

With economic growth and wealth creation in Asia continuing to outpace other regions, Insurance Asia/Pacific is well-positioned to capitalise on opportunities for further growth. As a key value creator for ING, Insurance Asia/Pacific has a strong footprint in the region with a comprehensive product portfolio and multi-distribution capabilities.

FINANCIAL DEVELOPMENTS

Underlying profit before tax decreased by 7.2% to EUR 576 million in 2007 from EUR 621 million in 2006. Higher profits in South Korea and Australia were more than offset by a decrease in Japan. Excluding Japan, underlying profit before tax increased by 18.7%. During the year, Insurance Asia/Pacific continued to invest in ongoing expansion of its businesses, especially in the high-growth markets of China, India and Thailand.

On the income side, gross premium income increased 4.1% to EUR 12,632 million, as higher premiums in Australia, South Korea and Taiwan were partly offset by lower premiums in Japan. Double-digit growth rates in premium income were recorded in local currency terms in most of Insurance Asia/Pacific's other markets.

Assets under management increased by 17.9%, reaching EUR 99 billion by year-end 2007, driven by Japan, China, India and Taiwan. In Japan, ING Funds Japan secured a EUR 1.5 billion mandate on selected funds from Nomura securities. In Taiwan, assets under management for the investment-linked business more than doubled to EUR 1.4 billion from a year earlier due to the acquisition of ABN AMRO asset management business in the fourth quarter 2006.

Underlying operating expenses increased 15.5% to EUR 1,115 million, reflecting the increase of business volumes and the focus on building organisational capabilities and infrastructure, and investing in greenfield operations.

The value of new business (VNB) written by Insurance Asia/Pacific was EUR 442 million, up 5.0% compared with 2006, driven by Taiwan, Australia and Rest of Asia. South Korea and Japan recorded lower VNB. The 2007 figures reflect a change in VNB methodology for the greenfield business units in China, India and Thailand. This change removed start-up expenses from their VNB, which had a positive impact of EUR 16 million in 2007. The internal rate of return remained highly attractive at 16.8%, consistent with that in 2006. Despite lower financial variances and operating assumption changes, the embedded value of the life business increased to EUR 2,204 million at the end of 2007 from EUR 1,343 million in 2006.

Country developments

In Australia and New Zealand, underlying profit before tax increased 33.5%, or EUR 54 million to EUR 215 million in 2007 from EUR 161 million in 2006 driven by growth of funds under management, investment earnings and one-off gains of EUR 11 million. Life premium income rose by 19.6%, or EUR 45 million to EUR 275 million in 2007 from EUR 230 million in 2006, driven by new sales in life risk and personal investment products, along with favourable in-force business retention. ING Australia's innovative best-selling product OneCare, a yearly renewable term product offering lump sum and disability income benefits continues to command a leading market share. Operating expenses increased

14.4% due to higher volume-driven expenses such as investment management, a direct campaign and stamp duty costs.

In Japan, underlying profit before tax decreased by 84.6%, or EUR 132 million to EUR 24 million in 2007 from EUR 156 million in 2006 largely due to the impact of market volatility on its variable annuities business, and a EUR 24 million markdown in the assets backing the Corporate Owned Life Insurance (COLI) business related to a collateralized debt obligation (CDO). The total market for new Single Premium Variable Annuity (SPVA) business decreased due largely to the introduction of new regulatory requirements (Financial Instruments Exchange Law: FIEL) which increased compliance procedures for distributors of financial products such as mutual funds and SPVAs. The market was also negatively impacted by weakened consumer confidence due to ongoing market volatility. Despite these developments, sales of ING Life Japan's Smart Design 1-2-3 introduced in the second half of 2007 were strong and ING maintained its top-3 market position. Although COLI tax product sales continue to be impacted by new tax deductibility guidelines, ING is well positioned for a shift to more protection driven COLI products in that market. However overall, premium income declined by 5.0%. Operating expenses increased by 6.6%, mainly due to higher promotional and branding activities.

In South Korea, underlying profit before tax rose by 14.1%, or EUR 37 million, to EUR 300 million in 2007 from EUR 263 million in 2006, driven primarily by growth of investment-linked product sales and in-force premium, as well as a one-off recognition of EUR 10 million dividend on equity investment funds that were consolidated in the fourth quarter of the year. Premium income rose by 11.9%, or EUR 383 million to EUR 3,607 million in 2007 from EUR 3,224 in 2006, due mainly to sales of unit-linked products. Operating expenses rose by 29.1%, or EUR 57 million, to EUR 253 million in 2007 from EUR 196 million in 2006 as support for growing the business increased.

As in 2006, ING recorded zero profit for Taiwan in 2007 due to strengthening of reserves in what continues to be a low interest rate environment. A total charge of EUR 110 million was taken in 2007 to strengthen reserves, compared with EUR 182 million in 2006. In Taiwan, ING's strategic focus is to boost its sales and VNB by improving tied agency productivity and selling a higher proportion of the less capital intensive investment-linked products, supported by the higher margin accident and health riders. In line with this strategy, new sales increased by 56.8% to EUR 425 million from EUR 271 million in 2006. Value of new life business increased by 17.4% to EUR 182 million from EUR 155 million in 2006 with IRR at 20.0%.

In Rest of Asia, underlying profit before tax from life insurance increased to EUR 34 million from EUR 33 million in 2006, partly driven by Malaysia's new sales of its single premium investment-linked product. Greenfield operations in China, India and Thailand recorded losses as ING continues to invest for future growth and profitability in these markets. ING Vysya Life in India is continuing to increase its distribution reach including agency force and sales offices. ING's life insurance joint-ventures in China obtained regulatory approval to open branch offices in the provinces of Anhui and Jiangsu, establishing a presence in two more regions (adding to its current operations in 10 provinces) with a combined population of more than 136 million.