Shareholder 04

Behind the figures

Quarterly Magazine ING Group

November 2007

On the move in Central Europe

Q3: Resilient results

Perspectives on the subprime crisis

Dear reader,

The summer of 2007 saw a worldwide tremor across the financial markets as a result of the so-called subprime lending crisis in the US. In one of our lead stories ING's CFO, John Hele and chief risk officer (CRO) Koos Timmermans, assess what exactly those tremors meant and, more importantly, what we can learn from them. We also get independent perspectives on the implications from the worlds of academia, investment banking and the financial authorities.

Though for some financial institutions the fallout from the subprime was a genuine crisis, ING has arguably emerged from the past few months with its risk management reputation enhanced. We report on our recent Investor Relations conference, where some analysts went so far as to suggest that ING has raised the bar for other financial institutions when it comes to reporting and exposure. ING's CRO Koos Timmermans outlines ING's approach to risk management.

Risk on a more human scale is one of the cornerstones of ING's continuing growth and in our cover story we interview the top man at ING Insurance Central Europe, Tom Kliphuis, on selling life insurance and pensions in economies for which the concept of personal insurance remains still relatively new.

Growth is another key theme of this issue. We look at self-banking in Romania as part of the broader question of how ING has developed a successful entry strategy for greenfields. In China, the extremely successful initial public offering of Bank of Beijing is helping to consolidate a very promising position for ING in the crucial Chinese market with its enormous growth potential.

ING's profile in China has certainly not been harmed by its sponsorship of the '*Rembrandt and the Golden Age*' exhibition, currently being viewed by thousands of local art fans every day in Shanghai.

Growth, wealth management and a weather eye for risk. These were at the heart of the ING strategy long before events in the US mortgage market had the world's media questioning the solidity of major financial institutions. Hopefully after reading this issue, you will agree that it is continuing to prove a wise - and profitable - lynchpin of ING Group's strategy going forward.

The editorial team

This magazine is a quarterly publication by ING Group for shareholders and others interested in ING.

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Business & Markets

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Entrepreneurship and growth are the key words behind ING Insurance's success in Central Europe. From establishing a small life insurance company in Hungary in 1991, ING has grown to be the leading foreign insurer in the region.

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11 Bank of Beijing rich in potential

ING's stake in China's Bank of Beijing has already paid off handsomely with the recent spectacular float of the bank. And the future looks very bright with the bank set to prosper along with China's economic growth prospects.

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The subprime-induced meltdown in credit markets in August flushed out many issues about risk management in banks and financial services organisations. We talk to the experts from ING, academia, government and the stock broking world about the lessons to be learned.

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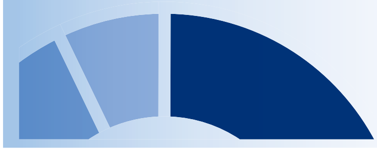


Tom Kliphuis against the background of ING Hungary's modern head office in Budapest, designed by architect Erick van Egeraat. The office is near the famous Heroes' square

Accelerating Central Europe

Unknown is unloved. Something that hardly applies to ING in Central Europe because it was one of the first financial companies to seize the opportunity to enter the region following the political revolution. And with success, according to Tom Kliphuis, CEO Insurance Central Europe.

Central Europe as a financial market was still fairly unknown in the late 1980s. Back then, there were more questions about the region than answers. Questions about its economic development, its political stability and its prosperity. But far from scaring ING off, the company showed the entrepreneurial spirit to launch a life insurance company in Hungary in 1991. More than 15 years later, ING is active in nine Central European countries, has gained substantial market share and is generally well-positioned in what has become one of the world's largest growth markets.

First come….

Entrepreneurship and growth are the key words behind ING Insurance Europe's success. "We were the first mover in many markets," explains Kliphuis, "and that's proven very important. Being an early mover yields advantages. In Hungary, we could start a company with only a relatively small investment. Furthermore, the Hungarian government asked for our help when they came to develop insurance legislation. What more could you want? We were able to recruit and train insurance brokers from the cream of the Hungarian employment market. Well-educated people who could earn more money as an insurance broker than in their original professions. And that's how it all started to grow. We quickly reached a 35% market share. Over the past few years, competition has naturally become stiffer, but at 29% market share we remain far and away the market leader. In Romania, where we were also the first, our market share is actually 38%. In other countries where we weren't the first, but the second, third or fourth mover, our market share is much smaller." After Hungary ING established life insurance companies in Poland, the Czech Republic, Slovakia and then Romania. In addition to which, ING has pension funds in Poland, Hungary, the Czech Republic, Slovakia, Bulgaria and Russia.

…first served

What does Kliphuis think makes the region so interesting? "The economic growth is above that of the average of the European Union. The income of people is rising, as a result of which the demand for financial services is increasing. The percentage currently insured is also low, and not everybody has insurance; so there are still many opportunities to tap into. You also see a growing need for pension products: people live longer and want to be assured of sufficient income after they retire. As a life insurance company and pension provider, ING can benefit from the fact that most Central European countries are proactive when it comes to compulsory pension savings. In Poland, for instance, every employee is insured via compulsory pension funds, and in Romania, pension reforms are currently underway."

Distribution channel key

Building up a greenfield takes time and effort. "The most important thing is to have somebody on site who can quickly build up an efficient sales organisation, in the way that György Bordás did. Bordás has managed the company from the start in 1991 and now it's ranked the number one life insurance company in Hungary. It's not necessary to have the most advanced product or the best prices right away. That comes later. But it's essential to build up a distribution channel. It is a long-term commitment. You have to attract and train the right people, and sell a lot of insurance policies before you have developed a substantial portfolio."

Central European countries have transformed quickly from managed economies into market economies and though the financial infrastructure, legislation and supervision were still in their infancy compared to western standards, you see these issues quickly improving.

Distribution through tied agents…

The strength of ING in Central Europe is its network of tied agents. About 13,000 insurance advisors work for ING in this region and the company pays much attention to recruiting and training them. First they get a basic training, followed by permanent schooling. "Non-life insurance or travel insurance can easily be sold through direct distribution channels, but that's different for life insurance products. You need somebody who will ask: 'have you thought about your pension yet?', or 'what are the consequences for your surviving relatives should you die unexpectedly?' Trust is the key. Clients buy trust and want to pay for professional advice. Advisors first sell themselves. By this I mean they sell their knowledge and professionalism, through which they gain trust. Next, they sell the ING brand. Fortunately, ING's brand awareness in Central Europe is increasing, also thanks to the Formula 1 sponsorship. The product itself comes third and it should meet customers' demands."

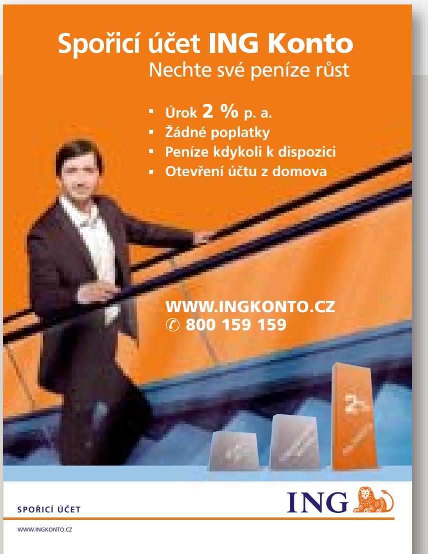
…but also through other distribution channels

85% of sales are realised through tied agents. But that is changing. "If you have the ambition to grow fast, you shouldn't restrict the distribution of your products. You should have several irons in the fire. We stimulate our local companies to develop new distribution channels. In the Czech Republic, for instance, more than 40% of our distribution takes place through independent brokers. Five years ago that was just 5%. In Hungary and Romania, increasingly we cooperate with brokers. We also make use of banks. In Hungary, we're working hard to sell mortgages and mortgage-related life insurance products through banks such as GE Money Bank, CIB and the HypoVereinsbank. In the Czech Republic, we work together with Raiffeisen, in Poland with ING Bank Slaski, and in Greece and Bulgaria with Piraeus. We also pay close attention to direct distribution. Look for instance at what ING Czech Republic is doing with ING Konto (see box) and at our Polish pension fund, which is the single largest pension fund in Poland with over 2.5 million customers, some 10% of new customers enter through the internet.

ING is looking for new opportunities to broaden its market, by setting up greenfields, acquiring companies and entering into joint ventures. This is not easy in a market where the competition is driven by the same ideas. ING Insurance Europe can also draw upon the expertise of ING Retail Banking, which is now launching in the Ukraine. The recent acquisition of the Turkish Oyak Bank will also provide opportunities.

Subtly different new products

In addition to distribution, the product range is being widened – a key condition for further growth. Product innovation is a first priority in this respect. Take variable annuities. These are already a success in the US and Japan, but are new to the European market. In April 2007, ING launched variable annuities in Spain, followed by Hungary in July and before the end of 2007, they will also be launched in other countries in the region. Customers benefit from rising stock prices while their invested capital remains fully guaranteed. The product is fully transparent as regards cost and guarantees. Launch operations in Hungary were thorough and as a result more than 2,600 variable annuities were



Saving at an insurer

Adopting a successful banking formula as a customer acquisition tool for future cross-selling of life and pensions: that's what ING Czech Republic is doing with ING Konto. ING was the first in the market to launch a savings account sold via the internet and telephone. There were, of course, local customer insights and legal conditions that were taken into account when adopting the concept. But the main features and selling points remained the same: an account with high interest rates, no fees, no complicated terms and no limits that is easy to open from home. Since the beginning of May, 75,000 customers have found their way to ING. Total funds entrusted amount to EUR 580 million and the average opening balance is EUR 7,700. The offering appeals to well-educated, affluent consumers who search the internet and other media to find a good return on their savings. A promising target group to offer life, pensions and mutual funds to at a later stage.

Tom Kliphuis with senior managers in the Budapest office. Seated behind Kliphuis is György Bordás, general manager ING Insurance Hungary

ING Romania goes for one million pension customers

Since September, at least 13 financial services companies have been vying for the favour of four million Romanian workers who will have to choose a pension provider. One of them is ING Romania, which has recruited and trained around 40,000 part-time distributors to attract clients to sign up for the ING pension fund. The goal is ambitious: one million customers! The launch of the pension fund has been successful. In the first two weeks, more than 360,000 new customers have joined the ranks. Romania has implemented a pension reform in which the introduction of mandatory private pension accounts is the most important element. With this governmental reform, Romania is following the example of other Central European countries, including Poland, Hungary, Slovakia and Bulgaria. Formerly, 9% of the salary of Romanian workers used to be deducted for the state pension. After the reform, 7% will go to the state pension and 2% - which should grow to 6% within a few year's time – to a private mandatory account that every worker up to the age of 35 will have to open. Workers aged 36-45 can choose to either remain in the old system or move to the new and workers above age 45 stay in the old system. As the private pension accounts are highly regulated by the government, the pension providers cannot differentiate in their products. So, they have to profile themselves to the customers through their corporate image.

sold in just three months. Premium income already amounts to EUR 28.4 million. Tied agents could attend training courses and there was an extensive advertising campaign. Other examples include products that cover the need for convenience. Romania has launched a simple life insurance product with limited options. "We want to be a trendsetter and offer customer-oriented, innovative products that really provide added value. We want to make sure that customers know what they're buying, and that they are served by a professional distribution force of agents, brokers and bank employees."

Efficiency

Another key issue is enhancing efficiency. Synergy between the various countries is rather low. "We just launched our companies and products and then adjusted to local circumstances. But our businesses have gradually grown apart, as a result of which we cannot share that much. The terminals, systems and processes differ in each country. This means you have to use different ways for product launches. In other words, ING may be big in Europe, but we lack scale. We're going to address this and we're working on standardisation that should lead to cost reductions, and we're going to shorten the time to market."

The ambition is clear: strong growth by making more effective use of advisors, by developing other channels and through product innovation. After all, "Insurance Central Europe is a growth engine and that is what we want to be in the future as well." ■

ING Insurance Central Europe

- Life insurance and pension funds in nine countries: Poland, Hungary, Czech Republic, Slovakia, Romania, Bulgaria, Russia, Greece and Spain (included in ING Insurance Central Europe operations.)
- More than 3,700 employees
- Network of nearly 13,000 professional advisors
- Distribution contracts with banks and brokers; direct distribution
- More than six million customers
- Total funds entrusted: over EUR 20 billion
- Value new business in 2006: EUR 124 million (14% of ING's total)

ING Country

An example of ING Romania's recent advertising campaign. The main theme is 'ING Country' – the country where 75 million people live, 75 equals the total number of ING customers worldwide. The text of the ad reads: Per capita, ING Country has the least worries. Choose an ING pension and join the other 75 million people that already live in ING Country.

ING Investment Management targets the Middle East

ING Investment Management Asia/Pacific (ING IM) has established operations in Dubai to harness the growing wealth management opportunities in this rapidly-developing region. The office, based in the Dubai International Financial Centre (DIFC), will focus initially on institutional, high net worth and retail clients in the Gulf Cooperating Council (GCC) countries.

The GCC countries include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. On a combined basis, the GCC economy ranks as one of the larger economies in the world and is growing at close to 6% per annum. With a population of approximately 34 million people and some of the highest per capita incomes in the world, the GCC economy has a sizable and fast-growing wealth pool in excess of EUR1 trillion.

Chris Ryan, CEO of ING IM Asia/Pacific said the Middle East was growing in importance globally both as a source of funds as well as an investment destination. “We believe it is critical to establish an on-the-ground presence to service our clients more closely and to improve our coverage of these markets.”
ING is active in Dubai also through its wholesale banking and private banking businesses.

The modern skyline of Dubai

Go east!

ING Retail Banking is expanding its highly successful Self’Bank model to the Ukraine, one of the largest and fastest-growing economies in the region, with a population of 47 million and an estimated GDP in 2006 of EUR 58.4 billion. This model was first launched in the region in Romania in 2004 (see page 10). The aim is to have 20 branches operational in the country’s capital Kiev by mid-2008.

According to Jef van In, head of the local ING Retail Banking team, the potential for a retail bank in Ukraine is enormous. “Retail banking is growing fast here. The ten largest players have just 50% market share, so there is not a lot of consolidation. We see opportunities for growth for ING in the remaining market share as the banking market is still relatively ‘open’. What’s more, the regulators welcome a bank that profiles itself as reliable and transparent. Self’Bank is also new here. But there’s certainly plenty to be done between now and next year. Besides introducing the concept, we also have to select and train franchise holders, select the suppliers – preferably local ones – to set up the offices, and open the outlets.”

Jef van In (fifth from left) and his team.
In the background, the skyline of Kiev

Good teamwork between ING and Cruijff

The Johan Cruyff Academy and ING Business School have signed a partnership agreement under which the two educational institutions will exchange teachers, students, speakers and coaches, and jointly develop learning programmes and seminars.

The Johan Cruyff Academy educates athletes worldwide. It was founded by legendary Dutch soccer star, Johan Cruijff, who enjoyed an impressive career as both player and coach with some of the world's finest teams. The Cruyff Academy runs a master's programme that includes elements such as change management, corporate culture, diversity and finance.

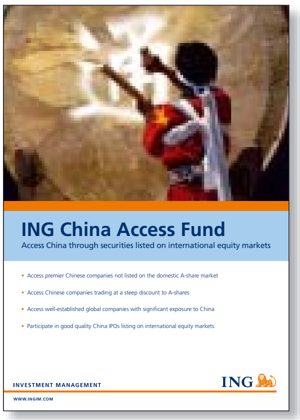
"Both organisations are professional educational institutions dedicated to investing in human capital, and to training their students and participants to perform at the highest levels," says Ruud Polet, director of the ING Business School, who sees obvious parallels between what the two organisations are trying to achieve, such as creating a winning performance culture and developing coaching leadership.

"With our expertise," Polet points out, "we can provide financial advice and knowledge to the Cruyff Academy programme and to its individual students. And don't forget that the world of sports has developed into a business environment, where soccer clubs are listed on stock exchanges with turnovers to match those of respectable medium-sized companies. Such money also needs to be well-managed."

Johan Cruijff and ING plan to develop learning programmes and seminars jointly

ING China fund shoots high

ING Investment Management (IM) Asia/Pacific recently launched the ING China Access Fund to enable investors to tap into the vast potential of the rapidly-growing Chinese economy by investing in almost 40 Chinese companies listed on international exchanges.
The fund has been very successful, raising more than EUR 68.9 million (USD 100 million) in three weeks from institutions, high net worth individuals and retail investors in Asia and the Middle East.
The China Access Fund will focus on industry leaders as well as small to medium cap companies not listed on the domestic Chinese A-share market. There are almost 400 Chinese companies listed on overseas markets, mainly in Hong Kong, with attractive valuations, higher listing standards and more transparency.



Overseas-listed China related stocks offer investors many benefits as they trade at a steep discount to A-shares, are well-established global companies which have significant exposure to China and give investors access to good quality China IPOs on international equity markets.

ING on the move in Malaysia

ING has entered a 10-year distribution agreement with Public Bank Berhad (Public Bank), Malaysia's third largest banking group. The alliance will see Public Bank exclusively distributing ING's insurance products via the bank's multiple distribution channels, including its nearly 300 national and regional branches, insurance advisors, telemarketers and to its small & medium-sized industry and corporate clients.
The alliance could enable ING and Public Bank to become one of the top-three players in Malaysia's bancassurance sector in the next three years. ING is currently the fourth largest insurer in Malaysia.
Hans van der Noordaa, executive board member ING Group and chairman of Insurance Asia/Pacific, said: "The formalisation of a long-term alliance with Public Bank in Malaysia marks a significant milestone for ING. Partnering with a premier banking group such as Public Bank offers ING a strong and dynamic platform for growth opportunities initially in Malaysia and Hong Kong, and later elsewhere in the region. In addition, this alliance will also play an integral role in enhancing our multi-channel distribution capability where we are able to distribute our products via more platforms to different market segments."
ING products that will be exclusively offered to all Public Bank customers via this alliance include investment linked plans, employee benefits and traditional life products.

Self'banking in Romania

With more than 8,000 new customers each week, ING Romania's retail concept of self-service banking has proved to be very successful, and the future is looking bright.

Self'Banks address the growing need for time-saving and convenient benefits

Back in 2004, ING launched the Self'Bank concept in Romania. "And it's clearly working," argues Anca Motca, head of Sales Management Retail at ING Bank Romania. "We're transparent, our model for growing our customer base is highly efficient, and our service is fast and accurate. Customers appreciate that. With our current inflow, we hope to reach the milestone of half a million customers by the end of this year." The model, which has its roots in the Self'Bank of ING Belgium, is based on low-cost and teller-less offices, independent franchisees and simple products that have been adapted to meet local market demands. The branches are located in residential or business districts and have an open, friendly atmosphere. The relatively small space is divided into two areas: the Self'Bank itself, where customers can manage their finances, and a section run by an ING Office Manager, the franchise holder, whose role it is to grow the customer base and offer post-sales advice. The Self'Banks are open from 7 a.m. to 11 p.m., seven days a week, and ING Romania is currently investigating the need to extend opening hours yet further.

"We offer a full product range," says Motca. "Current accounts, mortgages, personal loans, debit cards, payment accounts and home banking services, as well as current accounts and payment solutions for SMEs."

High interest

With a strong presence not just in major cities such as Bucharest, Timisoara and Constanta, but also smaller towns nationwide, ING aims to increase the number of outlets from 140 to 160 by the end of this year and 220 by 2008/2009.

Because ING has had a longer presence on the Romanian market in corporate banking and insurance, even with its current number of customers (406,000 at Sept. 30) and wide outlet network, the bank is still perceived by many as somewhat exclusive.

"Which is why", explains Motca, "at Retail Banking we put our energy into demonstrating that we're accessible, affordable and desirable. We strive to offer excellent quality and service, and even pay the highest interest rate (5.9%) on private current accounts and an attractive interest rate on current accounts for SMEs: 5.4%."

ING brand awareness is still low in Romania. To change that, a huge advertising campaign will run over the next two to three years, using TV – the media tool with the highest impact locally – billboards and the internet.

Surprise your customer

"We use the internet to provide online services to existing and potential customers," Motca explains. "Consumers see us as an innovative bank and expect us to continue to surprise them with new initiatives. Rather than competing with other banks on branch network size, we want to offer our customers easy means to access our services. Online banking has great potential in this country. Internet penetration is 60% in urban areas, while internet banking is only used by some 2-3%. We also think the internet will be useful in targeting new market segments, students for example who are a growing segment with a potential 500,000 customers. They rank alongside our biggest customer group of 25-40 year-olds. But anyone with a regular, minimum income is welcome. We especially look for customers who appreciate the time-saving and convenience benefits of the Self'Bank concept."

Copycats?

Up till now, there has been little competition in Romania in the area of self-service banking and few initiatives to copy ING's distribution model. The main banks in Romania have not yet entered the self-banking arena. "But that doesn't mean we sit back and relax," says Albert Roggemans, CEO ING Retail Banking Romania. "We're the number seven retail bank in the country and aim to become a top-five player within the next two years. Constantly monitoring customer behaviour and needs, while improving our product offering, has led to our present success. It's a success of which we're proud and we're only too happy to share our expertise and model with colleagues."

The Self'Bank is but one element of ING's broader entry strategy for retail banking in developing countries, alongside traditional branches and direct banking. "Other ING units are now tapping into our experiences," says Roggemans. "For example ING Retail Banking, will launch the Self'Bank model in Ukraine next year (see page 8). And that's great. That's synergy." ■

Bank of Beijing's top management celebrate the successful IPO

Bank of Beijing's Big Bang

In September this year, Bank of Beijing made its spectacular debut on the Shanghai stock exchange. Its share price rose by 81%, reflecting the high expectations of investors. What does this exceptional start mean for the future?

Two years ago ING took a stake in Bank of Beijing (BoB). Based on the price at the time of writing, the value of that stake is now some EUR 2.2 billion. Jacques Kemp, head of ING Insurance Asia/Pacific, who initiated the shareholding, confirms that Chinese stock market trading does tend to get overheated. "But share prices in developing countries are always volatile." Kemp is not afraid of the consequences of a possible market correction. "The Chinese economy has a strong basis, with more to offer than just exporting cheaply-produced goods. Look at the flourishing interregional trade, for example."

China is one of the fastest growing economies in the world. Since 1997, GDP growth has averaged 9% (source: Economist Intelligence Unit) and domestic consumption is rising as a result of increasing prosperity. It is anticipated that by 2025, the Chinese urban middle class will make up the biggest consumer market in the world (source: McKinsey Quarterly, 2006). With these increasing prosperity levels, the demand for financial products is also growing. Retail banking is still in its infancy in China and with ING's assistance, BoB is much better equipped to face these challenges.

Co-operation

Head of ING Retail Asia, Philippe Damas, controls the BoB shareholding. "The recent stock exchange success shows that Bank of Beijing has performed well in the past few years. But the bank could benefit from ING's expertise in many areas, such as retail banking, financial management, IT, compliance, risk management and corporate governance."

This was also very much the thinking of the Chinese government when it first allowed foreign participation, albeit to a limited extent, to stimulate the country's banking industry. With its stake in BoB, ING has acquired access to a huge potential customer base, one that could enhance ING's position in one of the world's most promising financial services markets. For now, BoB sells ING insurance products through its bank network, and the partnership is working well.

Future

So where will BoB be in, say, ten years' time? Although the largest of China's 113 city commercial banks, Damas explains: "Bank of Beijing is still a relatively small player nationally with many offices in Beijing, plus just one each in Tianjin and, since October, Shanghai. The bank's objective is to become a nationwide player through regional expansion with offices in the major Chinese cities and the international financial centres, as it will also need to be able to compete on an international level."

"I think Bank of Beijing will play a role in several sub-areas," says Bruno Houdmont, one of the ING executives at BoB. "Retail, corporate, investment banking, wealth management and securities. But we are dependent on the Chinese government. Unlike ING Direct, for example, we can't access the market with highly competitive interest rates, because the Chinese government stipulates the rate of interest on savings and loans."

The Chinese central bank's policy is to have local banks play an instrumental role in opening new branches and launching new products.

"It will take a few more years before competition is possible across all areas," believes Damas. "Apart from strong organic growth, increasing our stake in Bank of Beijing is one way to strengthen our position." His hope is that ING will acquire stakes in other Chinese banks. After all, the Bank of Beijing IPO shows how profitable that policy can be.

Capital market advice

As the Chinese government liberalises it, the capital market is expected to grow and develop quickly. Damas says: "China is attracting funds from the west and the east. With the capital surplus resulting from its exporting activities, China will, I'm sure, start to buy stakes in companies. Not necessarily for strategic reasons, but simply to create diversification in its own investment portfolio. This offers opportunities for ING's investment business to advise on investment opportunities. Some say that China's image is about to change from 'Made in China' to 'Owned by China'!" ■

Bank of Beijing

124 offices in Beijing, Tianjin and Shanghai
Regular staff: 3,616 (year-end 2006)
Total assets: EUR 27.29 billion (year-end 2006)

Risk management adds value at ING

The recent turbulence in the credit markets, beginning with concerns over US subprime mortgages and widening into a banking liquidity crisis, has put a spotlight on risk management.

What was once a pretty arcane subject, best left to the experts, has dominated the headlines as investors wanted to know what risks financial institutions are taking with their money and what mechanisms are in place to manage those risks.

ING is comfortable with its exposure to those asset classes under pressure, in part because the Group has systematically invested to improve its risk management capabilities over the past years. At its 14th Investor Relations Symposium in London on 20 September, ING detailed at length its risk management strategy.

Michel Tilmant, CEO of ING Group, stressed the importance of risk management at the conference. "Risk management is definitely a differentiator for our kind of company," he told the audience of around 80 analysts and institutional investors. "We've invested a lot in people and skills in recent years, and it's paid off."

For ING's strategy to succeed, and for ING to excel in many products across many markets, requires proactive and strong risk management. Koos Timmermans, chief risk officer of ING, says risk management supports the Group by identifying growth opportunities and by providing lower costs of risk and funding and more efficient capitalisation. Risk management also supports decision making by providing insight into the trade offs between risk, return and growth opportunities.

Risk Dashboard

Timmermans presented ING's new 'risk dashboard', a tool that gives the Executive Board an overview of risk in all Bank and Insurance businesses to monitor the adherence of risk taking to the risk appetite. The tool is unique to ING and will, when audited, be reported annually as of next year.

"Risk management is not only about looking at the types of risk and stopping proposals if we have excesses. It is also about helping the businesses identify where we could take more risk," Timmermans said. "We are not only a police agent, we also help the company with value creation."

Risk has always been integral to ING, as every business decision must include an analysis of the possible risks involved. Risk is not a bad thing in itself, as riskier projects can also be more profitable ones. The trick is to find the right balance and identify the risk profile one is most comfortable with. "We try to be transparent about the risks that we take," he said. "We're in control and we have embedded risk managers at all levels of the organisation. This ultimately helps create shareholder value."

Building a competitive advantage

Advanced risk management capabilities have become necessary as investor demands have increased, regulation has become more sophisticated, technology has grown more complex and secondary markets continue to evolve.

ING therefore decided to make a strong commitment to risk management when it appointed Koos Timmermans to the Executive Board as CRO earlier this year to ensure risk is a key component of management decisions. After years of targeted investments in people and technology ING now has around 4,500 employees dedicated to risk management.

The mission of the risk management organisation is to build a sustainable competitive advantage by fully integrating risk management in ING's daily business activities and strategic planning. This is achieved through a transparent disclosure of ING's risks and a risk strategy that is consistent with the overall Group strategy and the 'risk appetite'.

The 'risk appetite', or the willingness of the Group to take risks, is defined by the Executive Board and measured across three dimensions: earnings at risk and capital at risk, which are measured in the new 'risk dashboard', and Economic Capital. Business line managers try to maximise value within these bounds, while Risk Management monitors the actual risk profile against the 'risk appetite'.

ING has a risk governance framework in place to ensure the 'risk appetite' is cascaded through the Group. The framework contains three lines of defence: the business lines, who have the primary responsibility for day to day management; Risk management, which provides high level policies, limits and risk oversight; and, Internal Audit, which gives assurance of the overall effectiveness of internal controls and conducts financial, operational, compliance and risk management.

Koos Timmermans:
"The Executive Board defines the risk appetite"

The 'risk dashboard' enables the Executive Board to identify risk concentrations and potential risk mitigating actions. It thereby allows the Executive Board to take strategic decisions using comparable risk measures and to maximise efficient capital allocation.

Risk is part of business

Like other financial services companies, ING faces a number of risks in the areas of credit risk, interest rate, real estate, equity, insurance risk and liquidity. Beyond that, there are also operational, information and security risks attached to doing business. Timmermans said that taking measured risks is part of ING's business and that he is comfortable with the current risk exposure.

Credit risk is the risk of loss from default by debtors (including bond issuers) or counterparties. ING seeks to maintain an internationally diversified loan and bond portfolio. Peter Staal, general manager of Corporate Credit Risk Management, said ING has a conservative and well-diversified credit book. Diversification of the credit book also continues to help ING release and redeploy capital.

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

ING's insurance and banking operations face real estate risks during market downturns. But this exposure is limited due to a highly diversified portfolio of real estate assets. Concentrations in specific geographies and riskier types of assets have been reduced.

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

Equity risk is mitigated through a controlled exposure to the equity markets since the equity crash of 2002-03. Overall, ING's equity exposure remains low as a percentage of assets, despite rising markets over recent years. Stock market gains have ▸

What the analysts say

"The presentation on risk and capital management confirmed that ING takes risk as seriously as one might hope and, in the current market turmoil, that is a comfort. ING is one of two European insurers whose Enterprise Risk Management is rated 'Excellent' by S&P and it is not hard to see why."
– **Chris Hitchings**, Analyst
Keefe, Bruyette & Woods Ltd. (London)

"ING presented a very convincing argument that its focus on improving risk management has reduced risk and is helping to write business with an improved risk/return ratio."
– **Nick Holmes**, Analyst
Lehman Brothers (London)

"ING showed its risk profile is well diversified in terms of both earnings and capital. The company has limited exposure to the pressurised asset classes. ING is reducing its risk by diversifying across different types of risks."
– **Jan-Kees Mons**, Analyst
Cheuvreux (Amsterdam)

Michel Timant: "Risk management is definitely a differentiator for our kind of company"

however resulted in large revaluation reserves for the Group.

Insurance risk is managed by removing concentrations through reinsurance. The Insurance businesses also exclude or limit business in some areas such as terrorism and health reimbursement.

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

ING has developed a liquidity management framework with a preferred order of generating liquidity. ING can manage the ongoing liquidity crisis comfortably as it has large buffers of liquidity, contingency plans and monitors market conditions closely. "ING is coming through the crisis relatively unscathed," Timmermans said during the presentation.

Finally, ING has also developed a sophisticated framework for assessing operational, information and security risk. These risks, along with compliance, are measured by a scorecard method and cover all ING entities.

Higher shareholder value

Risk management benefits ING shareholders directly by providing more efficient capitalisation, lower costs of risk and funding, and support for growth. Together this results in the ability to generate more profit and economic profit. This is achieved by focusing on four value drivers: growth, funding costs, risk costs and capital costs.

Growth is supported through a 'toolkit' that Risk Management provides to encourage profitable growth. Risk measurement allows ING to identify portfolios generating economic value. Strong cash generation provides capital to support growth, while scale and diversification allow the Group to absorb earnings volatility. Risk Management can help identify the most economically profitable areas as well those businesses that are underperforming and in some cases need to be sold.

Funding costs are kept low by ensuring that the debt market gives ING benefit for our conservative risk profile. Rating agencies and the debt market recognise that ING is amongst the safest AA- financial institutions, even in difficult conditions. This is supported by the fact that ING is only one of two European insurers rated as having 'excellent' enterprise risk management by S&P. As comfort and understanding are gained, ING expects to benefit further in terms of the capital position and funding costs.

Risk costs are mitigated by minimising losses and encouraging the diversification of risk. There are a number of diversification types that ING benefits from, including policy holders and counterparties, geographical diversity, products, netting and risk types. Being spread out across all these different areas contributes to lower risk and capital requirements.

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

The cost of capital is reduced by working closely with rating agencies and regulators to align capital requirements to risks, thereby reducing capital. ING takes a conservative approach to how it measures diversification.

"The market perceives us as a safe haven. We are seen as a safe play," Timmermans said. "We try to help on the funding side and this keeps costs low."

Without doubt, diversification exists in the portfolios but caution is exercised in estimating the impact. Most risks are partially correlated and this makes it difficult to quantify them precisely. Therefore a level of conservatism is used in calculating correlation assumptions. ING is increasingly gaining recognition from regulators and rating agencies for this diversification.

ING estimates that risk is reduced by a total of 10% to 17% due to risk diversification across the Group. The main drivers are netting, product types, risk types and geography. The current capital position suggests that there is room for optimisation, particularly in banking due to a larger amount of available financial resources, through core equity and hybrids, than economic capital.

The available capital on both the bank and insurance sides is higher than what is required by regulators. The regulatory capital required on the banking side is also expected to fall when Basel II comes into effect on 1 January, 2008. Risk Management provides a key value-added role by providing a 'tool kit' for capital optimisation.

ING is therefore holding conversations with rating agencies and regulators to see if it can gain further capital relief. As ING continues to align its capital base more closely to the risks that it is taking, this will free up additional resources for growth.

A partner to the business

Risk Management has evolved tremendously since ING decided last year to strengthen the risk function. The change emphasises the role of risk management not as watchdog but as an enabler and partner in generating value for shareholders.

"What is important for us is that Risk Management supports strategic decision making. Support means not just being a Doctor No that cancels or supports deals," Timmermans said. "We should also play a role at the level of creating products, selling products and on the strategical level." ■

Resilient results in a challenging environment

On Wednesday 7 November, ING announced its third quarter 2007 results. Underlying net profit increased 19.2% to EUR 1,946 million compared to the third quarter of 2006. This result was boosted by a EUR 455 million net gain on the sale of remainder of ING's stake in ABN AMRO. Excluding that gain, underlying net profit fell slightly by 8.6% to 1,491 million.
Michel Tilmant, chairman of ING Group said: "ING's earnings and income proved resilient in the third quarter despite turmoil in financial markets. ING incurred no material impairments or revaluations on subprime residential mortgage-backed securities and took a small markdown of EUR 29 million on leveraged finance transactions. Profit was supported by high investment income, including a gain on the sale of part of ING's stake in ABN Amro, however revaluations on private equity and real estate investments diminished after several years of outstanding returns.

Key figures ING Group

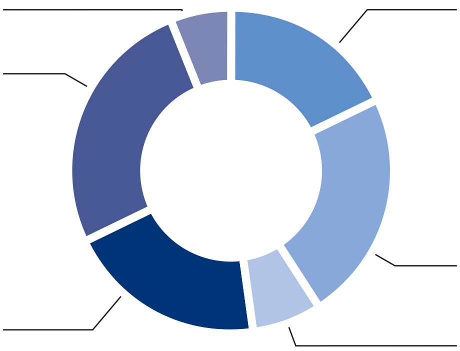
In EUR million	Quarterly results		
	Q3 2007	Q3 2006	change
Underlying profit before tax[1]			
– Insurance Europe	362	511	-29.2%
– Insurance Americas	480	512	-6.3%
– Insurance Asia/Pacific	151	168	-10.1%
– Corporate line Insurance	291	-195	
Underlying profit before tax from Insurance	**1,285**	**996**	**29.0%**
– Wholesale Banking	404	527	-23.3%
– Retail Banking	526	469	12.2%
– ING Direct	120	177	-32.2%
– Corporate line Banking	53	-43	
Underlying profit before tax from Banking	**1,103**	**1,130**	**-2.4%**
Underlying profit before tax	**2,388**	**2,126**	**12.3%**
Taxation	371	418	-11.2%
Profit before minority interests	2,017	1,708	18.1%
Minority interests	72	76	-5.3%
Underlying net profit	**1,946**	**1,632**	**19.2%**
Net gains/losses on divestments	444	-83	
Net profit from divested units		22	
Special items after tax	-83		
Net profit (attributable to shareholders)	**2,306**	**1,571**	**46.8%**
Earnings per share (in EUR)	**1.08**	**0.73**	**47.9%**
Net return on equity[2]	23.8%	23.1%	
Assets under management (end of period)	637,900	569,300	12.0%
Total staff (FTEs end of period)	123,026	120,415	2.2%

1. Underlying profit before tax and underlying net profit are non-GAAP measures for profit excluding divestments and special items.
2. Year to date.
Note: Small differences are possible in the tables due to rounding.

Strong balance sheet

"While the third quarter was marked by turmoil in financial markets as concerns about US subprime lending triggered a liquidity crisis and a repricing of risk, risk management protected us against the direct impact of this turmoil, demonstrating ING's resilience in a challenging environment. Our strong balance sheet and large customer deposit base enabled ING to manage the liquidity crisis with only a negligible increase in funding costs. We incurred no material impairments or revaluations on our subprime residential mortgage-backed securities or leveraged finance transactions. Debt revaluations were essentially flat as lower interest rates offset credit-spread widening in the third quarter.
"The commercial performance of the business remained robust. ING achieved strong sales of life insurance in Central Europe and Asia as well as variable annuities in the US. That drove a 47.5% increase in the value of new business to EUR 298 million. The banking businesses continued to show solid volume growth in mortgages, term deposits and current accounts. That was partially offset by outflows from high-balance customers at ING Direct UK, where management actions are being taken to stop the outflow.
"The market turbulence has made the business environment more challenging. Strategic trading results in Wholesale Banking were impacted by the market turmoil and deal flow slowed in leveraged finance. Revaluations on real estate and private equity investments were less favourable than in recent quarters. Equity market volatility has increased. The yield curve has remained flat, and competition for deposits is intensifying for Retail Banking and ING Direct."
Looking forward, Tilmant said: "The fundamentals underpinning our businesses remain strong and will support growth over the long term.
We continue to invest to support ING's wealth management strategy, including the acquisitions of Oyak Bank in Turkey and the Latin American

Profit contribution of business lines Q3*



* excluding corporate line

pension business of Santander. Our stake in the Bank of Beijing increased its market value more than ten-fold to EUR 2.1 billion, following that bank's IPO in the third quarter (see story on page 11). We also continue to invest in existing businesses to optimise our competitive position. The integration of Postbank and ING Bank in the Netherlands is on track. Investments are also planned to optimise the retail distribution model in Belgium to boost profit. At Wholesale Banking we are introducing new initiatives to improve efficiency and stimulate growth.

Acquisitions 2007
- Landmark Investment Management, South Korea
- Banco Santander's pension business Latin America
- Oyak Bank, Turkey
- NetBank and ShareBuilder (ING Direct USA)

Organic growth investments 2007
- Retail banking Romania and Ukraine
- Life insurance Russia
- Pension business Romania
- Variable annuity products Spain, Hungary
- Bank distribution agreement Piraeus, Greece
- Bank distribution agreement Public Bank, Malaysia
- ING Direct Japan

Earnings analysis Third quarter
The slight 8.6% decline in third quarter underlying profit, excluding the ABN AMRO gains, reflects a decline in life insurance as returns on real estate and private equity investments normalise, as well as lower non-life results as underwriting conditions in Canada and Mexico became more challenging. Banking results were flat as growth in Retail Banking offset declines in Wholesale Banking and ING Direct. Risk costs increased, but were relatively low as the loan portfolio remained healthy.

ING benefited from a low effective tax rate thanks to high tax-exempted gains and a lower statutory tax rate in the Netherlands.
Net profit increased 46.8% to EUR 2,306 million, supported by the EUR 418 million gain on the sale of part of the Belgian business and a EUR 26 million gain on the sale of RegioBank. Net profit also includes EUR 54 million in restructuring charges for combining the Dutch retail banks and restructuring at Wholesale Banking as well as EUR 29 million in currency hedge expenses for the pending acquisition of Oyak Bank. The positive revaluation of EUR 1.9 billion after tax on ING's stake in Bank of Beijing is reflected in shareholders' equity.

Insurance
Underlying profit before tax from Insurance increased 29.0% including the EUR 455 million ABN Amro gain. Excluding that gain, profit from Insurance declined 16.7%, reflecting EUR 105 million lower revaluation results on real estate and private equity, lower dividends, and more challenging underwriting conditions in non-life. Profit from Insurance Europe declined 29.2%. There was strong growth in Central Europe, where life results increased 15.1%.
Insurance Americas' profit declined 6.3% but was flat excluding currency effects as weaker results at the non-life business in Canada offset a modest increase in the US, supported by growth of assets under management.
Profit from Insurance Asia/Pacific declined to EUR 151 million from EUR 168 million, mainly due to volatility in the hedge results in Japan. Excluding that volatility, profit from Insurance Asia/Pacific was up 16.0%. Total insurance premium income increased 5.0%, or 8.0% excluding currency effects, driven by strong sales of wealth-accumulation products. Sales momentum continued in Central & Rest of Europe, Asia/Pacific and the US.
Total new life sales increased 25.0% to EUR 1,940 million in the third quarter, led by growth in Central Europe, Asia and the US. Sales were driven by a 47.8% increase in single-premium sales, supported by demand

for a new single-premium variable annuity product in the US and wealth accumulation products in Asia. The launch of a new pension fund in Romania added EUR 37 million to sales.
Expenses increased 14.3%, due in part to one-off releases of employee benefit provisions in the third quarter last year. Excluding those releases, expenses were up 7.2%, driven by continued growth of the business in Central Europe, Asia/Pacific and the US.
Strong life sales has pushed the value of new business up 47.5% to EUR 298 million.
The internal rate of return fell slightly to 13.4% compared to 13.8% for the first nine months of 2006.

Banking

Underlying profit before tax for ING's banking business declined 2.4% as growth at Retail Banking helped offset declines at Wholesale Banking and ING Direct.
Retail Banking was up 12.2%, driven by strong growth in the Netherlands and Poland as higher volumes continued to offset margin pressure from the flat yield curve and increasing competition in the Benelux.
Profit from Wholesale Banking declined 23.3% as market turbulence impacted results from Financial Markets and Structured Finance, while ING Real Estate, Leasing and General Lending continued to show solid results.
Results from ING Direct declined 32.2% due to a loss in the UK and investments to expand the product range and geographical footprint. Excluding the UK and investments in growth, profit from ING Direct rose 7.8%.
Total underlying income of the banking businesses rose 3.3% supported by the strong commercial growth in retail current accounts and mortgages. Total risk-weighted assets (RWAs) increased 4.7% in the third quarter and were up 12.4% compared with a year earlier. That growth helped offset a narrowing of the interest margin to 0.91%, down 4 basis points from the second quarter and 15 basis points from a year earlier. Operating expenses increased 5.2%, due entirely to investments to support the growth of the business, notably at ING Direct, ING Real Estate and the retail banking activities in developing markets. Expenses at mature businesses were flat. Net risk costs increased, but remained low as ING's loan portfolio continued to be healthy. The addition equalled an annualised 8 basis points on average credit-risk-weighted assets, well below the normalised level of 25-30 basis points.
The underlying risk-adjusted return on capital (RAROC) after tax was up to 23.4 % from 20.6% for the first nine months of 2006.
From 1 January 2008, ING will transfer the mid-corporate client business in its home markets from Wholesale to Retail Banking, subject to Works Council approval. The transfer will allow the branch distribution network to be fully rooted in the Retail organisation.

Assets under Management

Assets under management increased by EUR 1.2 billion in the third quarter to EUR 637.9 billion at the end of September. Net inflow added EUR 8.5 billion and higher market values on equities and fixed-income securities contributed EUR 5.1 billion. That was offset by exchange rates, which had a negative impact of EUR 16.0 billion, mainly due to the weaker US dollar. Acquisitions and divestments had a net positive impact of EUR 3.5 billion.

Capital Management

All of ING's capital ratios remained well within target. The leverage position of ING Group improved from 9.32% to 9.14%.
The leverage ratio for Insurance increased from 11.03% to 13.40%, and the EU capital coverage ratio decreased to 280% from 297%. ING increased its hybrid target ratio for Insurance from 15% to 25%, bringing the target in line with that of the Bank.
The Tier-1 ratio of the Bank decreased from 7.55% to 7.39% but remained above the target of 7.2%. Risk-weighted assets increased 4.7%, or EUR 16.8 billion, to EUR 373.2 billion, driven by the continued growth of the business.

Risk Management

- Risk management and a strong liquidity position helped ING manage the turbulence in financial markets in the third quarter.
- There were no material impairments or revaluations on US subprime or other troubled asset classes.
- ING's subprime exposure amounted to EUR 3.1 billion at the end of September, representing 0.24% of total assets. Net impairments on the portfolio amounted to just EUR 2 million.
- The exposure to Alt-A residential mortgage-backed securities amounted to EUR 26.9 billion, representing 2.1% of total assets.
- Collateralised Debt Obligations (CDO) and Collateralised Loan Obligations (CLO) exposure was EUR 1.1 billion, or 0.1% of assets.
- ING's subprime, Alt-A and CDO/CLO exposure is of relatively high quality and the company remains comfortable with its exposure.

Update share buyback programme (as per 2 November 2007)

- 43.5% of programme completed
- Total number of shares repurchased is 69 m
- Amount repurchased: EUR 2,173 m
- Average price of repurchased shares is EUR 31.53

Lessons of subprime

Turmoil in financial markets

It all began with problems in the US subprime mortgage market early 2007. Now it is a headline issue across the world. What lessons can be learned?

Early 2007. Global financial markets are startled by problems in the US subprime mortgage market, which offers mortgages to borrowers with low credit ratings. Against a background of rising interest rates and falling house prices, increasing numbers of mortgage defaults combined with rising uncertainty eventually culminates in August in a substantial correction in the financial markets. Central banks around the world were quick to provide liquidity to support the interbank markets, but since August, a number of mortgage companies in the US have gone bankrupt and many other financial institutions expect a substantial negative impact on their profitability this year. So what caused all this turbulence, what are the implications and what lessons can we draw from the whole episode? We ask top management of ING and a number of experts with quite diverse views for their take on the subprime story.

Prudent risk management

John Hele and Koos Timmermans, CFO and CRO respectively of ING Group

What is the main source of the recent financial market turbulence?

Hele: "It is a liquidity crisis much more than anything else. Banks have been unable to trade and they needed central banks to step in to provide liquidity to the system. An important cause for a lack of confidence is the proliferation of off balance sheet instruments, in which banks packaged mortgages (including subprime) and sold them to investors. Banks engaged in these types of financing structures because it gave them a huge capital relief under the old regulatory solvency guidelines for banks (Basel I). However, due to a lack of transparency of these structures, eventually no one wanted to trade with banks anymore, as they didn't know which assets were behind these structures. Although a number of firms have shown significant losses from this crisis, in relation to the world-wide financial services sector, these are manageable."

Timmermans: "What is interesting about the current time, is that the credit risk related to subprime mortgages has been highly dispersed in investment portfolios all around the world. I see this as a clear benefit of the ongoing globalisation process, which enables the diversification of risks. After all, a little bit of pain for companies all over the world is probably better than a few huge firms going under."

Credit rating agencies have been criticised for their role in the crisis, giving high grade ratings to securities that have subsequently fallen dramatically in value.

Hele: "As much as you may want to criticise rating agencies, you have to understand what they are rating. They have given a credit analysis of these securities, not a liquidity analysis. A triple A rated instrument might indeed be triple A from a credit perspective, but the instrument might not be liquid, as you might not be able to trade it. So it is important that we do not confuse credit risk with liquidity risk."

The impact on ING so far seems to be limited. Could you elaborate on the reasons behind this?

Timmermans: "Prudent risk management has been a key factor. First of all, ING has never been a big manufacturer of "exotic" structured products such as collateralised debt obligations. Also, as credit conditions started to worsen, we deliberately scaled back our leveraged finance exposure in an early stage. Third, to the extent that we had exposure to US mortgages, notably through our ING Direct operations there, we have always focused on the top end of the mortgage market in terms of credit quality. After all, we cannot afford to invest the funds that clients entrust ING in high risk assets, also because these funds are withdrawable on demand. Having said this, the impact on the financial sector could become more manifest if the real economy will be affected by the crisis, but this is difficult to predict at this stage."

(please turn to page 21)

"An accident waiting to happen"

At an event co-organised by ING Private Banking, former Federal Reserve Chairman Alan Greenspan gave his views on the recent turmoil in financial markets.

"The subprime crisis was merely the catalyst for an accident waiting to happen. The euphoria that existed in the expansion of the housing market bubble induced investors around the world who had a huge build-up in liquidity – largely because of the global downward pressure on long-term interest rates that occurred as a consequence of the end of the cold war – to invest in something with a higher rate of return. And the subprime-mortgage market in the US provided it."

"More insight into liquidity necessary"

Richard Ramsden,
analyst Goldman Sachs

"The problems in the US subprime mortgage market were able to spread so quickly to other markets because subprime investments were so broadly disseminated around the world. This was accompanied by a great deal of uncertainty about where the ultimate risk actually resided and what the magnitude of the problem and the losses was going to be. It led to a classic 'risk- contagion effect', which in turn led to a re-pricing of risk across a much broader range of credit instruments. The reason for the risk-contagion was that these credit instruments are still a relatively new and immature asset class, of which most investors still have only a limited understanding. In many ways, the contagion which we've recently witnessed is very similar to the emerging market contagion in the mid 1990s, where defaults in Russia very quickly spread across other unrelated emerging markets.

A related problem is that the valuation of many of these credit instruments has always been subjective, and based in many cases on complex financial models. As a result, because the variables that go into calculating the valuation of these instruments have been moving so quickly, it became very difficult for investors to recalibrate the valuation of these instruments."

A negative impact on the real economy

"It is almost impossible for an event of this magnitude not to have a negative impact on financial institutions. What does surprise me though is that some institutions seem to have come out relatively unscathed, while others have been affected rather badly from an earnings perspective. Clearly, many of the hedging and risk mitigation strategies that banks have put in place have not worked. It is fair to say that some banks will need to rethink their risk-appetite and risk-management processes. Following interventions by central banks, liquidity positions have significantly improved. However, there could be a negative effect on the real economy, because funding costs for financial institutions have gone up. One can expect that, over time, banks will pass this increase in funding costs onto their clients. This in turn may have a negative affect on consumption and capital spending, though at this stage, it's difficult to know how big the impact is going to be.

A major lesson we can draw from the current developments is that it is extremely risky for banks to be dependent on a single source of funding. There therefore needs to be a greater understanding of liquidity and how banks react when funding sources temporarily disappear. After all, the reason banks go bankrupt is very rarely as a result of bad debt problems, but rather because they cannot get financing."

The global financial system is enduring an important test

In its Global Financial Stability Report (published in September 2007 and to be found at www.imf.org), the International Monetary Fund analyses the recent financial market developments and comes up with several recommendations.

"Systemically important financial institutions began this episode with adequate capital to manage the likely level of credit losses; added to which, it happened during a period of robust global growth. But should financial conditions remain difficult, the global expansion is likely to slow further. The adjustment process will take time, but it's already clear that several areas require increased attention. For instance, markets need more accurate and more timely information. In particular, greater transparency is needed regarding the links between financial institutions and their off-balance vehicles to enable investors to assess the true creditworthiness of the institutions with which they are dealing. There also need to be a better understand of how securitisation and financial innovation in general have contributed to this turbulence. Lastly, the rating methodology of complex products by rating agencies could be more accurate in order to increase the usefulness of ratings for investors."

Risk taking more extreme through globalisation

Willem Buiter, professor of European Political Economy at the London School of Economics, and former member of the Monetary Policy Committee at the Bank of England.

"These problems are caused by the common human drivers of greed and fear, abetted by regulatory failure. The crisis has shown the shortcomings of the new Basel II supervisory framework for banks that comes into effect large internationally operating banks within the EU in 2008.
In fact, I think Basel II is dead before it's even born, as it requires effective rating agencies and credible internal bank models for weighting risks. Rating agencies have now been discredited when it comes to the rating of structured instruments, because they are hopelessly conflicted. The weakness of internal models is that they are based on historical data that, almost by definition, do not capture severe stress situations as we have just witnessed. In general, the internal risk management of many financial institutions fell short, because it was based on the presumption that exposures that were not on the balance sheet did not pose any residual risks to the banks involved."

Downside of globalisation

"Globalisation creates the potential for more effective diversification through risk trading, but it also creates the potential for more extreme forms of risk-taking and risk-seeking behaviour. There is nothing in a global market to ensure that the risk ends up being born by the party best able to bear it. All the market does is ensure the risk ends up with the party most willing to bear it, for whatever reasons that may be, good or bad. Moreover, globalisation has created the illusion that risk has not just been traded and shifted between financial market participants, but that it has disappeared altogether. Indeed, in the low yield spread environment of the years 2002-2007, there was actually global risk delusion."

Allow a bank to fail, if that's what it deserves

"Both financial market participants such as banks and investors, as well as public authorities such as supervisors and central banks, can draw a number of important lessons from recent events. For market participants, the most important lesson is that they should not believe that the creation of off-balance sheet vehicles eliminates all exposure to the assets hived off to these vehicles. Their other lesson? Always do your own due diligence and risk analysis. For the public sector the lesson is that it should discourage securitization if it involves the pooling of heterogeneous assets where no one understands the joint distribution of returns. Securitization should be simple and transparent, so that investors understand the underlying risks of the assets they are investing in. My response to the recent actions of central banks to support markets and sometimes even individual banks is that authorities should allow a bank to fail if it deserves to. If deposit insurance is considered important, then let's guarantee deposits but allow the institutions issuing them to fail. A second lesson for the authorities is that they should enforce consolidation of balance sheets. That is taking off-balance sheet exposures on the balance sheet, when economic logic dictates this. And finally, reporting duties should be significantly increased for non-bank financial entities such as hedge funds and private equity funds above a certain critical threshold as measured by the value of assets or liabilities. Fundamentally, there has to be a recognition that once these entities reach a certain size, they can no longer be treated as private company but have to be registered and subject to the reporting requirements of a publicly listed company."

Hele: "It will take some time for the subprime mortgage problems to work their way through the system, so perhaps we haven't seen the end of the credit crisis yet. ING has weathered the storm quite well, due to our diversified risk structure, but also because we are seen by analysts as an example in disclosing the right amount of information on our holdings to reassure our investors."

What are the main lessons that we can draw from the subprime mortgage crisis?

Timmermans: "It has highlighted the importance of sound liquidity management at banks, so that we can withstand severe crisis scenarios like we have recently witnessed. Whereas ING's liquidity position has remained robust throughout the recent turbulence, I do think that there are a number of questions that the banking industry in general needs to address. For instance, how has a bank financed itself, how diverse are its funding sources and what happens if a number of these sources dry up? Banks could do more scenario testing in this field, the outcomes of which should also be discussed with their supervisors, as I think this is also an issue which they might wish to put more emphasis on."

Hele: "I also think the full implementation of Basel II is important. It provides for more risk-based calibration of capital requirements, which will reduce the incentives for creating off-balance sheet structures, and it will contribute to greater transparency. In addition, it will stimulate banks to develop advanced risk management techniques, as these will translate in lower regulatory capital requirements under Basel II. All this will contribute to a more stable and well-functioning global financial system, assuming that companies and regulators work together in times of crisis." ■

Koos Timmermans and John Hele

Rembrandt Harmensz. van Rijn (1606-1669),
Bust of a man in oriental dress, 1635
(Oil on panel), 72 x 54.5 cm

Bronze sculpture entitled
Ouroboros Arborum 2007
by Sjoerd Buisman (height 2.80 m)

Rembrandt in China

Rembrandt himself could hardly have imagined such a thing: an exhibition of 75 paintings and drawings by him and his contemporaries on the far side of the world in China.
'Rembrandt and the Golden Age', organised by the Rijksmuseum in Amsterdam, is to be seen in the Shanghai Museum until 13 February 2008. It is the first time the Chinese public has been able to experience first hand works by Dutch masters of the Golden Age, including Frans Hals, Jan Steen, Jacob van Ruysdael and, of course, Rembrandt himself. In addition to paintings and etchings, the exhibition also features Delft blue and silver objects.

Unique website

The Shanghai Museum draws some 9,000 visitors a day when hosting a major foreign exhibition; but for those unable to attend in person, a special 'Rembrandt in China' website (see below) has been developed. In both Chinese and English, this unique website offers some highly original interactive features, such as customising one's own t-shirt with a favourite Rembrandt painting.

Tragic genius

Rembrandt van Rijn (1606–1669) is generally considered one of the very greatest artists of European art history. From a young age he was already so highly regarded that he was taking his first pupils when barely 22 years old. In many ways, Rembrandt epitomises the Dutch Golden Age. As a portrait painter he achieved youthful success and though his work remained popular throughout his lifetime, his later years were marred by personal tragedy and financial hardship.

The Rijksmuseum in Amsterdam is sponsored by ING and Philips and both companies are also sponsoring the current exhibition in Shanghai. 'Rembrandt and the Golden Age' was officially opened on 2 November by Ronald Plasterk, the Dutch minister of Education, Culture and Science.

www.rembrandtinchina.com
www.shanghaimuseum.net

Sculpture trail

An innovative idea from ING's head of Art Management, Annabelle Birnie, has led to the development of a sculpture trail in which at least seven companies are participating. This idea entailed "why not together publicly exhibit sculptures taken from the companies various art collections and in so doing build a 'cultural bridge' between the new business district of Zuidas and the historical centre of Amsterdam?"

Surreal Jewels

The Dutch Association for Corporate Art Collections (VBCN), the Consortium Zuidas Mahler IV and the Zuidas Virtual Museum together put the idea to curator and art historian Ernst van der Hoeven. Van der Hoeven felt that to challenge the rather sterile perfection of the Zuidas area, it would be more powerful to juxtapose that order with what he calls "the unbridled and surprising surreal jewels that materialize unexpectedly from their surroundings." Curator Van der Hoeven chose the Greek notion Energeia (energy) as the guiding theme for the sculpture trail, and his aim is that the works reflect the energy released through this process of transformation. Because not all the companies involved had works in their collections that fitted with the theme, some bought or commissioned new works. ING Real Estate, for example, has asked Sjoerd Buisman to create a bronze sculpture entitled *Ouroboros Arborum 2007* (see illustration). The collaboration of the companies has resulted in a chain of art works to be seen from November on Claude Debussylaan (Claude Debussy Lane) and Mahlerplein (Mahler Square) in Amsterdam's Zuidas business district. The collection will be changed every two years.

Jan Hommen chairman of the Supervisory Board of ING Group

Cor Herkströter (1937, Dutch) will retire as chairman of the Supervisory Board of ING Group as of 1 January 2008. The Supervisory Board of ING Group has appointed Jan Hommen (1943, Dutch) as his successor as of that date.

Cor Herkströter was due to retire from the Supervisory Board in April 2007. However, given the changes in the Supervisory Board at that time, he agreed to stay longer to ensure a balanced composition of the Board. The Supervisory Board is confident that with the appointment of Jan Hommen at the start of the accounting year 2008, a smooth transition is ensured.

Jan Hommen is currently chairman of the Audit Committee. The Supervisory Board of ING Group has appointed Wim Kok as his successor on the Audit Committee as of 1 January 2008.

Jan Hommen

Cor Herkströter

“We have the highest respect for Cor Herkströter’s significant and valuable efforts to support ING’s expansion over the years. It was a privilege to work with such a committed and experienced chairman of the Supervisory Board. Cor Herkströter leaves with ING’s gratitude and best wishes for the future,” said Jan Hommen on behalf of the Supervisory Board of ING. “On behalf of my colleagues of the Executive Board I wish to express my sincere gratitude and appreciation for the contribution Cor Herkströter made to ING Group for the past nine years. We truly value his contribution to the success of ING,” said Michel Tilmant, chairman of the Executive Board of ING Group.

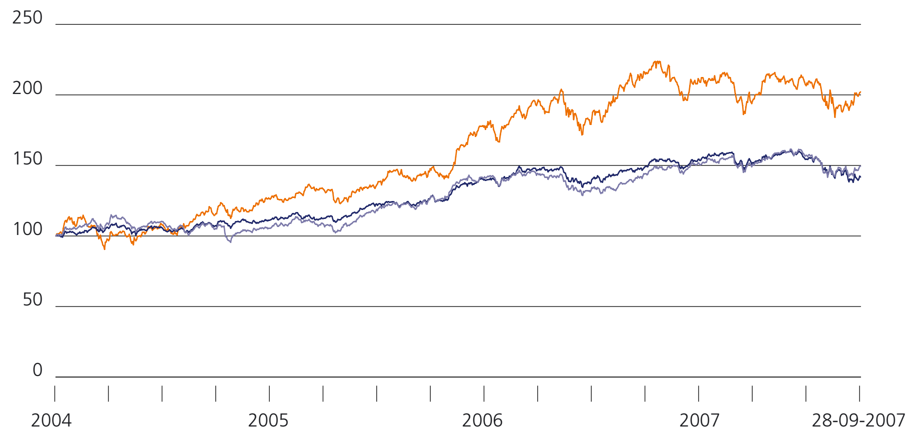
Ernst & Young nominated to become ING’s sole auditor

The Supervisory Board of ING Group will propose to the 2008 Annual General Meeting of Shareholders the appointment of Ernst & Young as ING’s sole audit firm. The decision to assign the external audit of ING Groep N.V. and its subsidiaries to one single audit firm will allow ING to improve efficiency of the audit activities and to reduce audit costs. Since the creation of ING Group in 1991 as a result of the merger of insurer Nationale-Nederlanden and NMB Postbank Groep, ING has engaged two external audit firms. Now that important change programmes such as the implementation of IFRS and Sox404 have been completed, the Supervisory Board has decided to convert to one single audit firm. If the AGM appoints Ernst & Young in 2008, it will perform the external audit of ING Group as of 2008. The external audit of the 2007 annual accounts will still be performed jointly by the current auditors Ernst & Young and KPMG.

ING purchases prefs from ABN AMRO

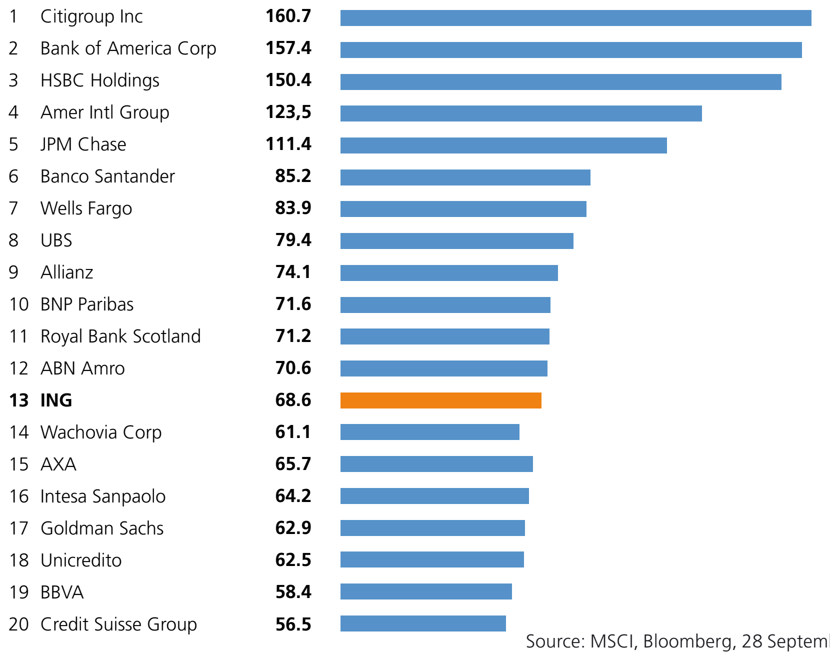
ING has reached agreement with ABN AMRO to purchase the preference “A“ shares of ING Group. ING will purchase 28,843,989 depository receipts for preference “A“ shares of ING. The transaction will be conducted in two tranches. The first tranche consists of 18,843,989 shares, purchased at a price of EUR 3.65 per share and was completed on 15 October 2007. The second tranche of 10,000,000 shares will be purchased at a price of EUR 3.68 per share on 24 December 2007. Following the repurchase of each tranche, the preference shares will be cancelled.
The repurchase of preference shares was authorised by the General Meeting of Shareholders of ING on 24 April 2007 and the prices agreed are within the limit set. This transaction follows similar purchases from Aegon in 2006 and Fortis earlier this year. The transaction will have no significant impact on ING Group’s earnings or key ratios and will not impact the ongoing share buyback programme for ordinary ING shares.

Total return index



Source: Thomson Financial Datastream

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



Source: MSCI, Bloomberg, 28 September 2007

ING wins the Henri Sijthoff Award

On 31 October 2007, CEO Michel Tilmant was presented the prestigious Henri Sijthoff Award by member of the jury Erik van de Merwe. The Dutch newspaper "Het Financieele Dagblad" issues this award to Dutch companies that distinguish themselves for their financial reporting, especially the annual report and the reporting via the internet. ING had already been nominated twice for this award, but this year ING came out winner in the AEX funds category. The other nominees in this category were Akzo Nobel, Hagemeyer and TNT.

The award is a bronze replica of the newspaper reading man by Dutch artist Pieter d'Hondt. The actual statue can be found on the Damrak in Amsterdam.

Het Financieele Dagblad also issues awards in the categories mid cap and small cap funds and non-listed companies. This year, it was for the 54th time that the Sijthoff Award was presented.

See also www.fd.nl/sijthoff. (Dutch only).

Key dates in 2008

Wednesday, 20 February 2008
Publication results Q4 2007

Tuesday, 22 April 2008, 10:30 am
Annual 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 2007
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, 12 November 2008
Publication results Q3 2008

(All dates are provisional)