

1.2 Report of the Executive Board

Risk management (continued)

for ING Group increased to 21% (17% in 2006) as CaR increased while AFR decreased. For further details on Capital at Risk see the Risk section of the Annual Accounts.

Economic Capital (EC) is the amount of capital required to absorb unexpected losses in times of severe stress given ING's AA target rating. ING Group Economic Capital increased to EUR 36.0 billion in 2007 (2006: EUR 35.5 billion) taking into account the Bank-Insurance diversification benefit and a risk capital estimate allocated to the group on top of the reported bank and insurance Economic Capitals. ING Bank stand-alone Economic Capital rose 13% to EUR 17.9 billion due to business growth and the inclusion of Oyak Bank, while at ING Insurance stand-alone Economic Capital remained stable at EUR 23.2 billion (2006: EUR 22.4 billion). The slight increase was mainly the result of model refinements and the acquisition of pension business in Latin America.

ING Group's risk metrics cover the most important aspects in terms of different stress severities (non-extreme versus extreme situations) and performance measures where risk can materialise (value versus earnings). The Earnings at Risk and Capital at Risk metrics are important metrics from a shareholder point of view since they provide insight in the level of risk ING takes. From a debt-holder point of view Economic Capital is more important since it serves as the capital amount required to absorb losses in extreme circumstances.

ING TAKES MEASURED RISKS

Taking measured risks is part of ING's business. Like other financial services companies, ING faces a number of risks in the areas of credit, interest rates, real estate, equity, insurance and liquidity. Beyond that, there are also operational, information and security risks associated with doing business.

Credit risk is the risk of loss from default by debtors (including bond issuers) or counterparties. ING seeks to maintain an internationally diversified loan and bond portfolio.

As ING is active across many countries and in different currency zones there are also inherent interest rate risks. There is a natural and structural diversification of the interest rate position, particularly in the euro zone and in the US. This is further supported by diversification across currencies and monthly hedging and rebalancing. Banking and insurance together also provide an inherent diversification benefit.

ING's Insurance and Banking operations are exposed to real estate risk in the event of a market downturn. But this exposure is mitigated due to the highly diversified portfolio of real estate assets. Concentrations within specific geographies are monitored and actively managed.

ING Real Estate, the world's largest real estate investment manager, is mostly exposed to real estate risk through financing, development and managing property funds. Real estate risk also diversifies the overall risk profile of the Group as there is a limited correlation between real estate risk and other types of risk.

Equity risk is mitigated from time to time by hedging processes, while insurance risk, which combines actuarial and underwriting risks (risks such as mortality, longevity, morbidity, adverse motor

or home claims development, etc.) is managed by removing concentrations through reinsurance. The insurance businesses also exclude or limit business in some areas such as terrorism and health reimbursement.

Liquidity risk is the risk that ING or one of its subsidiaries cannot meet its financial liabilities when they fall due, at reasonable costs and in a timely manner. ING's balance sheet inherently supplies liquidity as a significant proportion of assets are held in cash or liquid market instruments and are capable of providing liquidity as required. ING has developed a liquidity management framework with a preferred order of generating liquidity.

ING is exposed to operational, information and security risks on a daily basis through its client relationships, product offerings, IT infrastructures and daily operations. Operational, information and security risks are managed through a common ING framework that identifies measures and monitors the risks and its mitigating controls in the ING businesses. In 2007 this framework has further matured and the responsible risk functions have been integrated into one functional line throughout ING.

RISK MANAGEMENT CREATES VALUE

Risk Management benefits ING shareholders directly by providing more efficient capitalisation, lower costs of risk and funding, and support for growth. Together this results in the ability to generate more economic profit.

The cost of capital is reduced by working closely with rating agencies and regulators to align capital requirements to risks, thereby reducing capital. Funding costs are kept low by ensuring that the debt market gives ING benefit for our conservative risk profile. Risk costs are mitigated by minimising losses and encouraging the diversification of risk. Being spread out across different areas contributes to lower risk and capital requirements.

Individual business units benefit from being part of a globally diversified group. Risk Management helps them lower funding costs, make use of the latest risk management tools and skills, and lower strategic risk, allowing business units to focus on their core expertise. This ultimately makes our businesses more competitive in their markets.

Sound risk management also supports growth. Risk measurement allows ING to identify portfolios generating economic value. Risk management can help identify the most economically profitable areas as well those businesses that are underperforming and in some cases need to be sold.

SOUND COMPLIANCE

Financial institutions continue to experience close scrutiny by regulatory authorities, governmental bodies, shareholders, rating agencies, customers and others to ensure they comply with the relevant laws, regulations, standards and expectations. Bank and Insurance regulators and other supervisory authorities in Europe, the US and elsewhere continue to oversee the activities of financial institutions to ensure that they operate with integrity and conduct business in an efficient, orderly and transparent manner. ING seeks to meet the standards and expectations of regulatory authorities and other interested parties through a number of initiatives and activities, including scrutinising account holder information,

payment processing and other transactions to support compliance with regulations governing money-laundering, economic and trade sanctions, bribery and other corrupt practices. The failure or perceived failure by ING to meet applicable standards in these areas could result in, among other things, suspension or revocation of ING's licenses, cease and desist orders, fines, civil or criminal penalties and other disciplinary action which could materially damage ING's reputation and financial condition. ING's primary focus is to support these objectives as good business practice through Business Principles and group policies.

ING Bank N.V. has been in discussions with its Dutch bank regulator De Nederlandsche Bank (DNB) related to transactions involving persons in countries subject to sanctions by the EU, the United States and other authorities. These discussions prompted ING Bank to engage in a review regarding transactions involving sanctioned parties. In connection with this review and related discussions ING Bank has undertaken to complete the global implementation of enhanced compliance and risk management procedures, and to monitor the implementation of such procedures on an ongoing basis, as instructed by DNB. ING Bank also remains in discussions with authorities in the US and in other jurisdictions concerning these matters, and it is not possible to predict at this time the outcome thereof.

One of the key priorities in 2007 was to work closely with business management to further embed the company-wide Financial Economic Crime Policy. An enhanced Financial Economic Crime policy has been rolled out globally, requiring the implementation of strict Know Your Customer and Customer Due Diligence programs as well as the use of technology for the screening of customers and transactions.

As a result of our frequent evaluation of all businesses from economic, strategic and risk perspectives, ING Bank N.V. has closed its representative office in Cuba and the Netherlands Caribbean Bank, which is now a 100% subsidiary, is being liquidated. In addition, ING has concluded that for business reasons doing business involving certain specified countries should be discontinued, which includes that ING will not enter into new relationships with clients from these countries while a process has started to discontinue existing relationships involving these countries. At present these countries include Myanmar, North Korea, Sudan, Syria, Iran and Cuba.

In addition a dedicated Sanctions Desk was established within Corporate Compliance in 2007 to help the businesses cope with the increasing amount of regulation and sanctions, such as the EU, UN and US Regulations on money laundering and terrorist financing and sanctions.

Also in 2007 ING continued to increase knowledge and understanding of compliance among its employees. The Executive Board stressed that ING's strategy of sustainable, profitable growth can only be achieved along with effective compliance management. Compliance support teams have been established to help business lines embed compliance within their activities and extensive programs have been initiated to increase compliance knowledge and understanding. These teams serve as a channel for education, coaching, communication and sharing good compliance practices.

The capability and capacity of the Corporate Compliance function have been increased, including a staff increase of 55% and the creation of a central team focusing on Financial Economic Crime and anti-money laundering policies and procedures.

A Compliance Programme Office was set up to support ING's continuing focus on building a culture where compliance is an integral part of 'how business is done'. To increase compliance awareness, a global communication programme was set up commencing with strong messages from the Executive Board.

A PARTNER TO THE BUSINESS

The turbulence in the financial markets in 2007 underscored the need for sound risk management during times of difficulty. Risk management has evolved significantly since ING started in 2006 to strengthen the risk function. The change emphasises the role of Risk Management not only as a watchdog, but as an enabler and partner in generating value for shareholders. Risk Management works with the business to identify and execute business opportunities, lower the cost of funding and support strategic decisions.