Retail Banking
Investing in efficiency and growth

Key points

> Investment in integration of Postbank and ING Bank underlines commitment to Dutch market

> Acquisition of Oyak Bank gives ING solid platform in Turkey

> Continued strong growth in Poland, Romania and India

> Private Banking benefits from increasing wealth worldwide

Profit and loss account (underlying)

in EUR million	2007	2006	change
Total income	**6,396**	6,086	5.1%
Operating expenses	**4,162**	3,990	4.3%
Additions to loan-loss provisions	**172**	161	
Underlying profit before tax	**2,062**	1,935	6.6%
Total profit before tax*	**1,783**	1,935	–7.9%

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

Key figures (underlying)

	2007	2006
After-tax RAROC	**39.5%**	32.0%
Economic capital (EUR billion)	**3.9**	4.1

UNDERLYING PROFIT BEFORE TAX
in percentages

Retail Banking	22%
Rest	78%

Breakdown of underlying profit before tax

in EUR million	2007
Netherlands	**1,548**
Belgium	**341**
Poland	**110**
Other*	**63**
Total	**2,062**

* Mainly the retail banking operations in Romania, Ukraine, India (ING Vysya Bank), Private Banking Asia and Americas, ING Card, ING Trust, the ING participations in Bank of Beijing, TMB and Kookmin Bank.

Retail Banking performed well in 2007, especially in key product areas of mortgages and savings. Important steps were taken to improve efficiency in the mature markets and to enter high-growth markets in Central and Eastern Europe and Asia. In a financial services environment characterised by consumer power, rapid technological change and globalisation, Retail Banking aims to set the standard in convenience banking around the world.

FINANCIAL DEVELOPMENTS

Underlying profit before tax from Retail Banking rose 6.6% to EUR 2,062 million as strong growth in most products helped offset the impact of challenging market conditions as inverse yield curves persisted and competition intensified for retail savings. Total profit before tax decreased 7.9% as 2007 included EUR 310 million in restructuring provisions, of which EUR 299 million for combining Postbank and ING Bank in the Netherlands. This was in part offset by a gain of EUR 32 million on the sale of RegioBank.

Underlying income increased 5.1% to EUR 6,396 million as a result of strong growth in almost all products. The impact of composition changes, like the mortgage portfolios that were transferred from ING Insurance, the sale of RegioBank as well as the transfer from a SME portfolio in Poland from Wholesale Banking to Retail Banking was limited. Excluding these composition changes and the EUR 44 million gain on Banksys in Belgium in 2006, the increase was 4.7%.

Total underlying operating expenses increased 4.3% to EUR 4,162 million driven by investments to grow the business in Poland, India, Romania and the Private Banking activities in Asia. The underlying cost/income ratio slightly improved to 65.1% from 65.6%. The addition to the provision for loan losses rose to EUR 172 million from EUR 161 million in 2006, due to higher risk costs in the Netherlands mainly related to a specific SME portfolio. The addition as a percentage of average credit-risk-weighted assets declined slightly to 16 basis points down from 17 basis points in 2006, due to strong business growth.

The underlying risk-adjusted return on capital (RAROC) after tax from Retail Banking improved to 39.5% from 32.0% in 2006. Higher risk-adjusted results combined with reduced economic capital led to this increase. The after-tax RAROC's of all regions improved. Average economic capital declined 4.2% to EUR 3.9 billion. Methodology refinements in line with Basel II compensated for strong business growth and the transfer of portfolios.

Country developments

Underlying profit before tax from Retail Banking in the Netherlands rose 9.8% to EUR 1,548 million driven by volume growth in almost all products. The residential mortgage portfolio in the Netherlands grew by 16.8% to EUR 116.1 billion, supported by the EUR 11.5 billion transfer of portfolios from ING Insurance, partly offset by the sale of RegioBank. Excluding these changes, underlying profit before tax rose 8.1%, with income up 3.8%. Operating expenses declined 0.4% due to efficiency improvements and lower compliance costs. Risk costs increased to 20 basis points of average credit-risk-weighted assets from 17 basis points in 2006.

In Belgium, underlying profit before tax declined 28.7% to EUR 341 million due to 6.6% lower income and 3.4% higher expenses. The decline in income was next to a EUR 44 million capital gain on the sale of Banksys shares in 2006, mainly caused by margin pressure, as competition intensified, while customers shifted from variable savings to lower margin term deposits. Average retail balances grew by 10%. Operating expenses increased 3.4% partly caused by the impact of allocation refinements and some one-offs. Risk costs decreased from a net addition of eight basis points of average credit-risk-weighted assets in 2006 to a net addition of six basis points in 2007.

Underlying profit before tax of ING Bank Slaski's retail banking activities in Poland jumped 124.5% to EUR 110 million driven by strong volume growth and the shift of SME companies from Wholesale Banking to Retail Banking. Excluding this shift, profit before tax rose 94.7%. The adjusted underlying income rose 31.0%, partly offset by 18.1% higher expenses due to strong business growth and investments in the franchise distribution network. Net releases from the loan loss provisions increased to EUR 12 million compared with a net release of EUR 5 million in 2006, reflecting the significant strengthening of credit risk management in Poland.

The other retail banking activities posted an underlying profit before tax of EUR 63 million compared with a loss of EUR 2 million in 2006, mainly due to higher results in India and from the Private Banking activities in Asia as well as the high dividend received from Kookmin Bank. This was partly offset by higher investments in the greenfield franchises in Romania and Ukraine.

ING Private Banking benefited from the economic growth in Asia. The Private Banking activities in Asia are of increasing importance and now comprise almost 30% of the Private Banking result and 20% of the asset base. Total assets under management of Private Banking increased 14.9% to EUR 68.0 billion, while underlying profit before tax, which is included in the regional results, grew by 8.7% to EUR 263 million.

HIGHLIGHTS

Retail Banking operates in the mature markets of the Benelux and in the fast developing countries of Central and Eastern Europe and Asia. A number of trends are evident, the first of which is how technology is transforming the distribution of retail financial services in all markets. The internet, for example, is becoming, or already has become, the primary distribution channel for simple, commoditised products. Secondly, ageing populations, especially in mature markets, are creating a need for products suited to people in the later stages of their lives. Thirdly, the middle classes are growing rapidly in emerging economies which is stimulating demand for financial services.

ING is responding to these trends. In mature markets ING is consolidating businesses to improve cost efficiency and is optimising its distribution channels. In high-growth markets ING is leveraging the strengths of its products, services and distribution expertise. All these efforts contributed to an expansion of our business franchise as we have been able to broaden our customer base, number of branches and profit. This is especially the case in high-growth markets like Romania, Poland and India.