

# Insurance Europe

## Solid performance with robust value creation

### Key points

- > Solid financial performance in a challenging environment
- > Robust value creation in Central Europe accentuated by successful start of Romanian pension fund
- > Strong distribution footprint in mature Benelux market provides a competitive edge
- > Active capital management increases capital efficiency

#### Profit and loss account (underlying)

in EUR million	2007	2006	change
Premium income	<b>10,253</b>	9,854	4.0%
Operating expenses	<b>1,726</b>	1,702	1.4%
Underlying profit before tax	<b>1,840</b>	2,249	-18.2%
Total profit before tax*	<b>2,300</b>	2,362	-2.6%

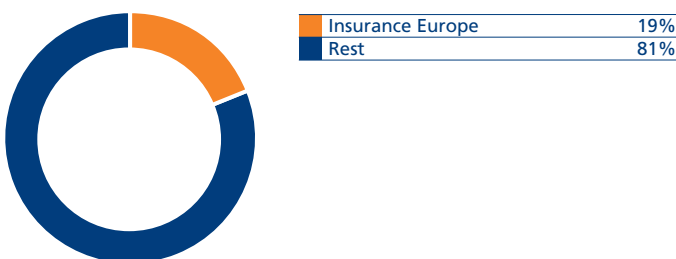
\* Total profit before tax is defined as profit before tax including divestments and special items.

#### Key figures

	2007	2006
Value of new life business (EUR million)	<b>400</b>	219
Internal rate of return	<b>15.8%</b>	14.9%
Embedded value of life business (EUR million)	<b>14,156</b>	16,103
Economic capital (EUR billion)	<b>5.9</b>	5.9

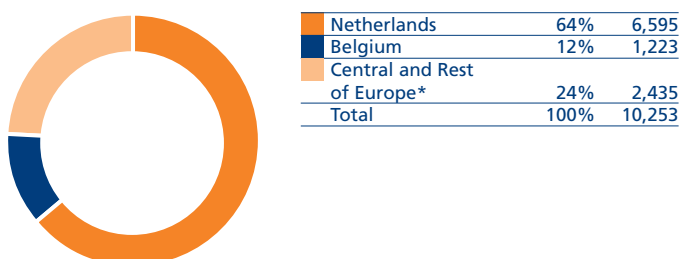
#### UNDERLYING PROFIT BEFORE TAX

in percentages



#### GEOGRAPHICAL BREAKDOWN OF PREMIUM INCOME

in percentages



\* Bulgaria, the Czech Republic, Greece, Hungary, Poland, Romania, Russia, the Slovak Republic and Spain.

Insurance Europe is an important profit and value contributor to ING Group. It showed a solid financial performance in 2007, by improving efficiency and optimising distribution channels in the Benelux, by accelerating growth in Central Europe and by reinforcing ING's position as a specialist provider of investments and retirement services across Europe.

#### FINANCIAL DEVELOPMENTS

Insurance Europe's underlying profit before tax declined 18.2% to EUR 1,840 million in 2007 (life 15.7%, non-life 25.4%). Stronger life insurance results in Belgium and Central & Rest of Europe did not fully offset lower results in the Netherlands, which were impacted by lower gains and revaluations on real estate and private equity investments. Total profit before tax (including divestments) in 2007 slightly declined by 2.6% to EUR 2,300 million, due to the EUR 418 million divestment gain related to the sale of the Belgian broker and employee benefit business in September 2007.

Underlying premium income increased by 4.0% to EUR 10,253 million, mainly due to higher life premiums in Belgium and Central & Rest of Europe. Central Europe continued its strong growth in life premiums, even though in some markets the growth was slower than in 2006 due to volatile equity markets in the second half of 2007. In Belgium, life premium growth was driven by the success of investment products with high profit participation potential. Premiums in the Netherlands decreased slightly following re-pricing of immediate annuities as well as rate pressure in the non-life market.

Underlying operating expenses increased by 1.4%. The slight decrease in the Netherlands of 1.6% was more than offset by an increase in Central & Rest of Europe of 15.9%, largely explained by higher start-up investments for the life insurance operation in Russia and the second-pillar pension fund in Romania. Expenses in the Netherlands were tempered by ongoing staff reductions and last year's software impairments, as the release of employee benefits provisions in 2007 was matched by last year's releases.

The value of new business (VNB) increased strongly by 82.6% to EUR 400 million and new sales (APE) increased by 21.3% to EUR 969 million, particularly due to higher sales in Central & Rest of Europe. The successful launch of the Romanian second-pillar pension fund contributed EUR 150 million in VNB and EUR 108 million in new sales in 2007; excluding the new pension fund, VNB for the Central Europe region was up 31.5%.

Excluding a capital upstream from the Dutch insurance companies to the holding of ING Insurance, the embedded value of the life insurance activities in Europe increased by 21.3% to EUR 19,533 million because of the strong VNB growth and favourable equity returns that more than offset the divested business in Belgium. Including the capital upstream, the embedded value decreased by 12.1% to EUR 14,156 million.

#### Country developments

Underlying profit before tax in the Netherlands decreased by 24.4% to EUR 1,445 million, mainly due to lower gains and revaluations on real estate and private equity investments in 2007 as well as the material release of disability provisions in 2006, after the introduction of new long-term disability legislation.

In Belgium, underlying profit before tax increased by 8.5% to EUR 64 million, as a decline in the non-life business caused by weather related claims in early 2007 and strengthening of the claims provisions for disability, was more than offset by higher life results.

Despite EUR 23 million higher start-up investments in new businesses in Russia and Romania, Central & Rest of Europe's underlying profit before tax increased 17.7% to EUR 332 million. Profit growth was driven by the life business and related asset management activities. The higher life result was mainly due to strong sales throughout the region propelled by the accelerated growth strategy.

The Dutch life insurance sector is faced with complaints of policy holders concerning the cost and transparency of unit-linked life insurance products. Further details are included in the annual accounts on page 156.

#### HIGHLIGHTS

ING Insurance Europe operates in the mature Benelux market and the emerging markets in Central and Eastern Europe with a strong focus on life insurance and retirement services. Across the region, a number of trends affecting the insurance industry are becoming increasingly visible. First of all, as in many other parts of the world, the European population is living longer than any generation before. Consequently, insurers will increasingly need to focus on insuring longevity risk, providing solutions to help customers create and manage the capital needed to finance a long retirement. Second, the distinction between commodity and advisory products is becoming more apparent, with bank and direct channel distribution growing at the expense of the intermediary channel in commodity products. Third, increased transparency requirements and heightened competition, with some competitors adopting aggressive pricing strategies to capture market share, are putting pressure on premium volumes and margins.

Insurance Europe is addressing these trends by tailoring the specific strategies of its individual insurance companies to the maturity of the markets in which they operate. In the mature markets of the Benelux where there is moderate growth, ING focuses on improving efficiency and optimising distribution, whereas in the fast-growing markets of Central Europe, the focus is on accelerating growth. Across all regions, ING Insurance Europe is taking advantage of the opportunities created by ageing populations and is reinforcing its position.

These tailored strategies are raising Insurance Europe's growth profile. This is underpinned by active capital management within ING Group, where capital is being redeployed to those regions (high-growth markets), products (retirement services) and distribution channels (especially bank and direct) which offer the highest growth potential.