

## 2.4 Additional financial information

## Embedded value

amounts in millions of euros unless stated otherwise

Embedded Value is an indicator of the economic value creation as a consequence of selling and managing long-term contracts such as life insurance, annuities and pensions. Embedded value is defined as the sum of Adjusted Net Worth and the Value of the in-force covered business. Adjusted net worth equals the free surplus and the required capital. The value of in-force covered business is defined as the present value of future after-tax statutory book profits expected to arise from the in-force business, including new business written in the reporting period, less the cost of capital. The value of new business is the embedded value added with sales during the year, and therefore provides insight into the expected profitability related to 2007 sales. Future profits are estimated using actuarial methods and ING's best estimates for future assumptions except for economic assumptions, which are more aligned with market rates.

The European Embedded Value (EEV) Policies were published in May 2004 by the CFO Forum, a group representing the Chief Financial Officers of major European insurers. The Policies and associated guidance provide a framework for calculating and reporting supplementary embedded value information. ING has adopted the EEV Principles in respect of the year-end results from 2004 through 2007. This Report also takes account of the Additional Guidance on EEV Disclosures effective for 31 December 2006 reporting.

Before dividends less capital injections, the Embedded Value of ING's life insurance operations increased to EUR 32,460 million compared to EUR 27,718 million at year-end 2006. After cash dividends less capital injections from the business covered in the Embedded Value results, the embedded value decreased to EUR 26,993 million, primarily due to dividends from Nationale-Nederlanden. Both the 2006 and 2007 figures are before deduction for the life insurance pension deficit. The pension deficit was EUR 513 million in 2006 and is EUR – 154 million in 2007.

Except for the divestment of business and currency effects, all components of the Embedded Value movement contributed to the increase in the embedded value result.

## New business value

	Annual premium	Single premium	IRR <sup>(1)</sup>	Value of new business	VNB/PV premiums <sup>(2)</sup> 2007	Annual premium	Single premium	IRR <sup>(1)</sup>	Value of new business	VNB/PV premiums <sup>(2)</sup> 2006
Netherlands	156	1,191	12.2%	70	2.9%	154	1,495	12.8%	76	2.8%
Belgium/Luxembourg <sup>(3)</sup>	22	1,037	13.2%	17	1.3%	21	904	12.3%	19	1.4%
Central Europe & Spain	465	1,028	18.4%	313	4.0%	314	711	18.1%	124	4.0%
USFS	1,419	18,791	11.3%	215	0.9%	1,495	16,418	10.3%	145	0.7%
Latin America	354	193	15.8%	55	8.9%	322	210	10.5%	22	3.8%
Asia/Pacific	1,777	9,034	16.8%	442	2.5%	1,621	5,609	16.8%	421	3.1%
ING Group	4,193	31,273	14.3%	1,113	2.1%	3,927	25,347	13.3%	807	1.9%

<sup>(1)</sup> IRR = internal rate of return adjusted for expected currency movements relative to the euro.

<sup>(2)</sup> VNB/PV premiums = value of new business divided by the present value of new business premiums.

<sup>(3)</sup> Belgium figures for 2006 were adjusted to exclude the business divested in 2007.

The Value of New Business for 2007 of EUR 1,113 million compares to EUR 807 million in 2006, an increase of 37.9%. The largest contributions were from the developing markets in Asia/Pacific and Central Europe. The largest increases were in Central Europe, where the Romania Pillar II pension funds added EUR 150 million; and the USFS, where the US Life insurance business and ING Financial Products sales increased significantly, and in Mexico's pension business. The developed markets of Belgium, the Netherlands, and Luxembourg combined for a 8.4% decline in VNB, from EUR 95 million in 2006 to EUR 87 million. Profitability of the business sold, as measured by the internal rate of return (IRR) improved by 1.0 percentage point, to 14.3% on greater volume of business, as measured by the investment in new business. The investment in new business increased to EUR 2,093 million from EUR 1,831 million in 2006. The higher investment and IRR is consistent with the higher VNB. The expected internal rate of return in developing markets is 18.6%, compared to 17.7% in 2006.

Acquisition expense overruns decreased from EUR 87 million in 2006 to EUR 44 million in 2007, a decrease of 49.4%. This is explained by a combination of 13.3% higher sales, the reallocation of expenses in the US from acquisition to maintenance expenses, and the removal of Greenfield start-up costs from acquisition expenses.

### Embedded value of the life operations

	2007	2006
Free surplus	1,128	3,781
Required capital	13,498	13,873
Adjusted net worth	14,626	17,654
Present value of future (statutory) book profits	17,102	15,382
Cost of holding required capital	-4,734	-5,318
Value of in force covered business	12,367	10,064
Embedded value	26,993	27,718

### Embedded value per business line – life operations

	2007	2006
Netherlands	9,723	12,032
Belgium/Luxembourg	546	1,111
Central Europe & Spain	3,887	2,961
Insurance Europe	14,156	16,103
United States	9,068	9,376
Latin America	1,565	896
Insurance Americas	10,633	10,272
Insurance Asia/Pacific	2,204	1,343
ING Group	26,993	27,718

### Change in embedded value of the life operations

Reported value 2006	27,718
Addition of business/(divested business)	-431
Currency effects	-996
Model changes	185
Revised starting embedded value	26,476
Value of new business	1,113
Financial variances	1,172
Operational variances	394
Operating assumption changes	123
Embedded value profit	2,802
Required return	1,770
Investment return on free surplus	470
Discount rate changes	210
Economic assumption changes	261
Embedded value of business acquired	472
(Cash dividends and) capital injections	-5,468
Ending embedded value 2007	26,993

## 2.4 Additional financial information

## Embedded value (continued)

Major drivers of change in EV 2007 are:

- Value of New Business, EUR 1,113 million is a large increase over the 2006 figure of EUR 807 million. The VNB of the Americas and Europe increased by 61.7% and 82.6%, respectively. Asia/Pacific increased by 5.0% and remains the largest contributor to VNB of the three regions.
- Financial variances of EUR 1,172 million are down slightly from 2006 and are attributed to realised equity gains in the Netherlands.
- Operational variances of EUR 394 million compare to EUR –33 million in 2006. Better than anticipated reserve development, implementation of US Life reinsurance transaction for redundant reserves and improved general account asset strategies in USFS were the largest contributors to the increase.
- Operational assumption changes of EUR 123 million are primarily due to a better reflection of the US variable annuity fees in the actuarial projection models.
- Total impact of economic assumption changes (EUR 261 million) and corresponding discount rate adjustments (EUR 210 million) was EUR 471 million. Economic assumption changes include interest rates, equity & real estate, and other asset return assumptions, as well as expense and wage inflation.
- Required return on beginning in-force (unwind of discount rate) increased the embedded value EUR 1,770 million.
- The addition of business/(divested business) of EUR –431 million primarily reflects a divestment in Belgium and the increase in ING's ownership percentage of ING Life Korea. Note that the acquisition of Santander's Latin America pension business is reflected in a separate category – Embedded Value of business acquired.
- Currency effects of EUR –996 million reflect the weakening of currencies in the Americas vs. the Euro.
- Model changes reflect the true-up of year-end 2006 inforce to the actual figures to re-establish the starting point for 2007 reporting, changes to Embedded Value that result from asset mix changes, a change in expense policy to include the start-up expenses for Greenfields, and changes to the models used to project distributable earnings. Asset mix changes in the Netherlands account for the large contribution in Europe. Model changes and the Greenfield expenses account for the reduction in Asia/Pacific.
- Dividends, net of capital injection reduced the Embedded Value by EUR 5,468 million, primarily due to dividends paid by Nationale-Nederlanden.

#### Sensitivity embedded value to economic assumptions

The tables below show the outcomes of sensitivity analysis of the Embedded Value as at 31 December 2007 to:

- One percentage point decrease and increase in new-money interest rates;
- One percentage point decrease and increase in the discount rates;
- New money rates based on implied market forward rates derived from the swap rates as at 31 October 2007. The discount rate is adjusted accordingly;
- One percentage point decrease in assumed investment returns for equity and real estate investments;
- Ten percent fall in market value of equity and real estate investments; and
- Local regulatory minimum capital requirement.

In each sensitivity calculation, all other assumptions remain unchanged except

- where they are directly affected by the revised economic conditions; for example, future bonus crediting rates are automatically adjusted to reflect sensitivity changes to future investment returns; and
- when indicated above that the risk discount rate is adjusted accordingly; in this case the risk margin remains unchanged.

#### Sensitivity embedded value to economic assumptions

	Insurance Europe	Insurance Americas	Insurance Asia/Pacific	Total
As reported – Embedded Value (net of tax)	<b>14,156</b>	<b>10,633</b>	<b>2,204</b>	<b>26,993</b>
1% decrease in new-money rates	<b>-310</b>	<b>-532</b>	<b>-1,656</b>	<b>-2,499</b>
1% increase in new-money rates	<b>279</b>	<b>304</b>	<b>1,532</b>	<b>2,115</b>
1% decrease in discount rates	<b>1,161</b>	<b>499</b>	<b>522</b>	<b>2,182</b>
1% increase in discount rates	<b>-979</b>	<b>-451</b>	<b>-446</b>	<b>-1,876</b>
Implied market forward rates (31 October 2007)	<b>-2</b>	<b>57</b>	<b>17</b>	<b>73</b>
1% lower equity and real estate returns	<b>-846</b>	<b>-190</b>	<b>-197</b>	<b>-1,233</b>
10% downward shift in market values of equity and real estate investments	<b>-1,245</b>	<b>-396</b>	<b>-304</b>	<b>-1,946</b>
Local regulatory minimum capital requirement	<b>295</b>	<b>220</b>	<b>2,107</b>	<b>2,621</b>
Net impact of <sup>(1)</sup> :				
1% decrease in new-money and 1% decrease in discount rates	<b>851</b>	<b>-34</b>	<b>-1,134</b>	<b>-317</b>
1% increase in new-money and 1% increase in discount rates	<b>-700</b>	<b>-147</b>	<b>1,086</b>	<b>239</b>

<sup>(1)</sup> Net impact shown here is the sum of the individual sensitivities presented above. Note that this may differ from an exact calculation of changing both parameters together.

We make the following observations to above results:

- The net impact of 1% decrease in new money rate (1% downward parallel shift) and discount rates is EUR –317 million, whereas these two effects are somewhat offsetting the 1% increase sensitivity (EUR 239 million). This is due to interest guarantees, which reduce margins when interest rates fall.
- The impact of using local regulatory minimum capital instead of ING capital model is positive EUR 2,621 million and primarily due to Taiwan for which ING allocates capital at a significantly higher level than local regulatory level.

#### New business value from developing markets <sup>(1)</sup>

	Annual	Premiums single	IRR	Value 2007	Annual	Premiums single	IRR	Value 2006
Central Europe	369	539	20.1%	278	232	451	18.6%	88
Americas	354	193	15.8%	55	322	210	10.4%	21
Asia/Pacific	1,462	992	18.7%	344	1,228	668	19.7%	320
ING Group	2,185	1,723	18.6%	678	1,782	1,329	17.7%	429

<sup>(1)</sup> Countries classified as developing markets are:

- Central Europe: Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, Russia;
- Americas: Chile, Mexico, Peru;
- Asia/Pacific: China, Hong Kong, India, Korea, Malaysia, Taiwan, Thailand.

Developing markets new business value of EUR 678 million, increased by 57.7% from 2006.

#### INDEPENDENT OPINION

Watson Wyatt Limited ('Watson Wyatt'), an international firm of consulting actuaries, has reviewed the calculation of the Embedded Value of ING as at 31 December 2007 and the Value of its New Business written during 2007. All material business units were included in the review. The covered business included all life insurance and other material long-term business lines.

The primary focus of the review was the methodology and assumptions used. Watson Wyatt was also requested to perform a limited high level review of the results of the calculations but was not asked to perform any detailed checks on the models and processes used.

Watson Wyatt has concluded that the methodology and assumptions used comply with the European Embedded Value Policies and Guidance.