

Risk management

Containing risk and adding value to the business

2007 was characterised by a great deal of turbulence in the financial markets, beginning with concerns over US subprime mortgages in early 2007 and then widening into a general banking liquidity crisis. The turmoil put a spotlight on risk management across the financial sector. The crisis had only limited impact on the profit and loss account through ING's investments in pressurised assets classes.

Pre-tax P&L impact directly related to credit and liquidity crisis

in EUR million	3Q	4Q	3Q+4Q
US subprime RMBS	-17	-47	-64
Alt-A RMBS	0	0	0
CDOs/CLOs	-15	-36	-51
Monolines	0	-66	-66
Investments in SIVs, ABCP	0	-45	-45
Leveraged Finance	-29	0	-29
Total	-61	-194	-255

US subprime RMBS, Alt-A RMBS and CDO/CLO exposures and revaluations at year-end 2007

	Amortised cost* EUR billion	Market value EUR billion	Fair value in %	Pre-tax revaluation via equity EUR million
US Subprime RMBS	3.1	2.8	90.1%	-307
Alt-A RMBS	28.4	27.5	96.7%	-936
CDO/CLO	2.0	1.9	93.4%	-134
Total				-1,377

* Purchase price +/- amortisations – cumulative impairments.

Economic Capital break-down by risk category ING Bank

in EUR billions	2007	2006
Credit risk (including Transfer risk)	7,503	7,557
Market risk	7,407	4,816
Non-financial risk*	3,017	3,503
Total Banking operations	17,927	15,876

* Non-financial risk includes operational risk as well as business risk.

Economic Capital break-down by risk category ING Insurance

in EUR billions	2007	2006
Credit risk (including Transfer risk)	1,021	1,411
Market risk	15,258	14,555
Insurance risk	3,293	3,110
Non-financial risk*	3,627	3,334
Total Insurance operations	23,199	22,410

* Non-financial risk includes operational risk as well as business risk.

MANAGING THE MARKET TURMOIL

ING has integrated risk management in ING's daily business activities and strategic planning. ING has systematically invested in its risk management capabilities over recent years. ING's risk approach is reflected in the diversified business mix and the composition of the balance sheet.

A robust risk management organisation and a strong liquidity position helped ING manage the problems that occurred in the credit and other financial markets in 2007. It has been ING's policy to maintain a high quality and well diversified portfolio. To that effect ING has strict limits and investment policies in place which are defined in mandates for every portfolio. Investment and trading decisions are based on extensive internal research, and not only on published ratings. Some limits were at more stringent levels since early 2007, anticipating a potential downturn of the market.

ING applies conservative standards in mortgage underwriting and has not originated US subprime mortgages. Moreover, ING is not in the business of manufacturing subprime Residential Mortgage Backed Securities (RMBS) or Collateralized Debt Obligations (CDOs) nor has it purchased a material amount of US subprime backed CDOs/ Collateralized Loan Obligations (CLOs). ING's exposure to the US housing market is predominantly via highly rated RMBS investments.

As a result, ING's exposure to pressurised asset classes, e.g. subprime and Alt-A (RMBS) (those with a risk profile between prime and subprime), CDOs and CLOs, is of high quality and has not led to material impairments.

The total direct pre-tax negative impact on ING's 2007 profit and loss account was EUR 255 million (EUR 61 million in the third quarter and EUR 194 million in the fourth quarter). The direct impact is a result from exposures to these pressurised asset classes and leveraged finance in the third quarter, as well as monoline insurers, Structured Investments Vehicles (SIVs) and Asset-Backed Commercial Paper (ABCP) in the fourth quarter. Pre-tax revaluation for the pressurised asset classes (US subprime RMBS, Alt-A RMBS and CDOs/CLOs) at year-end 2007 was EUR -1,377 million. On an after-tax basis this runs through shareholders' equity in the balance sheet.

ING has a high quality ABS portfolio

The US subprime RMBS, US Alt-A RMBS, CDO and CLO portfolios are part of ING's Asset Backed Security (ABS) portfolio, which is of high quality and well diversified due to strict limits and investment policies defined in mandates for every portfolio. The investments ABS portfolio, almost entirely available for sale, was EUR 84 billion at year-end.

The ABS portfolio comprises mainly AAA rated securities (89%) and AA rated securities (10%). Unrealised gains/(losses) relating to available for sale (fixed income) securities, including Mortgage Backed Securities (MBS), are taken to the revaluation reserve in shareholders' equity, unless there is evidence of impairment, in which case the negative revaluation reserve is recognised in profit or loss account. In addition, Loans and advances to customers, valued at amortised costs, contained EUR 13 billion European asset-backed products with market value around 100% and an average credit rating of AAA.