008

### THE SUPERVISORY BOARD

Jan H.M. Hommen, *chairman*
Eric Bourdais de Charbonnière, *vice-chairman*
Henk W. Breukink
Peter A.F.W. Elverding
Luella Gross Goldberg
Claus Dieter Hoffmann
Piet Hoogendoorn
Piet C. Klaver
Wim Kok
Godfried J.A. van der Lugt
Karel Vuursteen

### THE EXECUTIVE BOARD

Michel J. Tilmant, *chairman*
Eric F. Boyer de la Giroday
Dick H. Harryvan
John C.R. Hele, *CFO*
Eli P. Leenaars
Tom J. McInerney
Hans van der Noordaa
Koos (J.V.) Timmermans, *CRO*
Jacques M. de Vaucleroy

# Parent company balance sheet of ING Group as at 31 December before profit appropriation

| amounts in millions of euros | 2007 | 2006 |
|---|---|---|
| **Assets** | | |
| Investments in wholly owned subsidiaries 1 | 41,864 | 42,607 |
| Other assets 2 | 10,703 | 8,898 |
| Total assets | 52,567 | 51,505 |
| | | |
| **Equity 3** | | |
| Share capital | 534 | 530 |
| Share premium | 8,739 | 8,348 |
| Share of associates reserve | 6,053 | 11,528 |
| Currency translation reserve | –950 | –950 |
| Other reserves | 13,591 | 11,118 |
| Unappropriated profit | 9,241 | 7,692 |
| | 37,208 | 38,266 |
| | | |
| **Liabilities** | | |
| Preference shares 4 | 21 | 215 |
| Subordinated loans 5 | 8,339 | 7,146 |
| Financial liabilities at fair value through profit and loss | 98 | 120 |
| Other liabilities 6 | 6,901 | 5,758 |
| Total liabilities and equity | 52,567 | 51,505 |

References relate to the notes starting on page 236 which form an integral part of the parent company annual accounts.

# Parent company profit and loss account of ING Group
## for the years ended 31 December

| amounts in millions of euros | 2007 | 2006 |
|---|---|---|
| Results of group companies after taxation | **9,299** | 7,704 |
| Other results after taxation | **–58** | –12 |
| Net profit | **9,241** | 7,692 |

# Parent company statement of changes in equity of ING Group for the years ended 31 December

| amounts in millions of euros | Share capital | Share premium | Share of associates reserves | Currency translation reserve | Other reserves [1] | Total |
|---|---|---|---|---|---|---|
| Balance as at 1 January 2006 | 530 | 8,343 | 14,143 | –692 | 14,412 | 36,736 |
| | | | | | | |
| Unrealised revaluations after taxation | | | –1,631 | | 428 | –1,203 |
| Realised gains/losses transferred to profit and loss | | | –798 | | | –798 |
| Transfer to insurance liabilities/DAC | | | 820 | | | 820 |
| Change in cash flow hedge reserve revaluations | | | –696 | | | –696 |
| Unrealised revaluations from net investment hedges | | | | 194 | | 194 |
| Employee stock option and share plans | | | | | 100 | 100 |
| Exchange rate differences | | | –883 | –452 | | –1,335 |
| Other | | | | | –48 | –48 |
| Total amount recognised directly in equity | | | –3,188 | –258 | 480 | –2,966 |
| | | | | | | |
| Net profit | | | 720 | | 6,972 | 7,692 |
| | | | –2,468 | –258 | 7,452 | 4,726 |
| | | | | | | |
| Dividend | | | –147 | | –2,534 | –2,681 |
| Purchase/sale of treasury shares | | | | | –520 | –520 |
| Exercise of warrants and options | | 5 | | | | 5 |
| Balance as at 31 December 2006 | 530 | 8,348 | 11,528 | –950 | 18,810 | 38,266 |
| | | | | | | |
| Unrealised revaluations after taxation | | | **–1,636** | | **1** | **–1,635** |
| Realised gains/losses transferred to profit and loss | | | **–3,414** | | | **–3,414** |
| Transfer to insurance liabilities/DAC | | | **1,132** | | | **1,132** |
| Change in cash flow hedge reserve revaluations | | | **–925** | | | **–925** |
| Unrealised revaluations from net investment hedges | | | **500** | | | **500** |
| Employee stock option and share plans | | | | | **104** | **104** |
| Exchange rate differences | | | **–1,153** | | | **–1,153** |
| Other | | | **21** | | **–21** | |
| Total amount recognised directly in equity | | | **–5,475** | | **84** | **–5,391** |
| | | | | | | |
| Net profit | | | | | **9,241** | **9,241** |
| | | | **–5,475** | | **9,325** | **3,850** |
| | | | | | | |
| Dividend | | | | | **–2,999** | **–2,999** |
| Purchases/sales of treasury shares | | | | | **–2,304** | **–2,304** |
| Exercise of warrants and options | **4** | **391** | | | | **395** |
| Balance as at 31 December 2007 | **534** | **8,739** | **6,053** | **–950** | **22,832** | **37,208** |

[1] Other reserves includes Retained earnings, Treasury shares, Other reserves and Unappropriated profit.

# Accounting policies for the parent company balance sheet and profit and loss account of ING Group

## BASIS OF PRESENTATION

The parent company accounts of ING Group are prepared in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Dutch Civil Code. The accounting policies with regard to presentation and disclosures are in accordance with the financial reporting requirements included in Part 9 of Book 2, of the Dutch Civil Code. The principles of valuation and determination of results stated in connection with the consolidated balance sheet and profit and loss account are also applicable to the parent company balance sheet and profit and loss account with the exception of Investments in group companies and investments in associates which are initially recognised at cost and subsequently accounted for using the equity method of accounting.

The profit and loss account has been drawn up in accordance with Section 402, Book 2, of the Dutch Civil Code.

A list containing the information referred to in section 379 (1), Book 2, of the Dutch Civil Code has been filed with the office of the Commercial Register of Amsterdam, in accordance with Section 379 (5), Book 2, of the Dutch Civil Code.

Changes in balance sheet values due to changes in the Revaluation reserve of the associates are reflected in the Share of associates reserve, which forms part of Shareholders' equity. Changes in balance sheet values due to the results of these associates, accounted for in accordance with ING Group accounting policies, are included in the profit and loss account. Other changes in the balance sheet value of these associates, other than those due to changes in share capital, are included in Share of associates reserve in Other reserves.

A 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 Share of associates reserve.

## CHANGES IN PRESENTATION

The presentation of, and certain terms used in, the balance sheet, the profit and loss account, cash flow statement, statement of changes in equity and certain notes has been changed in 2007 to provide additional and more relevant information. Certain comparative amounts has been reclassified to conform with the current period presentation. None of the changes are significant in nature.

# Notes to the parent company balance sheet of ING Group
amounts in millions of euros, unless stated otherwise

## 1 INVESTMENTS IN WHOLLY OWNED SUBSIDIARIES

**Investments in wholly owned subsidiaries**

| | Balance sheet value | |
|---|---|---|
| | **2007** | 2006 |
| Name of investee: | | |
| ING Bank N.V. | **24,038** | 20,868 |
| ING Verzekeringen N.V. | **17,900** | 21,902 |
| Other | **–74** | –163 |
| | **41,864** | 42,607 |

Other includes certain intercompany eliminations between ING Bank N.V. and ING Verzekeringen N.V.

**Changes in investments in wholly owned subsidiaries**

| | **2007** | 2006 |
|---|---|---|
| Opening balance | **42,607** | 41,488 |
| Repayments to/from group companies | **2,227** | 24 |
| Disposals of group companies | | –587 |
| Revaluations | **–5,364** | –2,994 |
| Result of the group companies | **9,299** | 7,704 |
| Dividend | **–5,900** | –3,450 |
| | **42,869** | 42,185 |
| | | |
| Changes in ING Groep N.V. shares held by group companies | **–1,005** | 422 |
| Closing balance | **41,864** | 42,607 |

## 2 OTHER ASSETS

**Other assets**

| | **2007** | 2006 |
|---|---|---|
| Receivables from group companies | **10,591** | 8,827 |
| Other receivables, prepayments and accruals | **112** | 71 |
| | **10,703** | 8,898 |

## 3 EQUITY

**Equity**

| | **2007** | 2006 |
|---|---|---|
| Share capital | **534** | 530 |
| Share premium | **8,739** | 8,348 |
| Share of associates reserve | **6,053** | 11,528 |
| Currency translation reserve | **–950** | –950 |
| Other reserves | **22,832** | 18,810 |
| Equity | **37,208** | 38,266 |

## Share capital

| | Ordinary shares (par value EUR 0.24) | | | |
|---|---|---|---|---|
| | Number X1,000 | | Amount | |
| | **2007** | 2006 | **2007** | 2006 |
| Authorised share capital | **3,000,000** | 3,000,000 | **720** | 720 |
| Unissued share capital | **773,555** | 794,907 | **186** | 190 |
| Issued share capital | **2,226,445** | 2,205,093 | **534** | 530 |

## Changes in issued share capital

| | Ordinary shares (par value EUR 0.24) | |
|---|---|---|
| | Number X1,000 | Amount |
| Issued share capital as at 31 December 2005 | 2,204,934 | 530 |
| Issue of shares | 96 | |
| Exercise of B warrants | 63 | |
| Issued share capital as at 31 December 2006 | 2,205,093 | 530 |
| | | |
| Issue of shares | **5,569** | **1** |
| Exercise of B warrants | **15,783** | **3** |
| Issued share capital as at 31 December 2007 | **2,226,445** | **534** |

## Changes in Other reserves and Unappropriated profit

| **2007** | **Retained earnings** | **Treasury shares** | **Other reserves** | **Total Other reserves** | **Unappro-priated profit** | **Total** |
|---|---|---|---|---|---|---|
| Opening balance | **12,591** | **–1,436** | **–37** | **11,118** | **7,692** | **18,810** |
| Profit for the year | | | | | **9,241** | **9,241** |
| Unrealised revaluations after taxation | | | **1** | **1** | | **1** |
| Changes in treasury shares | | **–2,304** | | **–2,304** | | **–2,304** |
| Dividend | | | | | **–2,999** | **–2,999** |
| Transfer to share of associates reserve | **–174** | | | **–174** | | **–174** |
| Transfer to retained earnings | **4,693** | | | **4,693** | **–4,693** | |
| Employee stock option and share plans | **104** | | | **104** | | **104** |
| Other | **153** | | | **153** | | **153** |
| Closing balance | **17,367** | **–3,740** | **–36** | **13,591** | **9,241** | **22,832** |

## Changes in Other reserves and Unappropriated profit

| 2006 | Retained earnings | Treasury shares | Other reserves | Total other reserves | Unappro-priated profit | Total |
|---|---|---|---|---|---|---|
| Opening balance | 8,083 | –868 | –13 | 7,202 | 7,210 | 14,412 |
| Profit for the year | | | | | 7,692 | 7,692 |
| Unrealised revaluations after taxation | 552 | | –124 | 428 | | 428 |
| Change in treasury shares | | –520 | | –520 | | –520 |
| Dividend | | | | | –2,681 | –2,681 |
| Transfer to share of associates reserve | –573 | | | –573 | | –573 |
| Transfer to retained earnings | 4,529 | | | 4,529 | –4,529 | |
| Other | | –48 | 100 | 52 | | 52 |
| Closing balance | 12,591 | –1,436 | –37 | 11,118 | 7,692 | 18,810 |

As at 31 December 2007, Share of associates reserve included an amount of EUR 566 million (2006: EUR 566 million) related to Regio Bank NV (formerly Stichting Regio Bank) that cannot be freely distributed.

The Share of associates reserve and Currency translation reserve cannot be freely distributed. The reserve for cash flow hedges is included in the Share of associates reserve on a net basis. Retained earnings can be freely distributed. Unrealised gains and losses on derivatives, other than those used in cash flow hedges, are presented in the profit and loss and are thus part of Retained earnings and are not included in Share of associates reserve.

# Notes to the parent company balance sheet of ING Group (continued)

The total amount of Equity in the parent company annual accounts equals Shareholders' equity (parent) in the consolidated annual accounts. Certain components within equity are different, as a result of the following presentation differences between the parent company accounts and consolidated accounts:

- Unrealised revaluations within consolidated group companies, presented in the Revaluation reserve in the consolidated accounts, are presented in the Reserve for associates in the parent company accounts;
- Foreign currency translation on consolidated group companies, presented in the Currency translation reserve in the consolidated accounts, is presented in the Reserve for associates in the parent company accounts;
- Revaluations on investment property and certain participations recognised in income and consequently presented in Retained earnings in the consolidated accounts, is presented in the reserve for associates in the parent company accounts.

The total amount of non-distributable reserves is EUR 7,003 million (2006: EUR 12,478 million).

See Note 12 'Shareholders' equity (parent)' in the consolidated annual accounts for additional information.

**Change in treasury shares**

| | | Amount | | Number |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| Opening balance | **1,436** | 868 | **53,859,235** | 38,722,934 |
| Purchased | **2,505** | 1,030 | **79,652,109** | 30,858,427 |
| Share based payments | **–201** | –462 | **–6,751,515** | –15,722,126 |
| Closing balance | **3,740** | 1,436 | **126,759,829** | 53,859,235 |

## 4 PREFERENCE SHARES

See Note 13 'Preference shares' to the consolidated financial statements.

## 5 SUBORDINATED LOANS

**Subordinated loans**

| Interest rate | Year of issue | Due date | Notional amount in original currency | Balance sheet value | |
|---|---|---|---|---|---|
| | | | | **2007** | 2006 |
| 7.375% | 2007 | Perpetual | USD 1,500 | **988** | |
| 6.375% | 2007 | Perpetual | USD 1,045 | **690** | |
| 5.140% | 2006 | Perpetual | GBP 600 | **810** | 885 |
| 5.775% | 2005 | Perpetual | USD 1,000 | **674** | 752 |
| 6.125% | 2005 | Perpetual | USD 700 | **462** | 515 |
| 4.176% | 2005 | Perpetual | EUR 500 | **497** | 497 |
| Variable | 2004 | Perpetual | EUR 1,000 | **937** | 926 |
| 6.200% | 2003 | Perpetual | USD 500 | **330** | 368 |
| Variable | 2003 | Perpetual | EUR 750 | **682** | 669 |
| 7.200% | 2002 | Perpetual | USD 1,100 | **726** | 811 |
| 7.050% | 2002 | Perpetual | USD 800 | **529** | 591 |
| 8.439% | 2000 | 31 December 2030 | USD 1,500 | **1,014** | 1,132 |
| | | | | **8,339** | 7,146 |

## 6 OTHER LIABILITIES

**Other liabilities by type**

| | 2007 | 2006 |
|---|---|---|
| Debenture loans | **6,370** | 5,230 |
| Amounts owed to group companies | **174** | 35 |
| Other amounts owed to accrued liabilities | **357** | 493 |
| | **6,901** | 5,758 |

**Debenture loans**

| Interest rate | Year of issue | Due date | Balance sheet value 2007 | 2006 |
|---|---|---|---|---|
| 4.699% | 2007 | 1 June 2035 | **117** | |
| 4.750% | 2007 | 31 May 2017 | **1,761** | |
| Variable | 2006 | 28 June 2011 | **744** | 746 |
| Variable | 2006 | 11 April 2016 | **1,009** | 995 |
| 4.125% | 2006 | 11 April 2016 | **744** | 746 |
| 6.125% | 2000 | 4 January 2011 | **998** | 997 |
| 6.000% | 2000 | 1 August 2007 | | 750 |
| 5.500% | 1999 | 14 September 2009 | **997** | 996 |
| | | | **6,370** | 5,230 |

The number of debentures held by group companies as at 31 December 2007 was 34,892 with a balance sheet value of EUR 34 million (2006: 29,288 with a balance sheet value of EUR 29 million).

**Amounts owed to group companies by remaining term**

| | 2007 | 2006 |
|---|---|---|
| Within 1 year | **174** | 33 |
| More than 1 year but less than 5 years | | 2 |
| | **174** | 35 |

### Guarantees

At 31 December 2007 ING Group has guarantees given on behalf of third parties of nil (2006: nil). ING Group has issued statements of liabilities in connection with Article 403 of the Dutch Civil Code and other guarantees for a number of group companies.

## REMUNERATION OF SENIOR MANAGEMENT, EXECUTIVE BOARD AND SUPERVISORY BOARD

The information on share based payment plans and remuneration of the members of the Executive Board and the Supervisory Board is included in the remuneration paragraph in the annual report (page 76 up to and including page 86). This information is considered to be an integral part of the audited annual accounts.

## AUTHORISATION OF PARENT COMPANY ANNUAL ACCOUNTS

**Amsterdam, 17 March 2008**

### THE SUPERVISORY BOARD

Jan H.M. Hommen, *chairman*
Eric Bourdais de Charbonnière, *vice-chairman*
Henk W. Breukink
Peter A.F.W. Elverding
Luella Gross Goldberg
Claus Dieter Hoffmann
Piet Hoogendoorn
Piet C. Klaver
Wim Kok
Godfried J.A. van der Lugt
Karel Vuursteen

### THE EXECUTIVE BOARD

Michel J. Tilmant, *chairman*
Eric F. Boyer de la Giroday
Dick H. Harryvan
John C.R. Hele, *CFO*
Eli P. Leenaars
Tom J. McInerney
Hans van der Noordaa
Koos (J.V.) Timmermans, *CRO*
Jacques M. de Vaucleroy

# 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 | **9,241** |
| Addition to reserves pursuant to Article 38 (5) of the Articles of Association | **6,061** |
| At the disposal of the General Meeting of Shareholders pursuant to Article 38 (6) of the Articles of Association | **3,180** |
| | |
| 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.

# 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.

# 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 [1]** | **Value of new business** | **VNB/PV pre-miums [2] 2007** | Annual premium | Single premium | IRR [1] | Value of new business | VNB/PV premiums [2] 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| Netherlands | **156** | **1,191** | **12.2%** | **70** | **2.9%** | 154 | 1,495 | 12.8% | 76 | 2.8% |
| Belgium/Luxembourg [3] | **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% |

[1] IRR = internal rate of return adjusted for expected currency movements relative to the euro.
[2] VNB/PV premiums = value of new business divided by the present value of new business premiums.
[3] 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 |

# 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) | **14,156** | **10,633** | **2,204** | **26,993** |
| 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 [1]: | | | | |
| 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** |

[1] 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 [1]**

| | 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 |

[1] 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%).

# 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

# 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.

# General Information

**ING Publications**
- Annual Review, in Dutch and English
- Annual Report, in Dutch and English
- Corporate Responsibility Brochure, in Dutch and English
- Annual Report on Form 20-F, in English
  (in accordance with SEC guidelines)

These publications are available on www.ing.com.
The publications can be ordered on the internet:
www.ing.com, button 'Publications',
by fax: +31 411 652 125, or
by mail: P.O. Box 258, 5280 AG Boxtel, the Netherlands.

This Annual Report contains the Reports of the Executive Board and Supervisory Board as well as the Annual Accounts and Other information for the financial year 2007 in their original language (English).

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