

Strategy

Focusing the strategy to accelerate growth

Key points

- > Focus on banking, investments, life insurance and retirement services
- > Provide retail customers with the products they need to grow savings, manage investments, and prepare for retirement
- > Invest in bank distribution and high-growth markets
- > Continue to improve business fundamentals and maintain strength in capital and risk management

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

STRONG PERFORMANCE CONFIRMS SOUND BUSINESS FUNDAMENTALS

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

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

FOCUSED STRATEGY GOING FORWARD

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

Capitalising on changing customer preferences

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

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

Building on our solid business capabilities

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

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

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

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

New strategic focus

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

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

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

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

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

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

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

Business initiatives in 2007

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

Strategy (continued)

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

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

CONTINUED EFFICIENT ALLOCATION OF CAPITAL

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

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

SOLID RISK MANAGEMENT FULLY INTEGRATED

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

CONCLUSIONS AND AMBITIONS

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

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

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

ADDITIONAL INFORMATION

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