

1.2 Report of the Executive Board

Capital management

Strong capital position and efficient capital allocation

ING seeks to maintain a strong capital position and to allocate capital efficiently. Together they help us to support growth, withstand financial stress and ultimately help to deliver shareholder value. In 2007, we enhanced our strong capital position thanks to strong profitability of the business and capital adequacy measures within capital management. ING employed excess capital to fund significant organic growth, for acquisitions, to buy back shares and pay attractive dividends to shareholders. 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 strategic objectives.

Capital base: ING Groep N.V.

| in EUR million | Year-end 2007 | Year-end 2006 |
|---|------------------|------------------|
| Shareholders' equity (in parent) | 37,208 | 38,266 |
| + Group hybrid capital | 8,620 | 7,606 |
| + Group leverage (core debt) | 4,728 | 4,210 |
| Total capitalisation (Bank + Insurance) | 50,556 | 50,082 |
| -/- Revaluation reserves fixed income and other | 963 | 3,352 |
| -/- Group leverage (core debt) (d) | 4,728 | 4,210 |
| Adjusted equity (e) | 44,865 | 42,520 |
| Debt/equity ratio (d/(d+e)) | 9.53% | 9.01% |
| Economic Capital and Available Financial Resources | | |
| EC ING Group | 36,000 | 35,500 |
| AFR ING Group | 49,715 | 48,774 |
| AFR/EC ratio | 138% | 137% |

Capital base: ING Verzekeringen N.V. (Insurance)

| in EUR million | Year-end 2007 | Year-end 2006 |
|---|------------------|------------------|
| Adjusted equity (e) | 27,036 | 29,123 |
| Core debt (d) | 4,267 | 4,802 |
| Debt/equity ratio (d/(d+e)) | 13.63% | 14.15% |
| Available regulatory capital (a) | 22,965 | 25,505 |
| E.U. required regulatory capital (b) | 9,405 | 9,296 |
| Capital coverage ratio (a/b) | 244% | 274% |
| Buffer for equities and real estate (c) | 6,428 | 7,101 |
| Internal capital coverage ratio (a/b+c) | 145% | 156% |
| Economic Capital and Available Financial Resources | | |
| EC ING Insurance | 23,199 | 22,410 |
| AFR ING Insurance | 22,710 | 27,200 |

Capital base: ING Bank N.V.

| in EUR million | Year-end 2007 | Year-end 2006 |
|---|------------------|------------------|
| Core Tier-1 | 23,374 | 20,058 |
| Hybrid Tier-1 | 6,397 | 5,726 |
| Total Tier-1 capital | 29,772 | 25,784 |
| Other capital | 11,792 | 11,445 |
| BIS capital | 41,564 | 37,229 |
| Risk-weighted assets | 402,727 | 337,926 |
| Tier-1 ratio | 7.39% | 7.63% |
| BIS ratio | 10.32% | 11.02% |
| Economic Capital and Available Financial Resources | | |
| EC ING Bank | 17,927 | 15,876 |
| AFR ING Bank | 31,733 | 25,784 |

STRONG CAPITAL POSITION

The capital position of ING Group remained robust during 2007, as adjusted equity increased from EUR 42.5 billion to EUR 44.9 billion. Shareholders' equity decreased to EUR 37.2 billion from EUR 38.3 billion. Spare leverage, defined as the potential cash that can be raised at ING Group level if all capital ratios were on target, increased to EUR 4.8 billion from EUR 3.1 billion.

This increase was made possible due to net profit contributions from ING Insurance and ING Bank of EUR 5.6 billion and EUR 3.6 billion. Also, the ING Insurance target hybrid ratio has been increased from 15% to 25%. Spare leverage decreased due to dividends to shareholders, the share buy-back programme and the net balance of acquisitions and divestments.

All major capital ratios were within their target by year-end 2007. ING sets the targets to be consistent with the AA rating target that exists for ING Group, ING Bank and ING Insurance. The core debt ratio limit (core debt is debt which is on-lent as equity to subsidiaries) for ING Group is derived from the estimated diversification between ING Bank and ING Insurance.

Core debt ratios

| in percentages | Target year-end 2007 | Outcome 2007 | Target year-end 2006 | Outcome 2006 |
|---------------------------|-------------------------|-----------------|-------------------------|-----------------|
| Group core debt ratio | 10.0 | 9.5 | 10.0 | 9.0 |
| Tier-1 ratio Bank | 7.2 | 7.4 | 7.2 | 7.6 |
| Insurance core debt ratio | 15.0 | 13.6 | 15.0 | 14.2 |

Financings in the market throughout the year raised further senior debt and hybrid Tier-1 for ING Group, the latter on-lent on a mirrored basis to both ING Bank and ING Insurance. Also a successful lower Tier-2 transaction was concluded for ING Bank. ING Insurance did not issue senior unsecured debt in 2007.

Access to the international capital markets was hampered during the second half of the year because of the turmoil caused by the troubled mortgage market in the United States. In spite of this turmoil ING Group executed a very successful hybrid Tier-1 transaction in the US retail domestic market in October 2007, albeit at wider spreads than were available earlier in the year.

BENEFITING FROM BASEL II

Much work was done during 2007 to finalise the preparations for Basel II, which creates guidelines that banks have to use to determine the minimum amount of capital they need to put aside to offset unexpected losses associated with financial and operational risks that they may face.

Basel II applies to ING Bank N.V., ING Investment Management B.V. and their legal entities. The Tier-1 ratio under Basel II as of 1 January 2008 is approximately 9.9% and the total BIS ratio is 13.8%. These numbers, although indicative as ING Bank will only report formally under Basel II as of the first quarter 2008, compare very favourably to the capital ratios under Basel I and are a reflection of the moderate risk in the ING Bank balance sheet, mainly as a result of ING Bank's large mortgage portfolio. It is the intention that over the coming years the capital ratios will be brought back down to their existing targets. The additional Tier-1 capital available under Basel II is approximately EUR 7 billion.