ING Direct's ALM and investment policy:

Supporting business growth while limiting market risk

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ALM and investment policy: supporting business growth while limiting market risk

1. ALM and risk management support the business

2. Robust and profitable business model:
   Managing through adverse yield curve environments

3. Low-risk investment portfolio:
   High-quality fixed income securities

4. Key points

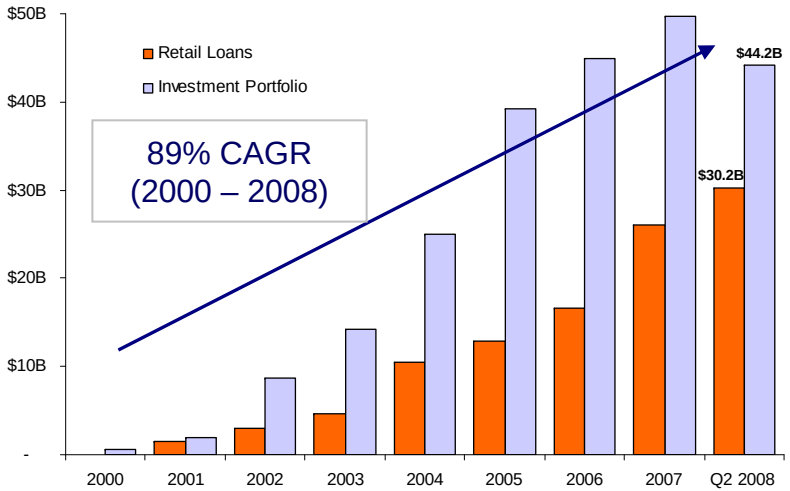
ING Direct's ALM and Risk Management are aligned with overall business strategy and growth

Business Leads	**Treasury Follows**
Deposit and loan growth are leading	• Clear preference to generate own mortgages reflecting retail character of the business • Treasury compliments the duration gaps
Low risk model	• Low risk appetite to optimize net interest margin • No interest rate bets; durations are economically matched • Model based on mass market volumes; limited credit risk appetite • High levels of core liquidity
Operational excellence	• Superior modelling of client behaviour • Active balance sheet management to reflect changes in the competitive environment

Business leads, Treasury follows

Example: ING Direct USA

ING Direct USA Earning Assets

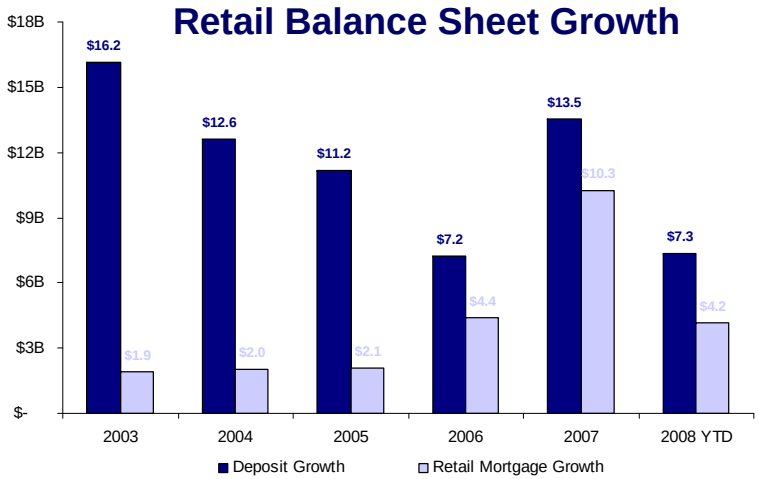


- Successfully developed the core deposit base by building strong franchise and brand
- Prudently developed mortgage generation capability
- Balanced mortgage growth with credit quality

→ We originate for own balance sheet not to sell to the market

→ Historically large buyer of securities, now migrating to mortgage origination

Retail Balance Sheet Growth

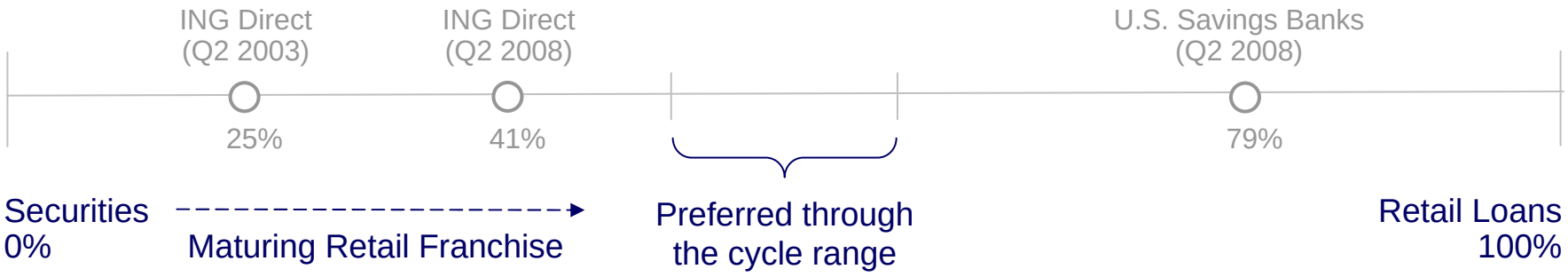


- Retail mortgage origination capabilities becoming more aligned with deposit gathering activities: less dependent on investment portfolio

→ Deposits and retail mortgages are growing more in sync

Desired asset mix: balance between securities and loans

ING DIRECT USA Retail Share of Earning Assets



Securities	*Right-sizing the Balance Sheet requires trade-offs*	**Retail loans**
+ Excess Liquidity	• Strengthening franchise through higher share of retail balances	Limits Liquidity -
+ Ability to Manage Interest Rate Risk on Balance Sheet	• Prudent risk management	Ability to Manage Interest Rate Risk on Balance Sheet -
- Lower Yielding Asset	• Managing the balance sheet through interest rate / credit cycles	Higher Yielding Assets +
+ Lower Risk-weighted Assets		Higher Risk-weighted Assets -

ING Direct is highly liquid

ING Direct's liquidity position is favourable

- Loan to Deposit ratio is 57%
- High-rated liquid investment portfolio EUR 140 billion:
  To a large degree repo-able and/or discountable when needed
- Own-originated retail mortgages EUR 104 billion:
  Potential source of contingency liquidity and funding

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Pro-active ALM addresses client behaviour and competitive pressures

Market drivers

Client behaviour

Competitive environment

Yield curve

ALM tools

- **Duration**: asset duration needs to match liability duration
- **Tracking speed of client rate**: percentage of market rate changes we need to follow in a certain time frame
- **Re-pricing speed of assets**: percentage of assets that reprice within a certain time frame
- **Reinvestments**: reinvestment volume to pick up new credit spread

Results

Profitability

Earnings sensitivity:

Earnings-at-Risk (1)

Value sensitivity:

NPV-at-Risk (2)

Growth

(1) impact on IFRS earnings (1-yr) of yield curve shock or gradual change (ramp)

(2) impact on the Net Asset Value of a yield curve shock

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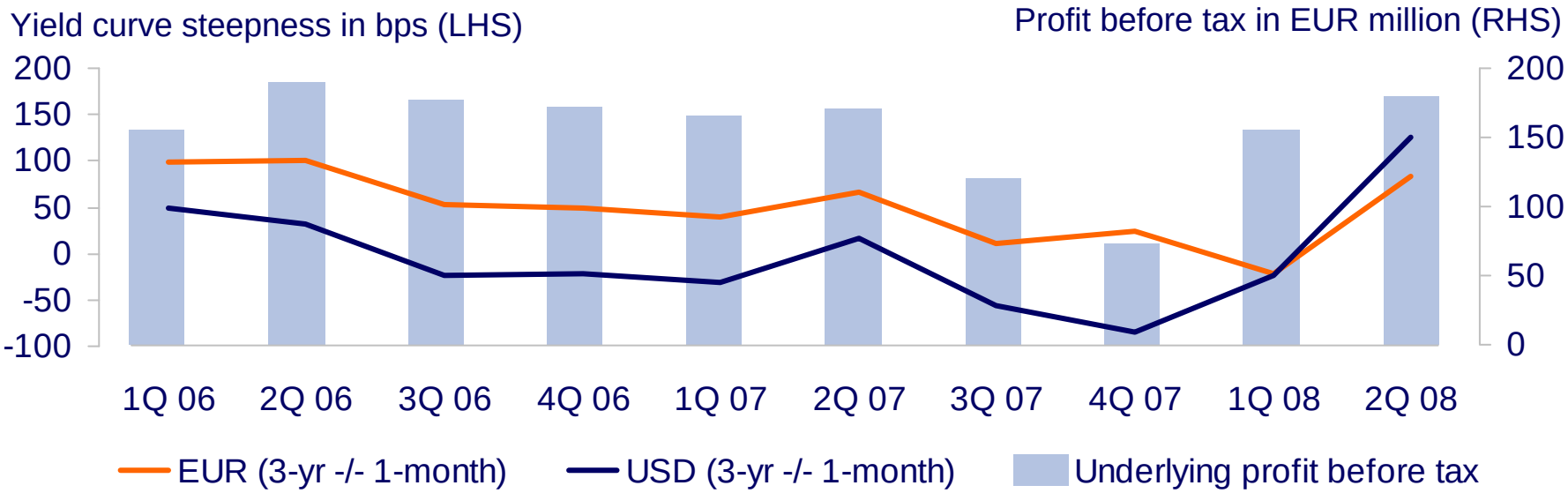
ING Direct maintained its profitability despite a prolonged flat yield curve environment



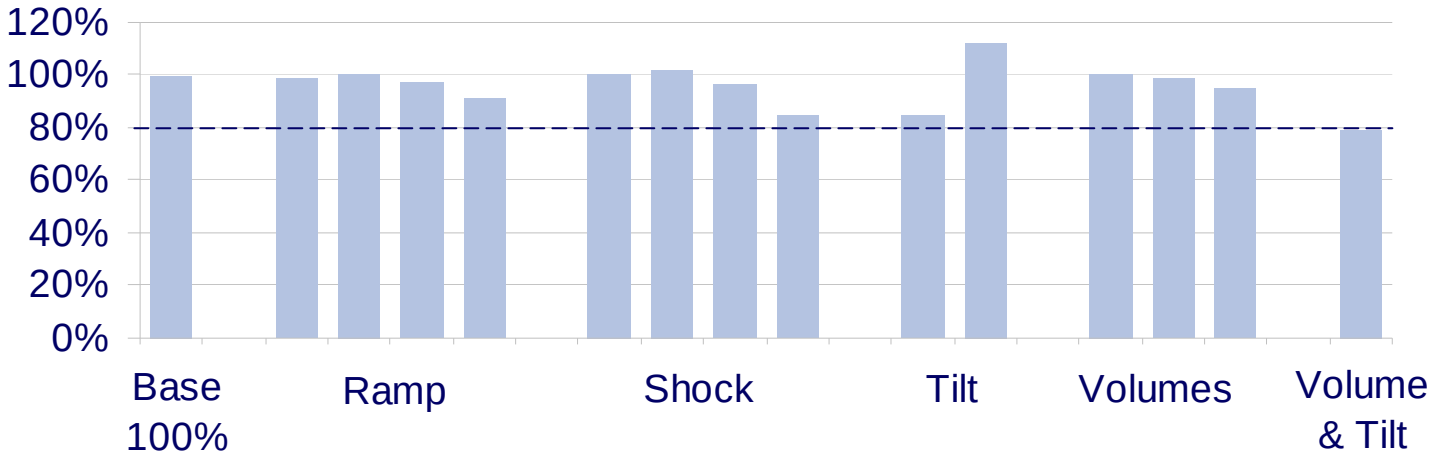
ING Direct maintained attractive profit levels in flat yield curve environment:

- Decline in 2H 2007 mainly due to the specific UK situation
- Yield curve steepening and wide credit spreads beneficial to profitability

Robust net interest income

Sensitivity of net interest income in various yield curve scenarios (3-yr projections)

Interest income (base = 100%)



- Capped by earnings-at-risk and NPV-at-risk appetite
- Not that sensitive to yield curve shifts, steepening or flattening
- Benefits from diversification over different yield curves

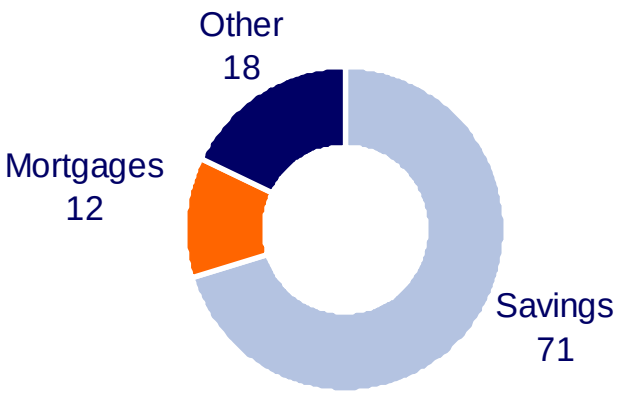
Various yield curve scenarios:

Base	=	projected interest income over the next 3 years
Ramp	=	interest rate changes develop over a 12 month period
Shock	=	interest rate changes happen instantaneously
Tilt	=	interest rate changes that lead to flattening/steepening of curves
Volume	=	changes in volume funds entrusted

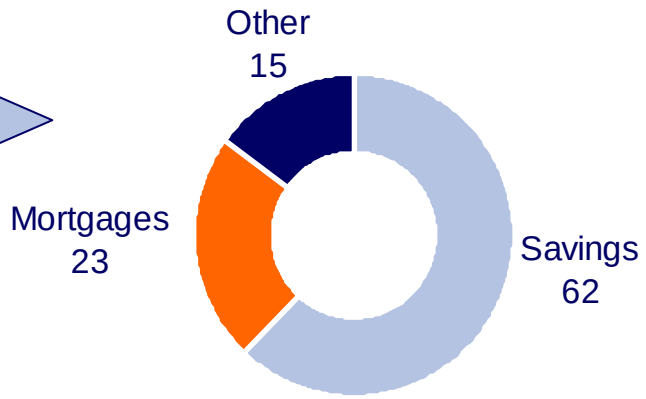
Volatility in net interest income limited by diversification over currency zones and products

- Pro-active management of changing client behaviour and competitive savings environment
- Asset yields currently benefit from higher liquidity premiums and credit spreads
- Multiple currency zones: US yield environment more favourable than in Europe
- Diversifying income by extending the product range: mortgages doubled share in total income

2004: income per product (% of total)



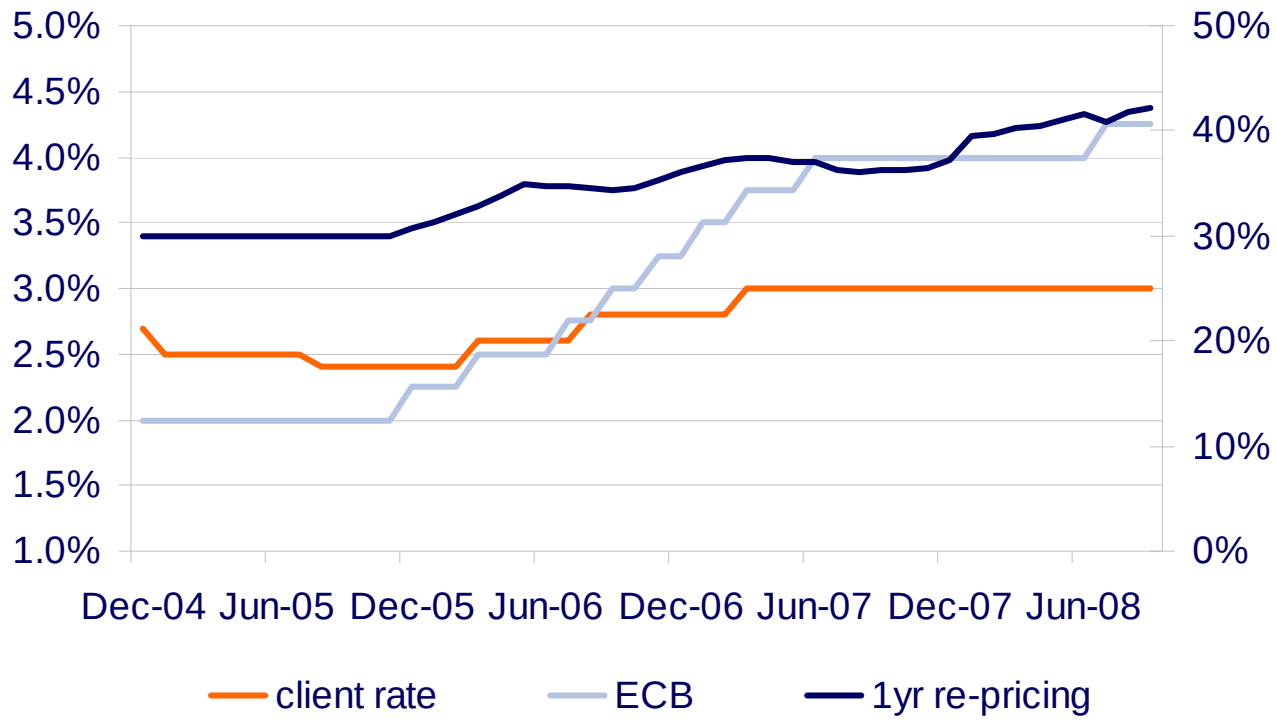
1H 2008: income per product (% of total)



Source: ING Direct

Managing asset re-pricing speed to safeguard margins and client rates

Eurozone rates and ING Direct's repricing speed



- 40% of assets re-price within 1 year
- Increasing repricing speed improves asset yield pick-up, enabling tracking of ECB rates on the liability side

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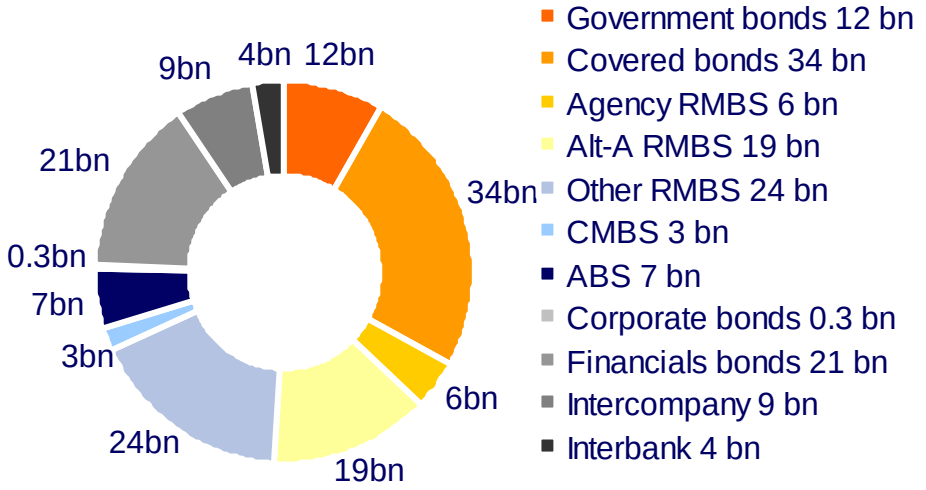
ING Direct is risk averse in its investment portfolio

1. Investment portfolio guidelines:
   - No equities
   - No CDOs
   - No CDS
   - No credit trading
   - Limited credit risk
   - Highly liquid assets
   - Limited # of standardised products
   - Derivatives only for hedging purposes
2. Historically, a RWA constraint under Basel I

Investment Portfolio: EUR 140 billion (30 June 2008)[1]



- Preference for highly rated, liquid, asset backed fixed income securities
- Other RMBS is primarily European AAA RMBS
- ING Direct is net liquidity provider within ING Bank's liquidity framework

Sacrificing yield to maintain low risk fixed income portfolio

1. Includes securities that are included in "loans and advances" and intercompany and interbank assets

Extensive pre-purchase securities analysis

Credit Risk	Interest rate risk	Relative value	Liquidity
Credit Enhancement • AAA securities mostly at the top of the capital waterfall structure • Scenario Analysis - model worst case default scenarios to stress test bond structure Collateral Analysis • Loan to value % • Credit Score • Occupancy type	Short average life Structures with relatively limited extension risk Floating vs. fixed rate	Yield Option Adjusted Spread Prepayment expectations	Deep liquid market *Since August 2007, markets have become less liquid*

Assessment of the incremental spread risk / reward trade-off

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Option ARM RMBS fulfill desired interest rate and credit risk profile: short duration, high credit quality

Why floating rate securities?
Manage the interest rate risk profile: floating rate assets reduce liability sensitivity

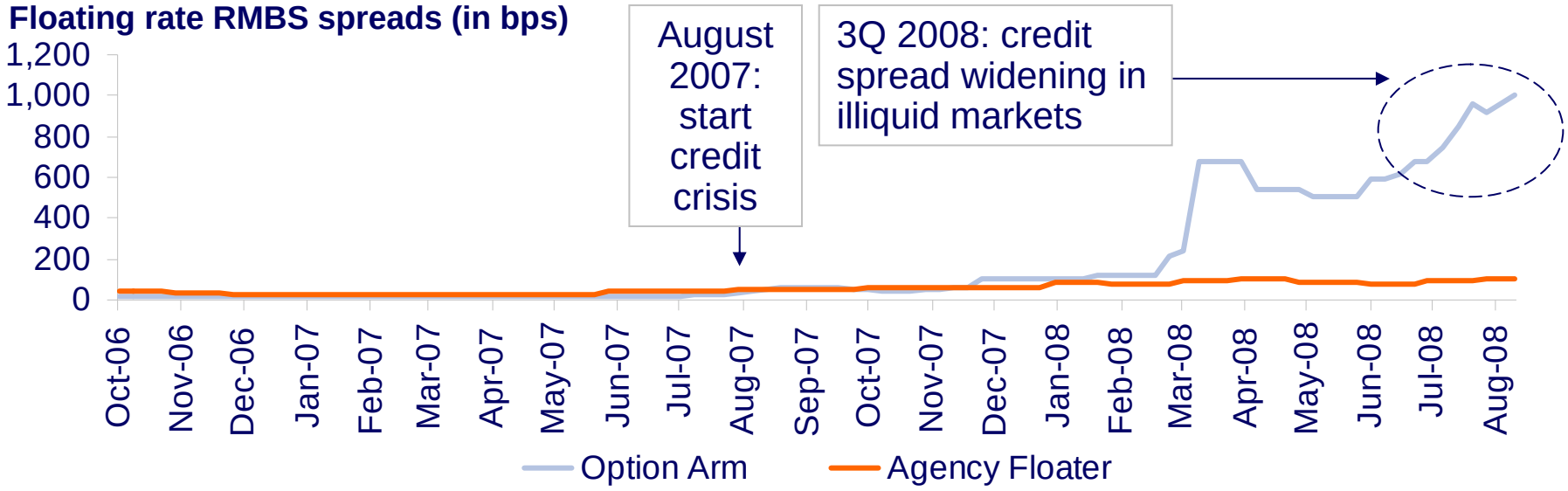
Why non-agency vs. agency paper?
Manage interest rate sensitivity: agency floating rate RMBS have coupon caps while non-agency RMBS have no caps

Why option ARMs?
Higher credit enhancement than other non-agency RMBS products, protecting the RMBS from losses in the underlying mortgage pools. Weighted average credit enhancement is 27% (30 June 2008), more than 2.5 times the level for other non-agency RMBS

However non-agency options ARM spreads substantially widened in 2008

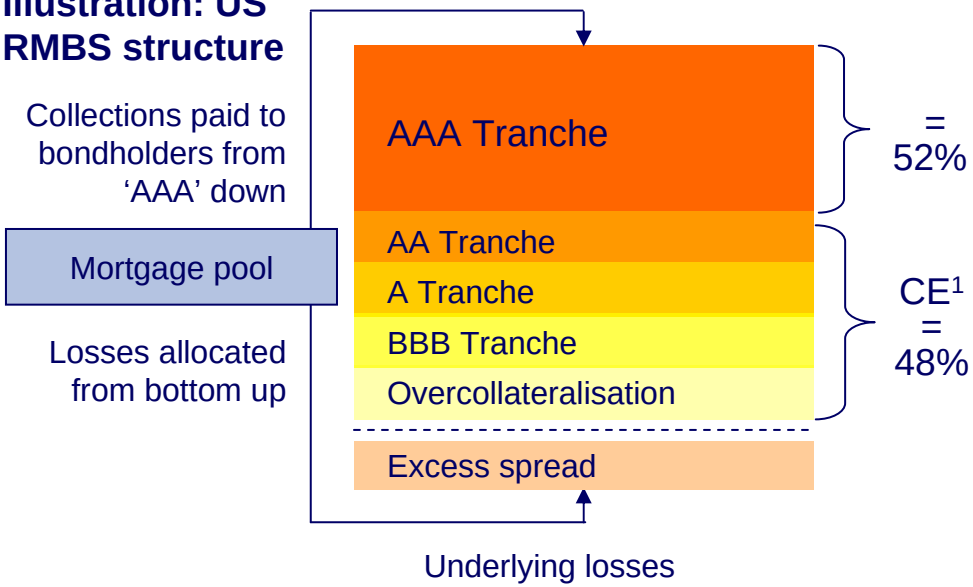
ING Direct's US RMBS are not a credit spread play, but spreads widened substantially since August '07

- Historically limited interest rate differential over agency paper; substantial spread widening since credit crisis emerged (August 2007)
- Prior to credit crisis, non-agency Option ARM RMBS were trading at a lower yield compared to agency floating rate RMBS
- Spreads on non-agency Option ARM RMBS substantially widened in 2008 in increasingly illiquid markets. This trend intensified in 3Q 2008



Current RMBS market prices do not fully reflect the securities' quality as markets are illiquid

Illustration: US RMBS structure



1. **Credit Enhancement** (attachment point) = buffer for absorbing losses in the underlying mortgage pool before the AAA tranche is affected in terms of principal loss

Example: 2007 Option ARM Alt-A RMBS

- Credit enhancement: 48%
- Today's market price: 65%
- This implies the market expects a 35% loss on this RMBS

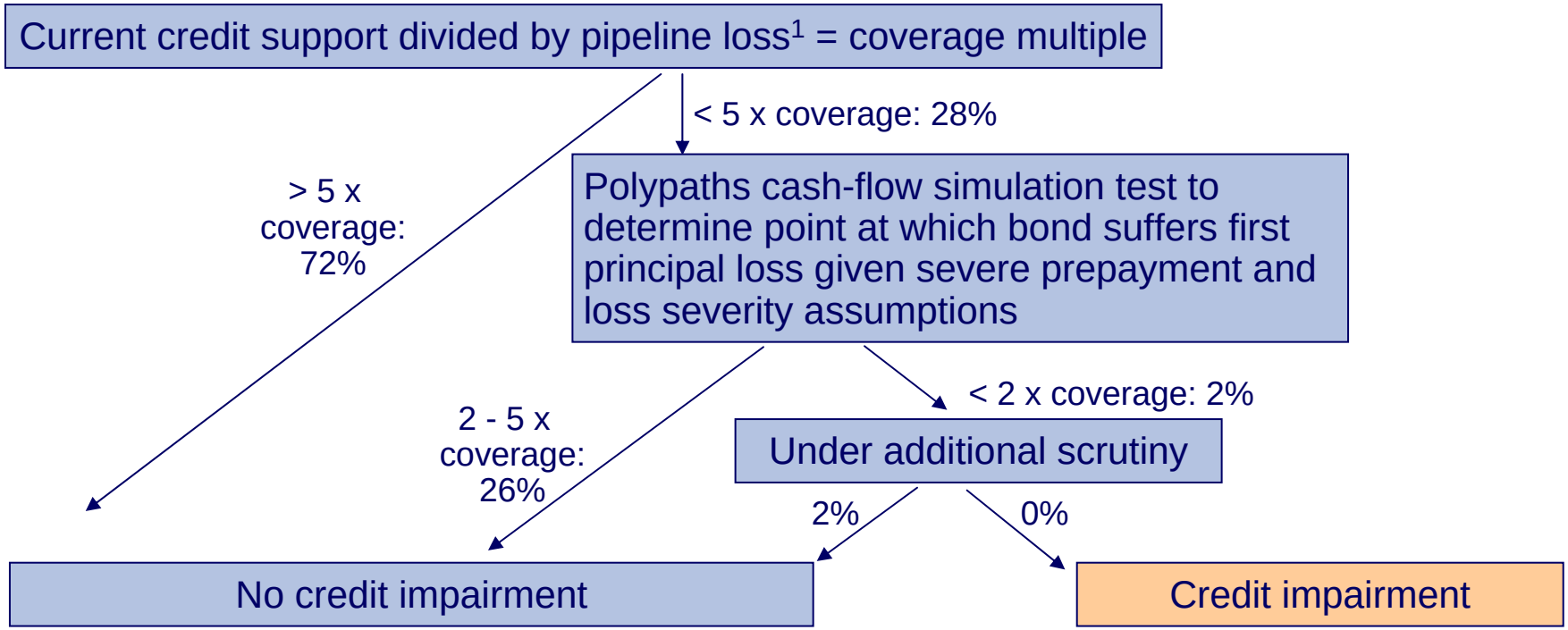
In order to reach these loss levels

- The entire credit enhancement of 48% has to be wiped out
- Then 35% of the remaining 52% (=18%) of the underlying mortgage pool would need to be lost
- Hence, losses in the underlying mortgage pool would have to approach 66% (= 48% + 18%) in order to trigger a 35% loss on this specific AAA RMBS
- This implies 100% defaults and a 66% loss severity or any other combination triggering a 66% loss

Robust monitoring process for US RMBS

- Portfolio modelled weekly for price sensitivity to interest rate changes
- Monthly assessment of current credit support against pipeline losses
- Daily monitoring for rating actions by the rating agencies

US non-agency RMBS surveillance process: Alt-A example 2Q 2008



1. Pipeline loss = sum of 60+ day delinquencies, foreclosure %, bankruptcy % and Real Estate Owned, multiplied by a loss severity

Key points: ALM and investments continue to support business growth while limiting market risk

1. Growth of retail deposits and mortgage production leads ING Direct's ALM decisions: assets and liabilities are duration matched

2. ING Direct is highly liquid

3. ING Direct's net interest income is not overly sensitive to changes in the yield curve environment

4. ING Direct maintains a conservative fixed-income investment portfolio of high credit quality securities

5. Current US RMBS market prices are increasingly depressed due to illiquid markets, without fully reflecting the securities' credit quality

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