

Shareholder 01

Behind the figures

Quarterly Magazine ING Group

February 2008

Sharpening ING's
strategic focus

Strength amid
market turmoil

A major
investment
in Turkey



Dear reader,

In this first edition of *ING Shareholder* for 2008, the spotlight is on ING's strategy. ING chairman Michel Tilmant, in our cover story, explains how ING plans to sharpen its strategic focus. As increasing numbers of people are becoming richer and living longer, demand is fast increasing for a whole range of financial products from mortgages and savings accounts to mutual funds and pensions.

This demand of course implies strong growth potential, but also a shift in the distribution channels through which that growth will be achieved. Our piece on ING's recent bank distribution agreements in the Asia/Pacific region investigates why bank distribution will be increasingly important to ING's future growth.

Acquisition is also a key strand of the ING strategy, but only acquisitions that can add value to the business. We look at how, and why, Oyak Bank in Turkey is a great example of such a value-adding acquisition.

Asset management has always been one of ING's strategic core activities and the profile piece on ING Real Estate, together with an

article on ING Investment Management, ING's principal asset manager, clearly explain why this is the case.

In the context of continuing turbulence on financial markets, ING's strong result for 2007 demonstrates how another key element of ING's core strategy – fully integrating risk management into daily business activities and strategic planning – has shielded the company from the direct impact of the credit and liquidity crisis.

In the final analysis, financial services is about looking forward and this edition contains an article that discusses the economic outlook for markets in the wake of the sub-prime crisis. The piece also takes a critical look at the sub-prime market and a possible resultant swing back to equities.

And finally, in our regular Art Gallery section, we take a look at an exhibition of Dutch figurative art from the ING Collection, which is on display in a country which knows a thing or two about world class art.

The editorial team

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Business & Markets

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ING Real Estate is one of the world's largest real estate companies. Its success has been built on a strategy of innovation and diversification. Markets may be turbulent currently, but the company is well placed to continue achieving sustainable growth.



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Oyak Bank is now part of ING, after the Turkish banking regulator gave the acquisition its seal of approval. A new era begins for the bank with bold plans to double market share by 2012.



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2007 was definitely the most challenging year for Michel Tilmant since he became CEO of ING Group in 2004. What was his view on 2007? And how is he preparing ING for the future?

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George Jautze at ING Real Estate Development's Kraanspoor office project in Amsterdam

ING Real Estate: maintaining global leadership

ING Real Estate is the largest player in the global real estate investment market, market leader in real estate finance in the Netherlands with a growing international loan portfolio, and one of Europe's largest real estate developers. Despite recent market volatility, the company's core strategy of innovation and diversification positions it well to continue achieving sustainable growth.

The credit markets crisis and volatile stock markets, triggered by problems in the US sub-prime mortgage market, dominated 2007. Although concerned about the ongoing turbulence, the chairman and CEO of ING Real Estate, George Jautze, remains focused on the overall trend. "For non-listed real estate markets, the underlying fundamentals are the most important indicator to look at. At this moment, almost globally, those fundamentals are still good, supported by strong occupancy levels and rental growth. A lot of companies learnt their lesson in the past, especially the developers, and have not overbuilt commercial real estate. The majority of our portfolio is in the non-listed sector, but a smaller part is listed and this is more closely linked to the volatility in the stock markets. We have no sub-prime exposure."

According to Jautze, ING Real Estate's spread of assets around the world and across many real estate sectors means the company is well positioned to cope with volatility in the markets. "It's very important for a large real estate manager such as ING Real Estate to diversify. Being varied in terms of activities, geography, asset classes, clients and products enables us to withstand individual market movements. An excellent example of the benefits of diversification is when property values fall in one country, then the negative impact on the overall portfolio can be mitigated by the rising values of properties elsewhere." Jautze says effective risk management at ING Real Estate is critically important to the business and its growth. At the beginning of 2007, the chief risk officer was appointed to ING Real Estate's Management Board. "We are very proud of our efforts. Risk management is now a strategic item for ING Real Estate, whereas before it was more focused on deals. Now risk management concentrates much more on an overall risk assessment of all our portfolios and positions. We have very detailed policy

papers and regulations in place for every business line. These relate to what the maximum positions are allowed to be, and what kind of countries and asset classes we have exposure to. For real estate companies, we believe that this is rather unique. For example, the amount of money we invest in development has a ceiling and there is an obligation to diversify these activities as is described in the policy. This allows us to follow accurately the movement in risk together with the growth of ING Real Estate and to balance these against the returns we are generating."

2007: A year of achievement

For all the market turbulence in 2007, Jautze says it was an excellent year for ING Real Estate. "Our profit before tax was EUR 664 million, an all-time high, contributing 6% to the total ING Group result. Performance and our commitment to service again underpinned the success of our business and in 2007, we launched 11 new real estate funds in direct response to our investors' needs and have a strong track record in outperforming market benchmarks." Jautze says another notable achievement in 2007 was the very strong performance of its finance business, which not only maintained its market leadership position in the Netherlands but diversified further internationally. Highlights also included receiving a number of industry awards, ranging from Global Pensions Magazine Property Manager of the Year 2007 to being named developer of the year by Retail & Leisure International.

"Our growth has been largely organic, achieved basically through launching new products, winning new investment mandates, increasing our loan portfolio as well as expanding our development activities. We are also increasing our market share through acquisitions such as the KFN real estate portfolio ►

in the Netherlands and the French development company Geo-de. Including KFN, which was the largest acquisition of its type in the Netherlands, we have been involved in some of the biggest transactions in the past five years in the industry. We are now a global investment manager with leading positions in 21 countries, a loan portfolio which grew by 42% in 2007 and EUR 7.9 billion in the development pipeline."

Jautze attributes ING Real Estate's rapid growth to its disciplined focus on adding value in three key areas of real estate: investment management, finance and development. "This business model with three core activities all related to adding value along the real estate chain differentiates us from our competitors. What we do not do is construction and brokerage. Our strengths are also our local presence and our high-quality research. That's the reason why we put so much effort and money into people and research." Jautze adds that constant innovation has been very important to the ongoing success of the company. "In the 1990s, we were one of the first property companies in which large and small investors could invest indirectly. And many years ago, we decided to start a business in non-listed, closed-end property funds. As a result we were ideally positioned to win business from pension funds looking to outsource their property investment. Being part of ING Group is also integral to our success. We work in partnership with many ING businesses to develop, launch and distribute real estate-based investment and financing solutions. Being backed by the financial strength of ING and its brand gives us instant recognition across the globe and provides our clients with the knowledge that we are supported by a leading financial services institution, which is very important when markets are in turmoil."

Leading in investment management, finance and development

As the world's leading real estate investment manager, ING Real Estate has EUR 72.1 billion in assets under management in 78 funds managed for 465 institutional clients. The investment management business accounts for the bulk of ING Real Estate's assets under management. In 2007, strong investor confidence in its global product range continued. For example, in the UK, the company won a EUR 830 million mandate from the West Midlands Metropolitan Pension Fund, the largest ever for that country's pension fund industry. ING Real Estate is maintaining

leadership in real estate financing in the Netherlands and is also expanding quickly overseas. Its total loan portfolio is now EUR 32.1 billion across 21 countries. Its clients range from private investors in the Netherlands to major international companies. During 2007, the international finance business continued its growth momentum by winning several large deals in France, the US and Australia. These helped to strengthen the diversification of the portfolio.

ING Real Estate is also Europe's largest multi-disciplinary real estate developer with a portfolio of EUR 3.0 billion. It has a pipeline of development projects worth EUR 7.9 billion across 11 countries. Two years ago, the strategy of the company was redefined to focus more on Europe and to concentrate on area development. "Our key aim is to generate above-average returns through development activities, since this a higher risk, longer-term activity. We have consolidated our leadership in high-quality and large urban regeneration projects with two of Europe's largest docklands projects. Construction is about to begin on a major mixed-use project to regenerate Hamburg's former docklands. In Amsterdam, work began on a EUR 1.1 billion project to transform 20 hectares of industrial land along the IJ river."

Staying ahead in different market circumstances

After several years of strong returns, Jautze believes this exceptional performance will moderate this year. In particular, he argues the higher cost of borrowing caused by the credit markets crisis is likely to subdue demand for property in certain markets. "Capital growth is moving into a slowdown, as we predicted a year ago when we said that the era of double-digit returns could not go on forever. The slowdown in some markets is now starting to become highly influenced by the financial crisis. It does not mean it is the same all over the world. We still see values rising in Asia, in some parts of Europe and even in parts of the US, but more slowly than before." For the years ahead, ING Real Estate has three strategic objectives: to deepen client relationships, to innovate and to increase synergies throughout the organisation. "Our overriding aim is to maintain and build on our global leadership position," says Jautze, confidently. ■



An ING Real Estate Development retail/residential project in Budapest, Hungary

ING Real Estate at a glance

ING is one of the world's largest real estate companies. The company has built its business, doubling assets under management in the past five years by effectively capitalising on the strong demand for well-managed real estate, expanding its loan portfolio outside the Netherlands and increasing its development activities in Europe. ING Real Estate passed the EUR 100 billion combined business portfolio* mark last year, a significant achievement. Most of the assets ING Real Estate has under manage-

ment are commercial properties, such as office, industrial, retail, logistics, leisure, mixed-use, and to a lesser extent residential properties. Its major investors are large professional institutional investors, such as pension funds. However, it does have listed property trusts in Australia and property funds in the Netherlands which cater for retail investors.

* Includes assets under management, loan portfolio and development projects on the balance sheet

Tapping into the banking strength

Bank distribution, a key plank of ING Group's strategy, is rapidly becoming big business in the booming Asia-Pacific region. Here we analyse why.



Ignacio Aguilar at ING's Asia/Pacific regional headquarters in Hong Kong

For long an established distribution channel in Europe, bank distribution is now taking Asia Pacific by storm. Almost non-existent before 2000, bancassurance has quickly established itself as a major force in insurance and accounted for 28 per cent of life product sales in 2005, according to Swiss Re in its Sigma report*.

ING has been very much an active player in this revolution. Its recent agreement, a 10-year alliance with Malaysia's Public Bank Berhad, the country's second largest bank, brought the number of bank distribution agreements ING has negotiated with banks in Asia/Pacific to a significant 83. If you include the Indian market, which is highly fragmented into small independent banks, the number swells to 199. These bank agreements mean that ING products and services are marketed through more than 15,000 branches in the Asia/Pacific. But it is not just bank distribution agreements, where ING has had success. In November last year, ING purchased a 30% stake in the Thai retail bank, TMB. Apart from assisting the bank develop its business, it will enable ING to distribute life insurance products through the bank's branches, and the plan is to later distribute general financial services products.

Success

There is little argument that bank distribution in Asia/Pacific has substantially lifted ING's reach in this rapidly growing region. ING is now the second largest bancassurance player in Asia/Pacific. It is also the second largest insurer and asset manager in the region. In 2007, premium income from bancassurance operations contributed to 28.3 per cent of ING Insurance Asia/Pacific's total premium income. And from 2004 to 2007, growth of the bank distribution business has surged 34 per cent on a Compound Annual Growth Rate (CAGR). Speaking at the launch of the Public Bank agreement, Insurance Asia/Pacific CEO Jacques Kemp outlined the rationale behind ING's involvement in the alliance. It could equally apply to all the other

agreements. "We build partnerships with banks to boost the distribution of ING products and to generate more fee income," he said. Commenting on Public Bank's part, the bank's managing director Dato Sri Tay Ah Lek said: "This strategic alliance will also allow Public Bank to leverage ING's extensive global experience and management."

Capturing market share

According to Ignacio Aguilar, head of bancassurance Asia/Pacific, bank distribution agreements are growing in importance for ING as a means of capturing greater market share in this high growth region. "Retail banks are increasingly becoming centres of investment products, as they look for additional sources of revenue, particularly ones where they are not using capital," he says. "ING has a proven track record of several successful bank distribution partnerships in the Asia/Pacific." He believes ING's success is largely attributable to its considerable global experience in both banking and insurance, and ING's flexibility and skill in negotiating at the local level.

"When we go to banks, they see us as a life insurance company and a bank, so we can leverage much more than other insurance companies can, stand alone. We better understand the bank business and that is a brand equity/proposition that helps us a lot. ING is seen by the banks here in Asia as a smooth, friendly, professional provider that has been flexible enough to manage the differences that can sometimes occur in any relationship or agreement."

Success in bank distribution in the Asia/Pacific has been achieved in a relatively short period of time. It all began five years ago in Australia and New Zealand, when ING entered a funds management and life insurance joint venture with one of Australia's largest banks ANZ. Five years later, the joint venture has produced a compound annual growth rate of 55 per cent annum. Along the way, other relationships have

included a joint venture with Kookmin Bank in South Korea in 2003, which has generated a CAGR of 45 per cent and bank distribution agreements with the Bank of Beijing and 33 banks in Japan. In 2007, a distribution agreement was also concluded with the China Construction Bank, in which ING's life and investment-linked products are sold through CCB's branches across Hong Kong and Macau.

Understanding and respect

Aguilar says success in bancassurance hinges on understanding and respecting a bank's business proposition and culture, and to not try and unduly alter either. "In all relationships and joint ventures, both parties need to understand their respective positions from day one. If you want success in bancassurance operations, the banks take the lead and insurance companies need to support them accordingly, because the bank controls the distribution." That's something we have to be clever to manage and to always be in the leading position on the product development side, to make sure our product doesn't become a commodity. You really need to build a tailored solution for the bank taking in organisation, operations, marketing, IT and build the relationship with the bank around this."

Aguilar dismisses criticism that bank distribution agreements can often take away potential business from tied agents or independent financial advisers working in the same markets. "There is this notion that there is channel conflict, but that is not the case, because banks go to different market segments to those that tied agents go to. We have adapted our business model to fit the bank's needs: products and pricing are different. "Bank distribution and tied agencies are complementary businesses: a win-win for ING. What we have is the best in class for both." ■

* Swiss Re: Sigma Report No.5 2007- Bancassurance: emerging trends, opportunities and challenges

ING now number two in Latin America

ING is now the second largest pension fund manager in Latin America after successfully completing the purchase of Banco Santander's Mexican and South American pension and annuity businesses in mid-January.

In 2007, ING announced it would buy the pension and annuity businesses in Mexico, Chile, Colombia, Uruguay and Argentina for USD 1.6 billion (EUR 1.1 billion).

With the closing of the deal, ING has doubled its pension assets under management in Latin America to more than EUR 35 billion, and expects to double this figure again by 2011. ING's customer base in the region has increased to approximately 22 million customers. ING is now the number three pension provider

in Mexico, number three in Chile, number five in Colombia, number two in Uruguay and number one in Argentina, where it has also become the number two annuity provider. Before the acquisition, ING was the number one pension provider in Peru, and post-acquisition ING's market share has risen to in excess of 30 per cent.

Tom McNerney, ING Executive Board member and CEO for Insurance Americas said: "Completing this transaction is a major accomplishment for ING's growth strategy. ING Insurance Americas looks forward to solidifying its position in Latin America through a combination of organic growth and strategic opportunities in its business."

ING - Second Largest Pension Provider in Latin America



ING's rankings in Latin America

ING Lease underway in Ukraine

ING Lease is the latest ING business to commence operations in Ukraine, opening its doors to business on January 1 2008. ING Lease Ukraine will initially offer general lease products, which include transport materials such as train wagons and trucks, but also machinery and buildings. "With our strong local team and the co-operation of ING Lease and ING Wholesale Banking across our network, we have solid grounds to be very optimistic about the outlook for ING Lease in Ukraine," said Willem Steenkamer, general manager for ING Lease Ukraine. "The Ukrainian market is vast and offers multiple opportunities across many industries," says Krzysztof Bielecki, managing

director Central and Eastern Europe, ING Lease Holding. ING Lease Ukraine will utilise the experience and knowledge of all of its European asset specialists, enabling us to offer innovative, high-quality lease products and services to its clients."

Within ING Group, ING Lease is part of the Wholesale Banking business line. ING Lease operates on a European scale, has nearly 2,345 employees and is currently one of the top five international lease companies in Europe, operating in 15 countries. In 2007, ING announced it would launch its Self'Bank retail banking operation in Ukraine and would open 20 branches in the capital Kiev by mid-2008.



Willem Steenkamer

Smart design, smarter service

The integration of ING Bank and Postbank in the Netherlands next year heralds a new branch look and feel. To test customer and employee reactions, a full-scale model was recently unveiled with initial reactions very positive. Three pilot branches will open in March, followed by a nationwide rollout across more than 250 locations in 2008.

Traditionally, re-modelling a branch takes several months, but the aim is to reduce the whole process to a few weeks. A huge challenge, but with the prevailing 'can do' mentality pervading the whole bank integration project, everyone is confident of a successful outcome. The essential design concept

is simple: low costs through high quality, fast processing, largely Internet-integrated services combined with professional in-person services when customers want them.

The branch remains the most visual aspect of the ING brand, which customers think of as 'their bank'. Customers are used to self-banking at home, so when visiting a branch people want instant service for standard products, but face-to-face expert advice for more complex services. The design therefore accommodates near-paperless processes, a self-service cash transactions area and modern offices for financial advisers.



ING Bank's new branch layout

EUR 10 billion in new mortgage production

ING-DiBa has realised more than EUR 10 billion in new mortgage production over 2007, positioning the company as the largest retail mortgage provider in Germany in terms of new business. Mortgages are sold through two different channels: 80% via brokers and 20% directly. The total mortgage portfolio is growing steadily and amounted to EUR 36 billion at year-end 2007. Mortgages have grown into the product with the highest retail volumes after savings. ING-DiBa has almost 6% share of the EUR 182 billion new mortgage production market in Germany.

Bart Leurs, vice-president Mortgage Product Marketing and Sales at ING-DiBa: "We have built a business model with straightforward products and processes that enables us to consistently deliver great service, easy access and great value for money for the German mortgage customer. ING-DiBa has definitely set the standard in this respect in the German market."

An ING DiBa mortgage advertisement

Oyak Bank joins ING's global network

"A nice Christmas gift for everyone," was Eli Leenaars' response to the news a few days before 25 December that the Turkish banking regulator had given ING its approval to acquire Oyak Bank. With the acquisition opening a window of opportunity for ING to benefit from the strengths of both banks, *ING Shareholder* finds out about plans for the future in this dynamic economy.

Celebrating the entry of ING onto the Turkish market, Executive Board member Eli Leenaars and Oyak Bank CEO Hakan Eminsoy, presented the plans for the future of Oyak Bank to the press plus some 500 local managers in Istanbul, where the 1074 metre-long Bogaziçi Bridge was specially illuminated in orange for the occasion. "The orange brand colour of ING and the lion will become known across the entire country," enthuses Eminsoy. "Turkey is about to turn orange."

Why Turkey?

ING's retail banking strategy is to expand in Central & Eastern Europe and Asia through organic growth supported by add-on acquisitions. The aim is to enter selected key high-growth countries, either by acquiring a partial or full stake in an existing local bank, or by starting up an ING greenfield operation. The acquisition of Oyak Bank not only marks another important step forward in the execution of this strategy, but it also demonstrates ING's ability to allocate capital to such high-growth markets.

"We focus on entering countries with a large population and strong long-term expected growth, because these are the drivers behind the expansion of the financial services market," Leenaars explains. "Turkey is currently the world's 17th largest economy in terms of GDP and expected to climb to 12th over the next decade. It has a population of over 71 million people, half of them under 30. All of which increases the potential for the financial services sector. It is a very attractive market for us."

Acquisition best option

Why did ING opt for an acquisition? "We looked at all the possible scenarios. Launching a greenfield operation positioned around convenience, such as the Self'Bank concept in Romania, would not have offered sufficient competitive advantage, as there are already banks in Turkey offering high convenience. ING Direct was not an option because of the relatively low levels of both savings per capita and internet penetration in the country.

An acquisition was simply the best option." So on 19 June 2007, ING reached an agreement with Oyak Group to acquire 100% of shares in Oyak Bank for USD 2.673 billion. The transaction was closed in December after approval from the regulator.

Why Oyak Bank?

"Oyak and ING are a great fit," argues Leenaars. "Oyak Bank is a high-quality, top-ten bank with a market share of 3% and client base of some 1.3 million retail and 13,500 small and medium enterprise (SME) customers. As a universal bank with a focus on retail customers, it gives us a solid platform with substantial growth opportunities. What's more, it has strong management and very committed employees. Both show quality and ambition." Bearing testament to Leenaars' view of Oyak Bank's people, Hakan Eminsoy radiates a sense of motivation and purpose as he talks about the future of his bank within ING Group. "Everybody here at Oyak Bank welcomes ING. A survey carried out before the approval showed our employees and our customers to be highly optimistic about the acquisition. We were all very eager to finalise the transaction and start out on our new future."

Oyak Bank has already achieved a lot in recent years. "We have become one of the most prominent mid-sized banks in Turkey, launched several retail product lines and become a leader in car loans. But capital restraints meant that we also missed out on certain opportunities. Now with ING, we'll be able to make up for that. On the corporate side, we'll be able to lend money to clients where previously we could not always respond to their needs. On the retail side, our pricing was not really competitive enough before, but now we'll be able to offer far more competitive pricing. Our bank has the capacity and the ambition to grow. Our branch employees and sales forces are really committed to increasing sales. Proper pricing and the availability of funds are crucial, and ING is going to invest considerably in the bank and provide us with the necessary funding and know-how to grow our market share."



Oyak Bank CEO Hakan Eminsoy

Ambitious growth plans

"I used to describe Oyak Bank as a simple, rather boring bank," says Eminsoy, laughing, "and it was! We were more or less just a savings and loans bank. But now, as ING Bank, we will be anything but boring. We're starting a new future and shifting gears for the accelerated growth that will fulfil our ambitions." So what exactly are the bank's growth ambitions? "We want to double our market share to 6 percent by 2012," says Eminsoy. "We'll do this by focusing on mortgages, corporate and SME loans, leasing, factoring and insurance retirement products. We anticipate considerable growth in loans, deposits and total assets, and we're aiming to increase volume in terms of both retail and corporate & commercial banking.

A major contributory factor to this growth will be the opening of new branches. The plan is to open 150 new traditional branches and about 200 mini-branches over the next three years, bringing the total number of branches to 600 and creating 2,500 new jobs. "We'll also establish additional regional infrastructure to better support branches. In selected areas, we'll open Corporate Centres to support branches in customer acquisition and their relationships with larger customers. We're also launching a new performance model that covers all employees and all products. In so doing, we want to create a common commitment to better overall performance."

Change

If one were to describe Oyak Bank's current profile, it would probably be as a conventional branch-based bank with a focus on consumer loans and only limited regional infrastructure. All of which will now change considerably. "Our new profile as ING Bank will be 'easiest, most convenient'," Eminsoy explains, "and we'll have an extensive regional organisation with third-party partnerships, multi-channel marketing and more products." The first milestone will be the opening of mini-branches in shopping malls and other busy locations. "I'm really looking forward to this," says Eminsoy. "Mini-branches are not new for the Turkish market, so we're not a first-mover; but with our

New brand name

The name of Oyak Bank will change to incorporate the ING Bank brand before the end of 2008 and an extensive launch campaign is planned to make the ING brand well known across Turkey. Steps have already begun,

with the introduction of the colour orange into branches. Examples include orange-hued advertising and, on a more light-hearted note, employees offering customers orange-coloured drinks and sweets.

particular concept we will nevertheless be a frontrunner. The mini-branches offer the consumer a huge variety of financial services, and we'll build on ING's experiences in Poland and Romania."

Leenaars believes that ING is bringing a lot more to Oyak Bank besides capital. "Oyak Bank is well developed in a number of areas, like car loans and credit cards, but less so in other fields, such as risk management, marketing and internet banking. We'll add our expertise to the organisation. In the future, we plan to distribute insurance, pension and investment products through the platform." But ING can also learn from Oyak Bank. Eminsoy offers two good examples: "The Turkish banking market is very advanced in terms of technology, process speed and certain products, such as credit cards. We probably gained this competitive advantage during the long period of high inflation we had in the past. High inflation requires awareness of the time value of money. The quicker you process, the better use you make of time value. We've invested heavily in technology in order to have fast processes. "Another example: Turkish income levels are currently low compared with those in Europe, so providing consumer finance is also important here. We've developed a credit card scheme with instalment payments and very minimal interest charges over the first six months. We offer this card to clients in cooperation with retailers, and it's proved highly successful. Our expertise with this product is something else we can bring to ING."

"We'll share knowledge," Eli Leenaars concludes, "to the benefit of all." As to how recent developments in the credit markets will affect Turkey, Leenaars is very clear. "The Turkish economy and banking system have become more robust. ING is committed to Oyak Bank, and to Turkey. Our investment in the country is a long-term commitment. I'm confident the Turkish economy will develop over the coming years, as predicted, into one of the top 12 economies in the world. ING Bank has the power to grow its market share significantly in this important economy." ■

ING Investment Management: a core growth business

Total global assets under management by the world's money managers are estimated to be EUR 36 trillion* in 2007, a sharp increase on EUR 26 trillion just four years ago. And there is little sign of this growth slowing.

It's not surprising then that asset management is one of the major themes underpinning ING's strategy, given its tremendous growth potential. Powerful demographic and financial trends are creating hundreds of millions of new investors every year, from the vast pool of baby boomers saving intensely for retirement, to the emerging middle class in high growth economies, to strong demand for asset classes like private equity and hedge funds. Managing this rapidly growing global pool of investments has positioned asset management convincingly as one of the world's major growth industries. ING has a significant presence in the industry with ING Investment Management (ING IM) its principal asset manager. With almost EUR 400 billion in assets under management and operating in more than 30 countries, ING IM ranks in the top 25 largest global asset managers. It has the scale to operate in all the world's key growth markets of Asia/Pacific, Latin America and Central Europe as well as the more mature markets of the US and Europe. ING IM is integral to the success of ING. "We never forget that we are investing other people's money. Everyday more than 800 investment specialists worldwide monitor clients' investments and implement investment strategies," says Tom McInerney, member of ING Group's Executive Board, responsible for global co-ordination of ING IM.

Dynamic global business

Asset management is a dynamic global business, constantly evolving along with the diverse and ever-changing financial needs of clients. ING IM has also been changing recently with the appointment of new CEOs to head ING IM's businesses in Europe and the Americas. Gilbert van Hassel was appointed the CEO for ING IM Europe and Rob Leary became the CEO of ING IM Americas. The two new CEOs have big plans for their respective regions in the coming year and both agree that strength in asset management underpins the company's success in its other businesses, such as investments and retirement services. Gilbert van Hassel says: "Clients are increasingly seeking competitive investment performance, both relative and absolute, with superior risk management to preserve their assets through volatile

markets. To give us the edge in the market, we absolutely must have a proprietary asset manager to deliver strong investment performance to maintain a competitive advantage."

Rob Leary believes ING IM's close ties with the insurance and banking businesses gives the investment management group a clear advantage. "Our customers are looking to do business with companies that have a strong reputation and brand, coupled with excellent customer service and superior performance. Our edge is to have a proprietary asset manager that delivers all four and helps ING maintain a strong competitive advantage," says Leary. "That partnership with other parts of ING means we're on the cutting edge of new product development in investment and insurance products. The future will be one where you see us blend asset management, insurance, capital markets and derivatives technology to develop solutions for both institutional and retail clients. This will put ING at the forefront of a huge growth trend," Leary adds.

In Europe, Gilbert van Hassel believes ING IM's pivotal position in the Group is important in the development of new products and services. "Our longstanding relationships with ING Insurance and ING Banking have resulted in ties that are valuable for the whole ING Group. The successful introduction of the 2007 variable annuity offering in Europe and the further roll out in 2008 is a clear example of internal synergies and co-operation."

Global thinking, local delivery

ING IM is organised along regional lines and divided into three areas - Europe, the Americas and Asia/Pacific - but there is strong co-operation and communications across all regions. Local offices work closely with local clients, providing them with both locally developed products as well as the very best investment solutions from any part of the worldwide ING organisation.

"This global thinking, local delivery allows ING to have a relationship with our clients that few other investment firms can match," says Leary. To harness the opportunities that come from rapidly changing investment trends, ING IM has established a



Rob Leary



Gilbert van Hassel

ING Investment Management at a glance

Principal asset manager of ING Group

- Total assets under management: EUR 383.6 billion

ING IM Europe	EUR 153 billion
ING IM Americas	EUR 152.3 billion
ING Asia/Pacific	EUR 78.3 billion
- Offices worldwide: in more than 30 countries
- Investment professionals: more than 800
- Serving institutional clients such as pension funds, insurance companies, banks, foundations and fund distributors and their clients

series of global initiatives that tie the three regions together in areas of proprietary and business segments portfolio management, operations and marketing & distribution.

The latter initiative, Global Marketing and Distribution (GMD), consists of 13 team members and 8 working groups from all three regions. Through frequent communication efforts and sharing best practices, the aim of GMD work is to drive cross-regional revenue and business opportunities with a focus on marketing and distribution.

In 2007, cross-regional sales became part of performance targets for each region. The result has seen actual sales of cross regional products well exceed plans. "The (GMD) initiative has been an outstanding success judging by the results so far," says Martin Smit, Strategist and GMD manager, based in New York. "GMD helps us market our core investment products and customised solutions beyond the region where they are built. We look forward to even more significant results going forward," says Smit.

Further expansion in 2008

2007 was a strong year for sales and profits and for 2008 ING IM is set to build on those results through even more innovative product development and strong customer service. "One of our priorities for this year is the continued expansion of a global alternatives platform," says Leary. "More and more, we see all types of investors looking for alternative investments, whether they be hedge funds, fund of hedge funds, private equity or real estate. In Europe, Gilbert van Hassel has also identified alternatives as a major business focus for 2008. "We will concentrate on the expansion of our alternative asset and guaranteed product offering, as we expect these product classes to show faster growth than the market average." But he says ING IM will continue to concentrate on the basics as well.

"Our main priority is to generate investment performance for our clients. Strong investment performance is the key reason our clients do business with us. We will also be focusing on new business and new markets. We will also enhance our IT infrastructure to ensure that our growth aspirations can be fulfilled.

"Most importantly, in 2008, we want to have even stronger relationships with our ING insurance and banking clients, as our internal clients are most important to us. We also want to increase the number of strategic partnerships with external distributors to further increase our third party distribution power. Historically these non-affiliated channels have produced the bulk of our growth and we expect this to continue to be driven by the open-architecture trend in Europe," says van Hassel.

Focus on Central Europe

He continues: "From a geographical standpoint, our presence in the Central European markets will yield a huge opportunity. Currently we have more than EUR 800 million of net sales of our product in Poland alone. Other emerging countries where we are active, like Czech Republic, Hungary, Slovakia and the recently opened office in Romania are expected to show the same growth characteristics although from a lower base. Next to that, we are continuously looking for new markets and products to enhance our competitive capabilities and to increase our client reach.

In the US, Rob Leary believes there will be many opportunities in 2008. "We see an increase in providing customised solutions for large pension funds looking to manage their assets in volatile markets. We've already seen success, including a portable alpha product, where the portfolio return represents the investment manager's asset class/stock selection skill and is independent of market movement, that was developed by a specialised team of experts assembled a little more than a year ago to design solutions in this arena. We will also see more demand for life cycle funds and more demand for income and post-retirement products." The prospects for bringing investment products to both existing and new clients is very significant and a powerful indicator of how ING IM can continue to be an important driver of the company's success. ■

* Source: Cerulli Associates

Focusing the strategy to accelerate growth

2007 was the most challenging year for Michel Tilmant since he became CEO of ING Group in 2004. How does he look back on the past year? And how is he preparing ING for the future? “Ultimately, we want to provide retail customers with the products they need throughout their whole lifecycle to grow savings, manage investments and prepare for retirement with confidence.”

The financial markets were extremely turbulent in 2007. What's your view on how ING performed in these conditions?

“ING performed strongly in what has been a very difficult year for the financial sector, with a weak dollar, a flat yield curve and the financial market turbulence. In the fourth quarter, underlying net profit rose 23.9% to EUR 2,617 million, and full-year underlying net profit is up 19.4% to EUR 9,172 million, supported by EUR 1,028 million in gains on the sale of our stakes in ABN AMRO and Numico. Thanks to our business profile and our solid risk management, we've been able to shield ourselves from the direct impact of the credit crisis.”

What insights have you gained on the importance of risk management?

“First of all ING is primarily a retail house with a healthy business mix. We collect customer balances and invest them for the longer term. Second, risk management is fully integrated into the daily management of all business units. We have been right to invest heavily in risk management in the last few years. Our exposure to troubled asset classes is limited, and our investments in assets that are backed by residential mortgages have a high level of structural credit protection to absorb further losses in case the US housing crisis deepens. Impairments, markdowns and trading losses through the profit and loss account were limited to just EUR 194 million before tax in the fourth quarter of 2007.”

How is the underlying business doing?

“I'm happy to say that our business fundamentals remain solid. Throughout 2007, we continued to deliver on our strategic priorities, allocating capital to high-growth markets, as well as improving efficiency in mature businesses, exemplified by the transformation of our retail bank in the Netherlands and in Belgium. In addition, we delivered strong commercial growth. On the life insurance side, sales were up 26.8%, driven by Central Europe, Asia and Latin America, with a record quarter for annuity sales in the US. And value of new business reached an all-time high in 2007. On the banking side, we achieved robust volume growth in mortgages and current accounts. And compared to some of our competitors, our capital position is excellent, so we're in a good position to fund growth, whether organic or through add-on acquisitions.”

Despite the good performance, ING's share price has declined over the year. What is your view on this?

“Obviously, I'm disappointed. Our share price has been impacted by the adverse market conditions. However, when you manage a company like ING, it's essential to focus on the long term, and on continuing to generate long-term value for shareholders. In this respect, I point to the fact that we are able to offer our shareholders an attractive dividend (12% increase on 2006 to EUR 1.48 per share) and that we are returning capital through a 5 billion euro share buy back. We should keep our eye on the ball and not be distracted by the short-term turmoil in the financial markets.”



New strategic focus

Capitalising on changing customer preferences and building on solid business capabilities, ING has chosen to sharpen its strategic focus to banking, investments, life insurance and retirement services:

- Provide retail customers with the products they need during their lives to grow savings, manage investments and prepare for retirement with confidence
- Build and invest more in bank distribution platforms
- Increasingly invest in developing markets and in high-growth segments in mature markets

ING's growth prospects depend on how the financial sector is evolving. What is your view on the future of financial services?

"We see that customer preferences are changing and are transforming the financial industry. As more customers live longer they know they need to increasingly save enough to enjoy retirement comfortably. And across the globe, and 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 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. The changing nature of these products moves them into what has traditionally been the domain of retail banks. With the surge in technological developments, we also see that customers can access financial services faster and in many different ways. They increasingly obtain easy access to financial products and seek advice only when they want to."

What do these trends mean for ING's future?

"To capitalize on these trends, we're sharpening our strategic focus on our core businesses: banking, investments, life insurance and retirement services. Ultimately, we want to provide

retail customers with the products they need throughout their whole lifecycle to grow savings, manage investments and prepare for retirement with confidence. We'll invest in bank distribution and reinforce our product capabilities in our core competencies, including asset gathering and asset management. We'll focus on expanding our presence in high growth markets. We'll continue to redeploy capital to those businesses that generate the highest growth and returns. Active management of our business portfolio is an important component of achieving this goal. The recent divestiture of our non-core insurance business in Mexico, following the acquisition of a major Latin American pension franchise is a great example of how we can put our capital to work for us more effectively." (see box for recent initiatives)

How will ING stand out from other financial services providers with similar goals?

"I strongly believe that we have a number of important strengths driving our business. First of all we have a broad product portfolio and high performance product capabilities. We have vast experience in building savings products, mortgages, variable annuities, pensions and other investment products. With this full range of products, we are uniquely positioned to offer customers products and services throughout their entire lifecycle. We also have scale in each product category, and are one of the largest savings banks in the world. We have a strong retail customer franchise and an extensive



“We are sharpening our strategic focus on our core businesses: banking, investments, life insurance and retirement services”

distribution reach, including a broad presence in developing markets. We are able to serve our 75 million customers through different distribution channels – online, banking, tied agents and 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, such as ING Direct. And finally, we have created one of the world’s leading retail financial services brands. Our global sponsorship of the ING Renault Formula One team is very successful. Our brand awareness has increased significantly across the globe.”

What does focusing on the retail customer mean for ING’s wholesale banking business?

“Wholesale banking is an integral part of any large bank. And there’s a very good reason for that: the essence of our business

is to collect consumer deposits and redeploy them as investments in the economy. As a result, wholesale banking has an important role within the ING strategy, generating attractive, high-quality assets where we can invest retail clients’ deposits. After the turmoil of this past year, we’ve seen the importance of generating our own assets. Our wholesale banking business has also worked incredibly hard to improve operating efficiency and returns. It also sharpened its strategic focus and is now ready for growth, particularly in the Benelux and Central Europe, and in global franchises in Structured Finance, Financial Markets and Real Estate.”

What is your biggest challenge in the coming year?

“We are entering 2008 in a position of strength. We have experienced only limited impact of the credit crisis thanks to our solid risk management capabilities. We have sharpened our strategic focus on banking, investments, life insurance and retirement services. Building on our strong capital position, we have ample room to fund organic expansion and add-on acquisitions. We will continue to assess our business portfolio in the context of our ambition to provide retail customers with the products they need to grow savings, manage investments and prepare for retirement. And we will continue to reinforce our franchise to drive commercial growth. This is all driven by our most important overall goal which is to create value for our shareholders.” ■

Michel Tilmant’s take on the subprime story

“The financial industry is clearly in a situation where it has to get out of some excesses that took place in the recent past. If you are lending money to someone who is not likely to repay you, and on top of that you do that against collateral of which the value is questionable, and you repackage that in very sophisticated securities which you then sell to parties who don’t understand it, I think you are basically asking for trouble.”

“If there is one thing this crisis has brought to the surface, it is the need for a philosophy of sound risk management shared by staff with the right mindset and a healthy dose of common sense. For instance, complex scientific models, such as value-at-risk models, are important to help you understand the risk you are taking. But what counts in the end is the absolute amount of exposure on your balance sheet. Also, closely watch your liquidity position, and avoid dependence on a limited number of funding sources. And don’t take your assets off-balance if you can’t bring them back on your balance sheet. All this may seem self-evident and simple, but simple things are often the most difficult to execute.”

Main initiatives 2007 – 2008 (year-to-date)

Acquisitions

Landmark Investment Management (South Korea)
Oyak Bank (Turkey)
Santander’s pension and annuity business (Latin America)
TMB (Thailand)

Organic growth investments

Retail banks Romania and Ukraine
Russian Life Insurance
Launch variable annuities (Spain, Hungary)
Public Bank Malaysia
Mandatory pension fund Romania

Divestments

Broker and employee benefits business (Belgium)
Insurance Properties SA (Mexico)

Business initiatives

Postbank/ING Bank combination (the Netherlands)
Retail Banking transformation Belgium

Share buyback program EUR 5 billion

Results Q4, 2007

Results show strength in a challenging environment

On Wednesday 20 February, ING announced its fourth quarter 2007 results. Underlying net profit for the fourth quarter rose 23.9 % to EUR 2,617 million, supported by EUR 1,028 million in gains on the sale of stakes in ABN Amro and Numico. Underlying net profit for the year increased 19.4% to EUR 9,172 million. ING Group continued to deliver resilient results in 2007, despite the turmoil in credit markets, illustrating the strength of ING's business profile and solid risk management. The board proposed to raise the annual dividend by 12 per cent to EUR 1.48 a share. ING chairman Michel Tilmant said: "In 2007, we continued to deliver on our strategic priorities without distraction from the market turmoil. We made significant investments to grow organically and also in growth activities in developing markets such as Oyak Bank in Turkey, and we expanded our pension franchise in Latin America. We also embarked on initiatives to improve efficiency, including the transformation of our retail banking business in the Benelux."

He said ING's business profile and solid risk management have helped shield ING from the direct impact of the credit and liquidity crises. "Impairments, markdowns and trading losses through the profit and loss account were limited to just EUR 194 million before tax in the fourth quarter. There were no impairments on our Alt-A mortgage-backed securities, reflecting the high intrinsic credit quality of the portfolio. Market circumstances led to negative revaluations of EUR 751 million before tax on subprime and Alt-A RMBS and CDOs through shareholders' equity in the fourth quarter. ING's exposure to the riskiest assets is limited, and the RMBS investments we selected have a high level of structural credit protection to absorb significant losses in case the US housing crisis deepens."

"As the economic uncertainty and market volatility have increased, the operating environment has become more challenging. Lower equity markets and revaluations of real estate and private equity have increased volatility in underlying earnings. ING continued to deliver strong commercial growth, as the fundamentals of our business are solid."

ING Group: Key Figures

In EUR million	Quarterly results		
	4Q2007	4Q2006	Change
Underlying profit before tax¹			
Insurance Europe	358	632	-43.4%
Insurance Americas	453	539	-16.0%
Insurance Asia/Pacific	113	140	-19.3%
Corporate line Insurance	896	20	
Underlying profit before tax from Insurance	1,819	1,331	36.7%
Wholesale Banking	591	546	8.2%
Retail Banking	442	444	-0.5%
ING Direct	73	172	-57.6%
Corporate line Banking	45	-14	
Underlying profit before tax from Banking	1,151	1,148	0.3%
Underlying profit before tax	2,970	2,479	19.8%
Taxation	301	281	7.1%
Profit before minority interests	2,669	2,198	21.4%
Minority interests	53	85	-37.6%
Underlying net profit	2,617	2,113	23.9%
Net gains/losses on divestments	-37	-23	
Net profit from divested units		11	
Special items after tax	-98		
Net profit (attributable to shareholders)	2,482	2,101	18.1%
Earnings per share (in EUR)	1.18	0.98	20.4%
Net return on equity ²	24.2%	23.5%	
Assets under management (end of period)	636,900	600,000	6.2%
Total staff (FTEs end of period)	124,634	119,801	4.0%

¹ Underlying profit before tax and underlying net profit are non-GAAP measures excluding divestments and special items

² Year-to-date

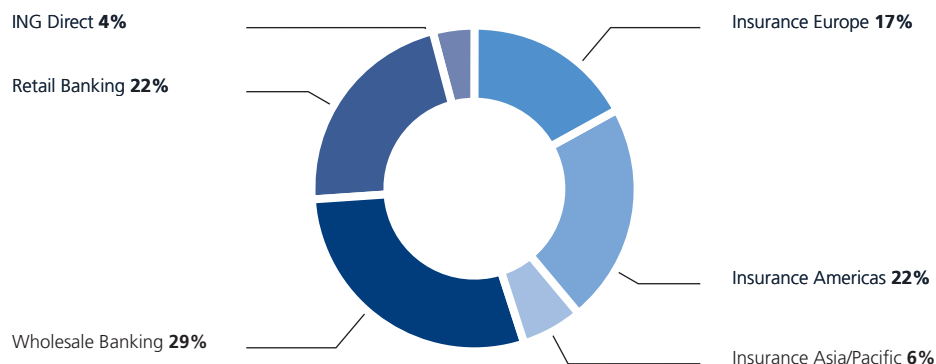
Looking ahead, Tilmant said: "ING's capital position is strong, particularly after the introduction of Basel II, and ING is entering 2008 in a position of strength. We have sharpened our strategic focus on banking, investments, life insurance and retirement services. We will continue to assess our business portfolio in the context of our ambition to provide retail customers with the products they need to grow savings, manage investments, and prepare for retirement. ING has ample room to fund organic expansion and add-on acquisitions, and we will continue to reinforce our franchise to drive commercial growth. 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 buyback."

Earnings analysis: Fourth quarter

ING Group showed robust commercial growth in the fourth quarter, despite the challenging environment. The direct impact of the credit crisis remained limited, with just EUR 194 million in pre-tax impairments, markdowns and trading losses, including EUR 47 million on subprime RMBS, EUR 36 million on CDOs, EUR 45 million

Underlying profit contribution of business lines Q4*



* excluding corporate line

on investments in SIVs and ABCP, and EUR 66 million from monoline insurers. There were no impairments on the US Alt-A portfolio.

Highlights for the fourth quarter were strong growth in new life insurance sales, up 26.8 per cent and driven by Central Europe, Asia, the US and Latin America. Volumes in banking continued to grow with loans and advances to customers up EUR 24.5 billion.

The high tax-exempt gains on equity investments resulted in a reduction in the effective tax rate to 10.1%. Underlying profit before tax rose 19.8%.

The business environment became more challenging, with lower revaluations of real estate and private equity after high positive revaluations on both asset classes through the P&L in 2006. Weaker equity markets impacted results in the US wealth management businesses, and market volatility continued to have a negative impact on hedging results in Japan. Increased competition for savings is putting some pressure on margins. Currency fluctuations also had a negative impact of EUR 45 million on underlying net profit.

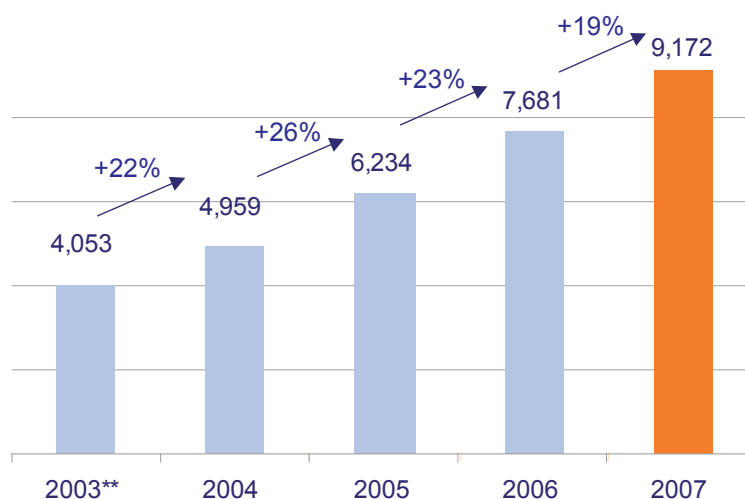
While these items had a negative impact on the reported profit, the fundamentals of ING's business proved to be strong. The US insurance business continued to show a strong net inflow

of assets under management, despite growing economic uncertainty, bolstered by record sales of variable annuities. Across the Americas and Central Europe, ING recorded double-digit growth in premium income and new life insurance sales. Volumes in Retail Banking and ING Direct continued to grow, despite increased competition for savings, as mortgage production remained strong. Deal flow in Wholesale Banking was robust, with a gradual improve-

ment in margins on new lending, while risk costs continued to be well below historical levels.

Profit before tax from Insurance Europe declined 43.4%, reflecting lower revaluations on real estate and private equity investments in the Netherlands. Profit from Central Europe showed solid growth, despite increased investments in new greenfield businesses. At Insurance Americas, profit before tax declined 16.0%, reflecting a negative swing in equity-related DAC and reserve unlocking, small impairments on investments in subprime RMBS and SIVs, and a negative currency impact. Insurance Asia/Pacific posted a 19.3% decline in underlying profit before tax, reflecting hedging losses in Japan due to market volatility, as well as a EUR 24 million loss on a CDO. Excluding Japan, profit from Asia/Pacific increased 16.7%. Profit from the Corporate Line Insurance rose sharply to EUR 896 million, including the realised capital gains on ABN Amro and Numico. The profit of Wholesale Banking increased 8.2% as the impact of turmoil in credit markets remained limited and results were supported by the release of a large debtor provision. Retail Banking results rose 10.5%, excluding a EUR 44 million capital gain in the fourth quarter of 2006, as commercial growth helped offset continued margin pressure. ING Direct posted a 57.6% decline in underlying profit before tax due to losses

Strong growth in underlying net profit (in EUR million)*



* excl. divestments & special items ** Dutch GAAP

related to repositioning the UK business as well as a EUR 29 million impairment on asset-backed commercial paper in Canada. Excluding those items and investments for growth, profit at ING Direct increased 14.9%.

Net profit increased 18.1% to EUR 2,482 million, including the impact of divestments and special items. Divestments included a EUR 93 million gain from sale of part of ING's stake in SulAmerica in Brazil and a EUR 129 million loss on the sale of NRG. Special items were EUR 92 million in restructuring charges at Wholesale Banking and Retail Banking and EUR 6 million in hedge costs from the purchase of Oyak Bank.

Insurance

Underlying profit before tax from insurance increased 36.7% to EUR 1,819 million, including the EUR 1,028 million in gains on the sale of ING's stakes in ABN Amro and Numico. That impact was partially offset by lower revaluations of private equity and real estate investments, particularly in the Netherlands, compared with historically high revaluation results in 2006.

Gross premium income rose 10.1%, or 17.4% excluding currencies, driven by strong sales of wealth accumulation products in the US, Central Europe and Asia/Pacific. Operating expenses were flat as investments for growth in Central Europe, Asia/Pacific and the Americas were offset by lower expenses in the Netherlands.

Sales momentum of investment-linked products remained strong, especially in Central & Rest of Europe, Asia/Pacific and the US, driving new sales (annual premium equivalent) up 26.8% from the fourth quarter of 2006. The value of new life business (VNB) increased 244%, or 159% excluding the change in the discount rate in the fourth quarter of 2006. Margins also improved as the internal rate of return increased 100 basis points to 14.3% for 2007. VNB rose 47.7% from the third quarter, boosted by sales in the new second-pillar pension fund in Romania which contributed EUR 116 million in VNB, on top of the EUR 34 million in VNB recorded last quarter.

The embedded value of ING's life insurance business increased 17.1% to EUR 32,460 million before capital injections and dividends. The increase was driven by the strong contribution

Risk Management

ING's solid risk management and business profile have helped limit the impact of the credit and liquidity crisis on ING's earnings and balance sheet.

ING does not originate subprime mortgages. The Wholesale Bank is not in the business of manufacturing subprime-backed bonds or collateralised debt obligations.

ING's exposure to the US housing market is primarily through residential mortgage-backed securities (RMBS), which were selected as investments following a thorough internal credit analysis. The tranches purchased by ING have a high level of structural credit protection, and the cashflow on most bonds have not been impacted by delinquencies in the underlying mortgage pools. As a result, impairments through the P&L, which are triggered by credit losses, have been limited.

The total direct impact from the credit and liquidity crisis on ING's earnings was limited to just EUR 194 million before tax, including impairments, markdowns and trading losses. Of the total, EUR 47 million relates to US subprime RMBS, EUR 36 million to CDOs, EUR 45 million to investments in SIVs and asset-backed commercial paper (ABCP), and EUR 66 million to monoline insurers. There were no impairments on the US Alt-A RMBS portfolio.

The market value of the RMBS portfolio has been impacted by market conditions, including credit spread widening and reduced liquidity. Nonetheless, the market values have held up well relative to subprime indices. The negative revaluations on the RMBS portfolio are reflected in shareholders' equity on an after-tax basis. Negative revaluations before tax in the fourth quarter were EUR 751 million on subprime,

Alt-A and CDOs, bringing the total negative revaluation reserve on those assets to EUR 1,377 million at year-end.

ING's total exposure to US subprime RMBS was EUR 2.8 billion at the end of December, most of which is held at the US insurance business. Insurance Americas booked impairments of EUR 19 million before tax on subprime RMBS in the fourth quarter. Wholesale Banking recorded a pre-tax loss of EUR 28 million on its subprime exposure, comprised of a EUR 13 million impairment and EUR 15 million negative fair value changes in the trading book. The market value of the subprime portfolio was 90% of cost price at year-end, with negative revaluations of EUR 185 million before tax in the fourth quarter.

ING's portfolio of US Alt-A RMBS amounted to EUR 27.5 billion at the end of 2007, most of which is held at ING Direct in the US. There were no impairments on the portfolio, and the market value was 97% of cost price at year-end. Negative revaluations in the fourth quarter were EUR 477 million before tax.

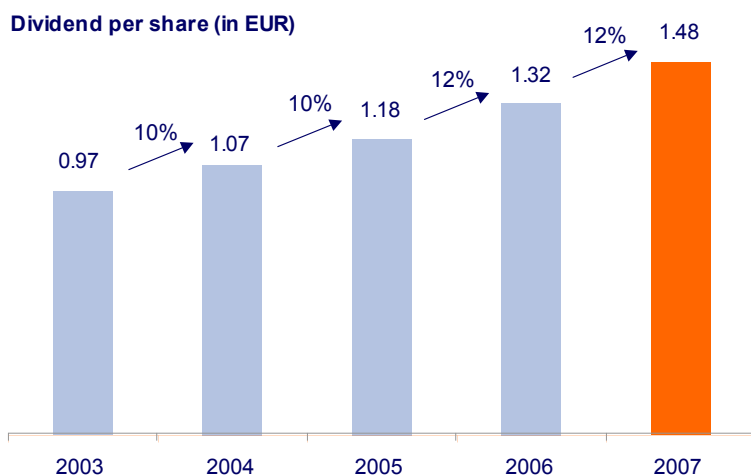
ING has a total exposure of EUR 1.9 billion to CDOs and CLOs. Writedowns of EUR 36 million were booked in the fourth quarter, consisting of EUR 24 million at ING Life Japan and EUR 12 million in Wholesale Banking. The portfolio was valued at 93% of cost price at year-end, with negative revaluations of EUR 89 million before tax in the fourth quarter.

ING's direct exposure to monoline insurers through debt or loans is negligible. ING has some indirect exposure to monoliners as it has EUR 3.5 billion of assets which were insured, either through financial guarantees (or wraps) or through credit derivatives.

from new business, which added EUR 1,113 million in 2007, driven by strong sales in the US and developing markets. Financial variances had a positive impact of EUR 1,172 million related to the equity gains in the Netherlands. The return

on embedded value improved strongly to 21% from 10% in 2006, and the embedded value profit increased 41.4% to EUR 2,802 million, reflecting the strong value creation within the life insurance business.

Dividend increase reflects strong capital base



Banking

Underlying profit before tax from Banking increased 0.3% to EUR 1,151 million. Commercial growth in mortgages, retail current accounts, and corporate lending offset the impact of flat or inverted yield curves. Risk costs remained low, supported by the recovery of a sizeable provision at Wholesale Banking.

Total underlying income from banking rose 2.2% to EUR 3,692 million, driven by volume growth in lending, while competition for savings and deposits intensified. The interest margin increased 3 basis points from the third quarter to 0.94%. However, the interest margin was 11 basis points lower than the fourth quarter of 2006, reflecting the impact of flattening yield curves in the course of 2007.

Total loans and advances to customers of the banking operations increased by EUR 24.5 billion in the fourth quarter to EUR 526.3 billion. The purchase of Oyak Bank in Turkey, which was completed at the end of December, added EUR 4.8 billion to the loan portfolio. ING Direct's purchase of a mortgage portfolio in Germany added EUR 3.9 billion, and currencies had a negative impact of EUR 3.4 billion. Corporate lending increased by EUR 9.5 billion, while personal lending grew by EUR 14.9 billion, driven by strong growth in mortgages.

Customer deposits and other funds on deposit

of the banking operations declined by EUR 3.1 billion to EUR 528.2 billion as competition increased. The purchase of Oyak Bank added EUR 5.4 billion in customer deposits, while currency effects had a negative impact of EUR 3.7 billion. Despite the turmoil in the credit markets and strong growth in risk-weighted assets, net risk costs remained low, supported by a EUR 115 million recovery at Wholesale Banking. On balance, ING added EUR 31 million to the provision for loan losses, which is equal to just 3 basis points of average credit-risk-weighted assets. Gross additions to loan loss provisions amounted to 24 basis points, and the overall loan portfolio remained healthy with a limited inflow of new impaired files. Returns increased, with the underlying risk-adjusted return on capital (RAROC) after tax at 22.3%, up from 20.5%.

Assets under Management

A strong net inflow of EUR 7.5 billion was achieved despite turbulent financial markets in the fourth quarter. Total assets under management decreased by EUR 1.0 billion or 0.2%, especially due to negative currency effects and lower asset prices. Exchange rates had a negative impact of EUR 11.5 billion, mainly due to the weaker US dollar. Declining prices of equity and fixed income securities had a negative impact of EUR 6.6 billion. The acquisition of the pension business in Latin America and ING Direct's purchase of ShareBuilder added EUR 9.6 billion to assets under management.

Capital Management

The capitalisation of ING Group remained strong with all leverage ratios within targets at year-end. The debt/equity ratio of ING Group ended the year at 9.53%, up slightly from 9.14% at the end of September.

The debt/equity ratio of ING Insurance was 13.63%, well within the 15% target. The Tier-1 ratio for ING Bank was 7.39% at the end of December, above the 7.20% target, despite strong growth in risk-weighted assets and the deduction of EUR 1.2 billion in goodwill and other intangibles related to the purchase of Oyak Bank. This was compensated by a capital injection of EUR 2.2 billion from ING Group to ING Bank in the fourth quarter.

With the transition to Basel II, risk-weighted assets declined from EUR 403 billion at the end of 2007 to EUR 293 billion on 1 January 2008, according to preliminary data. That brings the preliminary Tier-1 ratio under Basel II up to 9.9%. The target Tier-1 ratio for ING Bank will remain unchanged at 7.20% under Basel II. ING plans to upstream some of the excess capital to the Group in the first quarter. ■

Update of share buyback programme (as per 18 February 2008)

- 73.9% of the programme completed
- Total number of shares repurchased is 131.2 m
- Amount repurchased: EUR 3,692 m

Dividend

ING will propose a total dividend for 2007 of EUR 1.48 per ordinary share, up from EUR 1.32 in 2006. Taking into account the interim dividend of EUR 0.66 paid in August 2007, the final dividend will amount to EUR 0.82 to be paid in cash. ING's shares will be quoted ex-dividend as of 24 April 2008 and the dividend will be made payable on 5 May, 2008.

Column **Back to the future**

Mark Cliffe, ING Group's chief economist, argues that the world's stock markets are at least partly to blame for the credit crunch. Ironically, they may ultimately turn out to be its biggest beneficiaries.

The world's stock markets have finally succumbed to the credit crunch. But while they wrestle with fears of an economic downturn, they might reflect that the crunch is the flip-side of a boom in structured credit that can at least partly be traced back to their own boom and bust at the start of the decade. Investor distaste for equities helped to fuel the extraordinary surge in the structured credit markets. The question now is whether the responses by investors and policy-makers to the current downturn will prompt a longer-term switch back to equities.

To answer this question, it is worth reflecting on why the structured credit markets grew so quickly over the last few years. Much attention has been paid to the role of the US Federal Reserve. It is blamed for cutting, and keeping interest rates too low in its efforts to keep the US economy growing after the stock market bust of 2000-01. Likewise, the investment banks are accused of developing new securitised and derivative-based instruments that concealed an underlying lack of credit quality that was rudely exposed when the US housing market started to run into trouble.

However, little attention has been paid to the point that the demand for these new instruments was fuelled by investors' reluctance to buy equities after their earlier bust. The search was on for alternatives that would preserve capital while delivering robust returns. That is not to say that the stock markets did not do well out of the generalised boom in asset markets that began in 2003. But the surge in stock prices was underpinned by an extraordinary surge in corporate profits, which meant that equity valuations remained moderate. Meanwhile, investors satisfied their appetite for more returns by buying increasingly complex structured credit instruments that compensated for falling yields by employing ever more leverage and taking



Mark Cliffe

on more credit risk. The snag was that investors and, worse still, many of the issuers were not aware of just how much leverage and credit risk was involved. While the combination of investor over-optimism, excessive leverage and lax credit has been a recipe for financial market crises in the past, the revelation of the complexity, opacity and the scale of the structured credit markets have made this latest crisis especially shocking and unpredictable. The fact that commentators can question the fate of the USD 45tn credit default swap market, one which barely existed a decade ago, gives some idea of the extent of the uncertainty that confronts us.

Of course, hindsight is always in more plentiful supply than foresight. But recognition of the uncertain fate of the structured credit markets, whose problems now extend well beyond those of the US sub-prime mortgage market, does itself give us some clues as to what is going to happen. To understand this apparently paradoxical assertion, you need only to recognise that the ultimate duty of the central banks is to preserve the functioning of the financial system.

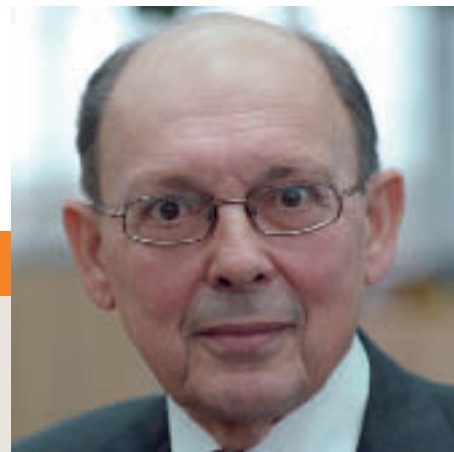
This means that once a financial crisis gets beyond a certain point, swift and aggressive action to ease policy and support the financial markets and key players within them becomes the overriding priority. Indeed, we reached this point in the US in January, when the Federal Reserve delivered 125 basis points in cuts in its

key funds rate. Fears of inflation, part of the Fed's regular mandate, were forced to take a back seat. Moreover, fiscal policy is now also being called upon to provide an additional support to activity via tax cuts or additional government spending.

Policy-makers in Europe have not quite reached the same point, although they surely will if the efforts to support the US economy and ease the credit crunch fail. Yet even as the depth of the current downturn remains in doubt, the travails of the structured credit markets will surely lead to lasting changes. Just as investors were wary of equities in the last cycle, they will be reluctant to be drawn back into the structured credit markets that are now causing them so much grief. Once the worst of the current economic downturn is in view, the simplicity of equities will look appealing.

Meanwhile, with the ratings agencies tarnished, investors will develop other sources of credit analysis. Investors and regulators will also be looking for banks originating credit securities to retain more exposure, so that they have 'more skin in the game'. At the same time, they will demand greater transparency and market liquidity in the structured credit markets. The longer it takes for the financial intermediaries to deliver this, the longer the swing back to 'plain vanilla' securities such as equities will last. ■

Make your vote count on 22 April



The Shareholders' meeting in April 2007 once again saw higher participation. No fewer than 36% of the depositary receipt holders and shareholders (excluding preference shares) voted. This was a gratifying development. As a Board, we hope that many people will vote and that participation will again be greater at the next Shareholders' meeting, on Tuesday 22 April 2008, because the participation of depositary receipt holders and shareholders cannot be high enough for us.

Once again, the Trust Office will only be voting at the next Shareholders' meeting for the 'silent' depositary receipt holders who are not at the meeting and who have not exercised a proxy vote. Our voting is guided by the interests of the depositary receipt holders, while also bearing in mind the interests of ING and other stakeholders.

There has been a development intended to boost greater shareholder participation. In mid-2007, the Corporate Governance Monitoring Committee ('Frijns Committee') published recommendations on the relationship between companies and their shareholders. One of the Committee's recommendations was that legislation should be developed that allows a company to discover the identity of its shareholders. In this, the Committee was returning to a recommendation made by the Committee on Corporate Governance ('Tabaksblat Committee') in 2003. This legislation should promote the participation of as many shareholders as possible in decision-making at the General Meeting of Shareholders.

On 3 January 2008, the Ministry of Finance published a draft bill to implement the recommendations of the Frijns Committee. The draft bill includes a regulation allowing a listed com-

pany to request the names and addresses of its shareholders from securities depositories ahead of shareholders' meetings so that the company can issue personal invitations to its shareholders to attend the meeting or issue a proxy or voting instructions.

"The important thing is that your voice is heard"

Although the regulation, of course, has its limitations (for example, it will not always be possible to get the names and addresses of foreign shareholders because of local legislation), a considerable further increase in the participation of shareholders in decision-making at shareholders' meetings can nevertheless be expected.

I would also like to refer to ING's repurchase of its own A preference shares. This concerned significant blocks repurchased from Aegon (2006), Fortis (July 2007) and ABN Amro (two tranches, in October and December 2007) and then cancelled, except for the second ABN Amro tranche, which is expected to be cancelled on 29 February. It also affects the voting at the Shareholders' meeting as, in the current situation the preference shares carry more votes (one A preference share has five votes), which was a reason for repurchasing them. ING concurs with the principle of equal rights (one share, one vote) for the different types of share. The government has, however, decided against taking legal measures on this subject.

The notice of meeting will be available on the ING Group website (www.ing.com) from 19 March. In addition, I understand that notices will be placed in major Dutch newspapers and the Amsterdam Stock Exchange Official List and also in major newspapers in the European countries where ING is listed.

You will also be able to vote electronically by internet, but only before the meeting. ING is working with the Shareholder's Communication Channel on this. There is further information on www.communicatiekanaal.nl.

Mr. C.J. van den Driest, former chairman of the Executive Board of Koninklijke Vopak N.V., and Mr. H.J. Hazewinkel, chairman of the Board of Management of Koninklijke Volker Wessels Stevin nv have joined the Board of the Trust Office. For more information on these two gentlemen and the four other Board Members, please see our website www.stichtingingaandelen.nl, which also gives information on proxy voting and, for example, the most recent Trust Conditions of the Trust Office, dated 8 October 2007.

Whether you vote in person at the meeting on 22 April, by a voting instruction to the Trust Office or via the Shareholder's Communication Channel, the important thing is that your voice is heard!

Jan Veraart,
Chairman of ING Trust Office

• The next column will be published in May 2008.

If you have any questions or comments in the meantime, please go to our website, www.stichtingingaandelen.nl



Wim Schuhmacher (1894-1986) *Melitta in White*, 1928
Oil on canvas 99 x 76.5 cm ING Collection



TEFAF Maastricht: the very best fine art, to view and to buy.
Photographer: Pieter de Vries, Texel

Dutch art in Italy

On 23 February, a special exhibition organised by ING in Italy opened in the Palazzo Leone da Perego in Legnano, in the Italian city of Milan. *Realismo Olandese* (Dutch Realism) is the first exhibition dedicated to Dutch figurative art ever to be shown in Italy, the undisputed cradle of European art and culture.

The exhibition offers the Italian public an overview of the school of Dutch figurative art. Some 60 paintings, all from ING's corporate art collection, were selected to reflect the development of, and various movements within, this genre.

Creative workspace

Originally introduced simply to provide a stimulating and agreeable working environment for employees, and to support the creative thinking process in the office, over the years the ING Collection

has grown into a leading figurative art collection of museum calibre. ING frequently takes the opportunity to invite business contacts to special events and the Art Management department is able to offer expert advice to any ING clients planning to start or develop their own art collection.

By continuing to develop its collection and to loan pieces for public exhibition, ING fulfils a role as an arts patron, as part of its wider sense of social responsibility. The *Realismo Olandese* exhibition serves the dual purpose of giving the Italian art public the opportunity to enjoy Dutch figurative art, while raising awareness of Dutch artists abroad. The exhibition runs until 20 April 2008.

ING sponsors leading fine art fair TEFAF

TEFAF (The European Fine Art Fair), held in the Dutch city of Maastricht from 7 to 16 March, is one of the most influential art and antique events in the world, and for the third consecutive year is being sponsored by ING.

Quality has become TEFAF's international trademark. As in previous exhibitions, the world's leading art dealers will show a superb range of art works. What makes TEFAF particularly special is that visitors are able not only to view but to buy any piece they see exhibited.

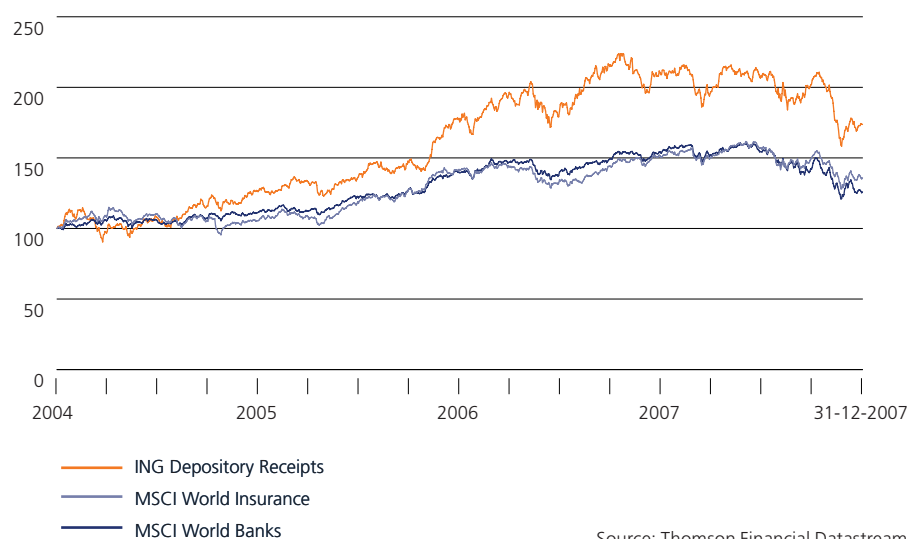
This year's fair also features the TEFAF Showcase: works of art chosen by a specially appointed committee made up of some of the world's most talented younger dealers, who have been given the opportunity to exhibit at this very special event.

ING's own stand in the sponsor's pavilion will this year be dedicated to *Oog*, the new magazine of Amsterdam's world-famous Rijksmuseum.

Curators of the ING Art Management department will also be present at the fair, giving ING guests a guided tour of some of the outstanding works at the exhibition and offering advice to those looking to start or develop their own collections.

Anyone visiting TEFAF is guaranteed an absolutely outstanding cultural experience: the chance to view and buy a wide range of genuine masterpieces, all displayed in one elegant setting.

Total return index



Global financials top 20 (based on market value in EUR billion)

1	HSBC Holdings	134.8
2	Bank of America Corp	123.9
3	Amer Intl Group	100.9
4	JPM Chase	99.4
5	Citigroup Inc	99.0
6	Banco Santander	92.5
7	Unicredito	75.8
8	BNP Paribas	69.8
9	Wells Fargo	69.5
10	Mitsubishi UFJ Financial	66.8
11	Allianz	66.5
12	UBS	65.5
13	Intesa Sanpaolo	64.1
14	BBVA	62.8
15	Royal Bank Scotland	60.3
16	ING	59.2
17	Goldman Sachs	58.4
18	Axa	57.3
19	Wachovia Corp	51.1
20	Deutsche Bank	47.7

Source: MSCI, Bloomberg, 31 December 2007

General Meeting of Shareholders

This year the annual General Meeting of Shareholders will take place on Tuesday, 22 April 2008. It will be held at the Muziekgebouw at Piet Heinkade 1 in Amsterdam. The meeting will begin at 10.30 a.m.

The meeting agenda will be available on 19 March at ING Group's website www.ing.com.

2007 Annual Report and 2007 Annual Review

The 2007 Annual Report and 2007 Annual Review will be available at www.ing.com as of 19 March 2008. Copies in print can be obtained free of charge at ING Group as of 26 March 2008. The Dutch versions will be on www.ing.com as of 2 April 2008 and the publication date in print is 9 April 2008.

The 2007 ING Corporate Responsibility Report will be available on www.ing.com as of 7 April 2008.

Key dates in 2008

Wednesday, 2 April 2008

IR Symposium

Tuesday, 22 April 2008, 10:30 a.m.

General Meeting of Shareholders

Wednesday, 23 April 2008

Record date (NYSE)

Thursday, 24 April 2008

ING share quotation ex final dividend 2007 (NYSE Euronext and NYSE)

Monday, 28 April 2008

Record date (NYSE Euronext)

Monday, 5 May 2008

Payment date final dividend 2007 (NYSE Euronext)

Monday, 12 May 2008

Payment date final dividend 2007 (NYSE)

Wednesday, 14 May 2008

Publication results Q1 2008

Wednesday, 13 August 2008

Publication results Q2 2008

Wednesday, 13 August 2008

Record date (NYSE)

Thursday, 14 August 2008

ING share quotation ex-interim dividend (NYSE Euronext and NYSE)

Monday, 18 August 2008

Record date (NYSE Euronext)

Thursday, 21 August 2008

Payment date interim dividend 2008 (NYSE Euronext)

Thursday, 28 August 2008

Payment date interim dividend 2008 (NYSE)

Wednesday, 12 November 2008

Publication results Q3 2008

(All dates are provisional)



Disclaimer

In preparing the financial information in this publication, the same accounting principles are applied as in the 3Q 2007 interim accounts, which are included in the ING Group Statistical Supplement available on www.ing.com. All figures in this publication are unaudited. Small differences are possible in the tables due to rounding. The financial statements for 2007 are in progress and may be subject to adjustments from subsequent events.

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