

1.2 Report of the Executive Board

Financial highlights (continued)

Strong capital position

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

Share buy-back

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

Divestments and special items

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

INSURANCE OPERATIONS

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

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

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

Embedded value and value of new business

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

BANKING OPERATIONS

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

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