

Measures to manage capital

ING increasingly looks at available financial resources and economic capital employed when managing capital. These concepts come from our internal risk management models. Economic capital (EC) is a measure for the totality of risks run in the company over a one-year time horizon and with a AA confidence interval of 99.95%. Available financial resources (AFR) equal market value of assets minus market value of liabilities, excluding hybrids issued by ING Group which is counted as capital.

At ING Bank the proxy for AFR is Tier-1 capital, in the absence of a full market value balance sheet for ING Bank plus the revaluation reserve equities. AFR should exceed EC for both ING Bank and ING Insurance. EC for ING Group is defined as EC ING Bank plus EC ING Insurance minus the diversification benefit (10% in the past and 15% going forward) plus any EC specifically allocated to ING Group. AFR Group equals AFR ING Bank plus AFR ING Insurance minus core debt ING Group. The target is that ING Group AFR should be at least 120% of ING Group EC. It is policy that any buffer should be able to be deployed with maximum flexibility and therefore be kept centrally.

During 2007 ING Bank submitted to the Dutch bank regulator, de Nederlandsche Bank (DNB) the pillar 2 internal capital adequacy assessment process filing, which contains an overview of the most important capital management policies, procedures and reports. This filing is the basis for the supervisory review of the capital adequacy of ING Bank.

The new Financial Supervision Law also defines the necessary supervision on financial conglomerates. Here also ING Bank has worked with the regulator to make sure ING meets all regulations.

THE CAPITAL LETTER

The cornerstone of the capital adequacy assessment process at ING is the yearly Capital Letter, which contains an analysis of the capital position of ING, a review of the justification for the target capital ratios and an economic and business development forecast. It also assesses the capital needed to support the business going forward versus the expected availability of capital given profitability and the financial instruments at the disposal of capital management. The capital position of ING Group, ING Bank and ING Insurance is discussed according to the viewpoint of the various stakeholders: regulators, shareholders, rating agencies and according to the internal risk assessment. The Capital Letter also includes the results of recent stress tests and a contingency plan (for both good and bad developments). It gives an overview of the available 'toolkit' to manage capital at ING. The Capital Letter is produced annually in June to coincide with the start of the planning cycle for subsequent years. The document is not public information, but is approved by the Executive Board and shared subsequently with the Supervisory Board and the regulators.

CAPITAL ADEQUACY

The main task of the Group capital management function is to monitor, manage and plan the capital adequacy of ING Group, ING Bank and ING Insurance and to execute all related capital markets transactions. The benefits of a centralised capital management function are that maximum financial flexibility is created to pursue strategic objectives and to withstand financial stress and that the different requirements of shareholders, regulators, rating agencies and internal economic capital models

can be properly balanced.

At the beginning of each year, a funding plan and a securitisation plan are prepared describing all intended financings and other capital market transactions.

ING endeavours to employ its capital in the most optimal way. It is therefore important that business units receive the right incentives to only hold capital necessary to support the risks in their business and to upstream the remainder to ING Group. In turn they should be able to count on a capital injection if their business can grow profitably.

Free surplus is that part of available financial resources (capital) that exceeds economic capital employed. Many ING Insurance business entities need to hold more capital than economic capital due to regulatory and/or rating agency constraints. However, to the extent free surplus is not constrained, it is free to be employed elsewhere in the interest of furthering profitable growth. During 2007 in total EUR 5.8 billion of dividends were paid by ING Insurance Netherlands to the holding company of ING Insurance. As of 31 December, there remained tied-free surplus of EUR 3.5 billion and EU Solvency at 150% in ING Insurance Netherlands.

Significant work was put into the management of the corporate line Insurance during 2007. The corporate line contains capital management and general management items that are beyond the management control of the business units, such as capital funding, top-down hedges and special expenses not directly related to the business. A new foreign exchange translation risk policy was approved and also the new interest rate risk management policy was implemented. Capital Management executed in total EUR 6 billion of equity index option transactions during 2007 to protect the value of the ING Insurance equity stakes (also some of the equity positions of ING Bank were hedged on the corporate line of ING Bank).

In the course of selling life insurance policies ING Insurance Netherlands also sells mortgages. At the beginning of 2007 approximately EUR 17 billion of mortgages had accumulated within ING Insurance Netherlands, mostly at a mortgage subsidiary. This entity was transferred to ING Bank, where the assets can be funded more cheaply and the systems are in place to actively manage the prepayment risk. This transfer reduced the operating leverage of ING Insurance significantly. Subsequently, more mortgages were transferred directly from ING Insurance Netherlands to ING Bank, creating liquidity and thereby facilitating the implementation of the new asset allocation. In total EUR 12 billion of mortgages were transferred.

SHARE TRANSACTIONS

It was foreseen that during 2007 significant excess capital would continue to build without further intervention. Therefore it was decided to proceed with a EUR 5 billion share buy-back to be spread out over a full year from June 2007 onwards. By the end of 2007, 90.7 million shares had been repurchased for a total consideration of EUR 2.8 billion. The full impact of the share buy-back, once it has fully run its course, will be to improve EPS by approximately 7%.

Also, after the repurchase of ING preference shares from Aegon during 2006, the ING preference shares of both Fortis and ABN AMRO were repurchased during 2007. With these transactions, all three major holders have now sold their ING preference shares back to ING Group.

1.2 Report of the Executive Board

Capital management (continued)

Capital Management also routinely adjusted the delta hedge for employee options throughout the year. At the start of 2007 ING Group held 52.7 million shares as a hedge against employee options. At the end of 2007 this amount was 36.0 million.

As a result of buy-backs, warrants and delta hedging transactions the number of shares outstanding in the market decreased by 52 million to 2,099 million.

At the end of 2006, 17.2 million warrants B were outstanding. These warrants entitle the holder to purchase two ordinary ING Group shares at a price of EUR 24.96 each. During 2007, 7.9 million of these warrants were exercised, leading to the issue of 15.8 million new shares. During the early days of January 2008 the last of the warrants were exercised, leading to further issuance of more than 18 million shares. No warrants were outstanding after 8 January 2008.

CAPITAL MARKET TRANSACTIONS

In order to obtain regulatory capital relief under Basel I, ING Bank had two conduits, with own originated assets and also the senior positions of own originated asset securitisations, called Mane and Simba. These conduits funded these positions with short dated asset-backed commercial paper. The advent of Basel II made these conduits largely obsolete. As a result of the widening of spreads for this paper after the summer and of the fact that alternative sources of funding for ING Bank became much more competitive, ING unwound these conduits in the third quarter of 2007. With the unwind approximately EUR 6 billion of Basel I risk-weighted assets (RWAs) were added to ING Bank as of the end of the third quarter.

Already during the first half of 2007 Capital Management had started to execute internal securitisations to enhance ING Bank's already substantial liquidity buffer. The AAA rated senior positions of these securitisations can be used as collateral for liquidity. Thus EUR 29.3 billion of collateral was created during 2007.

ACQUISITIONS AND DIVESTMENTS

For the first time in a number of years 2007 was a year with significant acquisition activity. Two major transactions were concluded: the acquisition of Oyak Bank in Turkey and the acquisition of the Latin American pension fund business of Santander. Total consideration for these two purchases was approximately EUR 2.5 billion.

ING Insurance bought the asset management entity Landmark in Korea, a further 5% of ING Life Korea from Kookmin Bank and the pension administrator AZL in the Netherlands. Further acquisitions at ING Bank included the internet broker Sharebuilder in the United States, lease operations in Eastern Europe and a stake in TMB in Thailand.

2007 was also a very active year for divestments: the broker business of ING Insurance Belgium was sold, as was the remaining stake that ING Insurance held in Goudse Verzekeringen. At ING Bank most of the trust activities were sold, and next to that also RegioBank and Nationale Borg in the Netherlands, as well as a factoring joint venture in Belgium. The stakes in both SulAmérica in Brazil and Bank of Beijing in China were partially diluted through an IPO.

CAPITAL MANAGEMENT TRANSACTIONS IN 2007

In 2007, Capital Management has executed the following funding transactions:

For ING Groep N.V.

- USD 1,045 million hybrid Tier-1 capital in the US retail market, fixed rate
- USD 1,500 million hybrid Tier-1 capital in the US retail market, fixed rate
- EUR 1,750 million 10-year senior bond in the European institutional market, fixed rate

For ING Bank N.V.

- USD 2,000 million Lower Tier-2, Institutional Eurodollar market, floating rate