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.

Insurance Europe (continued)

Optimising the Benelux insurance operations...
In the Benelux region, ING is improving cost and capital efficiency, actively managing its business portfolio, enhancing customer satisfaction and leveraging its solid distribution power across the various distribution channels. These are fundamental factors in sustaining the profitability of the Benelux insurance operations.

...by improving cost efficiency...
Nationale-Nederlanden (NN) made substantial progress to improve its cost efficiency. It has reduced internal staff by 1,200 FTEs over the last three years. Important changes in regulations (such as the Dutch pension act) temporarily increased the number of external staff needed to meet expectations from customers and regulators, slightly mitigating the overall impact of the cost efficiency programme. In the coming years, large cost reductions can be further realised by standardising and rationalising the current IT applications, as a major part of the cost reductions are IT related.

...by improving capital efficiency...
To improve capital efficiency, the Dutch insurance companies paid EUR 5.8 billion of dividends to the holding company of ING Insurance in the course of 2007, of which EUR 5.0 billion was surplus capital. It is expected that these capital transactions will structurally reduce the pre-tax profit capacity of Insurance Netherlands by approximately EUR 250 million per year going forward. The surplus capital dividend was a direct consequence of an asset and liability management study which was conducted in the course of 2007. The study also resulted in a recommendation to change the strategic asset allocation by reducing the exposure to equities and Dutch residential mortgages, and increasing the share of long-term fixed income investments. In May 2007, NN started to cede its mortgages to ING Bank. The cessions of residential mortgages of NN and RVS to ING Bank will be finalised during 2008.

...by actively managing the business portfolio...
The business portfolio in the Benelux was actively managed in 2007 with the sale of the non-core broker and employee benefits business of ING Belgium to P&V Verzekeringen. ING will continue to sell life and non-life insurance products in Belgium exclusively through its proprietary retail bank channels (ING Bank and Record Bank). It is expected that this distribution channel will become more dominant in the future, and will experience above industry average growth rates. In the Netherlands, NN has decided to discontinue several industry pension fund contracts that have marginal returns, thereby freeing up economic capital and improving returns. At the same time, the add-on acquisition of AZL which was completed early 2007, strengthens ING's position in the Netherlands as an integrated services provider for pension funds. An integrated service offering, including fiduciary asset management and excellent administration capabilities, is critical to obtain mandates from company pension funds which are increasingly outsourcing activities.

...by enhancing customer satisfaction...
NN continues to make strong progress in improving customer satisfaction, as satisfaction levels increased in every segment in which NN operates, as measured by the annual Dutch Insurance Performance Survey.

...and by leveraging the solid distribution power
With access to brokers (NN), tied agents (RVS) and retail banks (ING Bank and Postbank), ING is well-positioned to take advantage of current trends such as increasing bank distribution and the strong distinction between commodity products and advisory products. As part of this multi-channel strategy, NN and RVS are partnering with the introduction of the employers distribution platform, offering personal financial advice to individual employees covered by NN's corporate contracts. RVS already interested more than 2,000 employers and started to generate around EUR 6 million of sales from this concept in 2007. Bank distribution is becoming increasingly important for standardised non-life products. This is evidenced by the successful launch by ING Bank Belgium of the sale of car insurance policies manufactured by NN, with more than 9,000 policies sold at the end of 2007. As a result of the reorientation of NN's captive distribution channel, its scope will change from personal to business clients with a focus on high-quality advice. Postbank Insurance continued to be successful with its strategy of focusing on internet sales, lowering costs through simpler operational processes and consolidating the strong position in the mortgage-related insurance market. For example, in the term life market, sales have accelerated by 60% in 2007. The improved Postbank home insurance product has led to a 50% increase in home insurance sales compared to 2006, contributing to 25% overall sales growth.

Accelerating growth in Central Europe...
Central Europe is enjoying sustained high economic growth, which together with the low life insurance penetration and favourable demographics, make it a growth market for life insurance and pensions. Insurance Central Europe achieved strong increases in the value of new business and new sales and continued to show steady growth in premiums, pension fund inflows and profit. Building on its first-mover advantage, at year-end 2007 ING had organically created an embedded value of EUR 3.9 billion since the start of its operations in Central Europe in the early 1990s. ING's continued strong performance in the region is based on the successful implementation of an accelerated growth strategy, based on four pillars: broadening the distribution base, extending the product range, establishing new greenfields, and increasing operational efficiency.

Tied agents are currently the main distribution channel in Central Europe. ING continued its programme to enhance the effectiveness of its tied sales agents, which is reflected in an increase in their productivity of over 20% in 2007. The sales force is primarily assessed on its value creation, persistency and retention of clients. At the same time, ING is broadening its distribution through partnerships with local brokers and banks. ING Hungary, for instance, showed successful sales of insurance-linked mortgages in cooperation with two local banks. In Greece, ING finalised an exclusive 10-year distribution partnership with Piraeus Bank, one of the country's leading banks. Direct distribution of simple, standardised products is developed selectively as a lead generator for more advice-sensitive products.

In 2007, further progress was made with extending the product range. In Romania, Hungary, Poland and Slovakia, basic protection products have been developed that also give ING access to lower income segments.

…and starting new operations

ING launched two greenfields in Central Europe in 2007: a life insurance company in Russia and a mandatory pension fund in Romania. The first life insurance policy was sold in Russia in July. Whereas the Russian life insurance market offers substantial potential, it is still at an early stage of development and will require a long-term effort. The first priority is to recruit and train a sales force of tied agents. In addition, ING is also looking for opportunities to conclude distribution agreements with banks. The Romanian government introduced mandatory private pension funds in September 2007. With the aim of capturing a large market share, ING Romania made a remarkable achievement by recruiting and training a large flexible sales force, bringing the total to about 40,000 distributors. These efforts clearly paid off with more than one million new clients at the end of 2007, outperforming all competitors by a considerable margin and resulting in a market share of over 30%.

Finally, ING Insurance Central Europe started a large-scale Lean Six Sigma programme, comprising 40 projects to improve operational efficiency and client service.

Specialist provider of investments and retirement solutions across Europe

ING Investment Management Europe has shown a strong increase in profit during the last few years. Despite outflows in the Netherlands, growth in 2007 came from organic sources in third-party distribution and proprietary business, especially by strong sales of Bank Slaski in Poland. Net results were positively influenced by the profitable top line growth. ING Investment Management is discussed in more detail in the Asset Management chapter on page 49.

ING also launched single premium variable annuities in Spain (end of March) and Hungary (July), which contributed EUR 173 million to the premium growth. These products are long-term savings products that combine the opportunity to benefit from the upside potential of equity investments with the security of an investment guarantee. This guarantee makes these products an attractive instrument for clients saving for their retirement.

CONCLUSIONS AND AMBITIONS

ING Insurance Europe continued its solid performance in 2007, both in terms of profit and value creation. Looking ahead, the business will continue to respond to emerging trends in the insurance industry, in particular by addressing changing client needs, the move to a multi-distribution approach, more competition and the growing need for cost efficiency. In the Benelux, ongoing volume and margin pressure will require a continued focus on cost reduction to retain attractive pricing as well as improved customer satisfaction. ING will increasingly shift the emphasis towards life insurance and pensions and will, within its multi-distribution approach, expand bank distribution.

In Central Europe, ING aims to expand its leading position by executing its four-pillar accelerated growth strategy. The efforts to establish partnerships with banks and brokers will be intensified in 2008 and the tied agents sales force will be further professionalised. Products for the emerging middle class will be developed, as well as products to retain the assets of customers whose policies were written in the early 1990s. ING will closely look at the opportunities to sell life insurance and pension products in the large Turkish market leveraging on the recent acquisition of Oyak Bank in that country. In order to establish scale and benefit from the growing economies in Central Europe, ING will remain alert for opportunities to start more greenfield operations in the region and to possibilities for new distribution partnerships and add-on acquisitions.

Finally, in line with ING's focus on providing investments and retirement solutions across Europe, the roll-out of variable annuities will continue in both existing and new markets.