

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.

1.2 Report of the Executive Board

Retail Banking (continued)

Efficiency key in mature markets

In the Benelux, ING is concentrating on becoming more efficient and moving towards an 'internet first, advice when needed' model. Improved customer service by delivering simple and fair-priced products, creating better prospects for further growth and enhanced efficiency are the key objectives of the new Dutch and Belgian retail strategies. By doing this, ING is better equipped to respond to the challenges of the competitive and economic environment.

Major growth initiative in the Netherlands

In May 2007, ING announced that Postbank and ING Bank will join forces to create a leading Dutch retail bank with more than 8 million retail and 600,000 business customers. By combining the activities of both banks, ING will improve services and maintain a strong focus on cost-effective execution. It will operate under the ING brand from 2009 and will be based on the successful direct banking model of Postbank with enhanced access to the professional advice capabilities of ING Bank.

It is expected that the integration will have a positive impact on earnings from 2009 onwards. The number of full-time employees (FTEs) will be reduced by 2,500 over a five-year period. The intention is to help people from work to work as much as possible.

Internet banking is growing fast in the Netherlands. Three million internet clients use Postbank's web facilities regularly. In 2007, 440,000 new internet clients were registered. Research indicates that on average, clients use the online banking services three times a week. ING Bank's internet site, Mijn ING Bank.nl, also attracted more customers in 2007: 150,000 new clients were added, bringing the total to 350,000.

Access to Mijn Postbank.nl suffered occasional disruption in 2007 but substantial investments are made to improve access and functionality in 2008 and 2009.

To strengthen its position in the mortgage market, Postbank launched mass media campaigns promoting ways for customers to reduce their monthly mortgage payments. The campaigns were successful and resulted in a substantial 16% increase in leads through Postbank's direct channels. ING Bank started positioning campaigns to underline its advice capabilities.

After the introduction of Postbank shops in Nijmegen and Rotterdam, a third was opened in The Hague. The easy accessibility and the advanced self-service equipment that enables all kinds of transactions are the key characteristics. People can obtain face-to-face advice or do their banking online in these shops, and research shows that customer satisfaction is high. The shops, which attract an average of 300 customers a day, are intended to meet the growing demand for advice on complex products and sensitive financial issues. The shops won a prestigious international retail design prize.

Optimising retail distribution in Belgium

In line with the new Dutch retail strategy, ING Belgium is to implement a new branch service concept that focuses more on internet banking and automated cash services. The network of 794 branches will be transformed into 242 full-service branches and 552 smaller outlets with automated self-service cash functions

and online banking access. It is expected that this will improve operational efficiency, enhance customer advice and increase profit by more than EUR 100 million in 2012. The number of FTEs will be reduced by 850 through natural attrition over a five-year period. An example of how ING Belgium is capitalising on the popularity of direct banking was the launch of the ING Lion Account, an internet-only current account and the first free-of-charge offer from a large bank in Belgium. By the end of 2007, 18% of all new accounts opened were Lion Accounts.

Another example is the introduction of the car insurance website www.ingauto.be. Clients can calculate their premium and take out their car insurance online within a few minutes. The number of people using the online Home'Bank increased substantially (up by about 20% in 2007 compared with 2006). About 50% of Belgian customers now bank online.

Record Bank, ING's second bank in Belgium, offers savings and investment products via banking agents, and loans through various channels. In 2007, Record Bank fully benefited from its successful integration of various smaller business entities it has acquired over the past years.

Focus on fast-developing markets

ING is well positioned in the key Central European markets of Romania and Poland and the important Asian markets of China and India. The strategy is to expand in Central and Eastern Europe and Asia and to enter selected high-growth countries by acquiring a partial or full stake in a bank or by starting up a greenfield. ING focuses on entering countries with a large population and strong GDP growth, like Turkey and Thailand, because these are the drivers for expansion of the financial services market.

The intention over the next three years is to increase the contribution that high-growth markets make to total retail banking profit. This will entail substantial investment. Initiatives are taken to prepare the business for the increasing demand for direct and simple products.

In Poland, ING Bank Slaski is developing a network of partner outlets to boost distribution. These outlets are based on ING's Romanian Self'Bank model, a branch concept that focuses on internet banking and automated cash functions. At the end of 2007, ING Bank Slaski's network consisted of just over 400 branches, including 75 franchise outlets, 29 of which were opened that year. ING Bank Slaski managed to strengthen its position in retail deposits, achieving a 9.4% market share by the end of the year. ING Bank Slaski is key distributor of ING investments funds in Poland. At the end of 2007, its market share of mutual funds was 5.8%. ING Bank Slaski also intends to increase its market share of local currency mortgages. It began piloting an online mortgage via brokers, Kredyt Hipoteczny Express, characterised by automated processes and fast decision-making.

In Romania, the concept of self-service banking has proved successful. The number of Self'Bank outlets now stands at 148 since the concept was launched in September 2004. 230,000 new customers were added in 2007, breaking the target of 500,000 total customers by the end of the year.

In India, ING has a 44% stake in ING Vysya Bank. The strategic focus in 2007 was to increase branch productivity and accelerate the acquisition of new customers by rolling out new branches and cash machines. The number of internet customers increased from 90,000 to 145,000. ING Vysya Bank obtained approval from the Reserve Bank of India to open 56 new branches and to install 100 off-site cash machines. The bank is growing faster than the retail banking market as a whole; for example, the overall deposits market grew by 12.8% while ING Vysya Bank's deposits grew by 14.1%.

In China, ING had a stake of 19.9% in Bank of Beijing until September when Bank of Beijing made a spectacular debut on the Shanghai stock exchange. ING did not participate in this listing. Nonetheless, with a diluted stake of 16.07%, ING still remains the largest single shareholder. As a result of the listing the market value of ING's investment increased ten-fold to approximately EUR 2 billion. Bank of Beijing will use the capital to fund nationwide expansion. In 2007, branches were established in Tianjin and Shanghai. Other achievements were the launch of a credit card in close cooperation with ING Card and enhanced distribution of ING Insurance products.

New growth initiatives

In 2007, ING took some important growth initiatives. One was the acquisition of Oyak Bank in Turkey, which will be re-branded under the ING brand. ING acquired 100% of the shares for an amount of EUR 1.9 billion and a price-to-book ratio of 2.75 on shareholders' equity as at year-end 2007. Turkey is the 17th largest economy in the world by GDP and economic growth is expected to continue. Oyak Bank has a market share of approximately 3%. It offers a full range of banking services with a focus on retail banking. The bank has 1.3 million retail customers, serves 13,500 small-to-medium sized businesses and has 365 branches throughout Turkey. Oyak Bank will provide ING with a platform to distribute insurance, asset management and retirement products. ING plans to expand the network to 450 branches and to invest in other distribution channels.

Ukraine is also an attractive country for retail banking. Its economy has been growing rapidly and a substantial increase in GDP per capita is expected. ING has started preparations to implement the Self'Bank concept copying the Romanian model. The aim is to have around 20 branches operational by mid-2008.

One of the big growth markets in Asia is Thailand. In December 2007, ING finalised the acquisition of a 30% stake in TMB for approximately EUR 460 million. This transaction enables ING to extend its footprint in the fast growing Asian market. TMB is one of the leading banks in Thailand with approximately EUR 14 billion in total assets, over 5 million customers and 472 branches. It offers a wide range of products and services with a large retail deposit base and a lending focus on the small-to-medium enterprise and corporate sectors.

PRIVATE BANKING

ING Private Banking is well positioned to capitalise on the global growth in personal wealth. The mix between onshore private banking operations (Belgium and the Netherlands) and offshore (Switzerland and Asia) provides ING with a strong platform to benefit from the worldwide potential. Onshore businesses are centred in the Benelux where ING is able to capitalise on both retail

and wholesale distribution models. For the developing markets dedicated teams have been set up. ING Private Banking is growing rapidly, with all regions contributing to that growth.

Europe

The Benelux business benefited from the European savings directive which prolonged the effect of Belgian fiscal amnesty in 2006. In Belgium, ING has been able to capitalise on both its retail and wholesale distribution models. The Swiss business is performing well. The private banking activities are a platform for expanding in Central and Eastern Europe.

Asia

Asia has become the largest profit growth contributor for Private Banking. Population growth and wealth per capita is growing faster than in Europe. In India and China onshore private banking operations are built on the existing retail and wholesale operation of ING Vysya Bank and Bank of Beijing. ING will continue to redeploy capital to accelerate organic growth.

ING Private Banking aims to grow rapidly its assets in the next five years. The objective is to become one of the top-20 players globally by continuing to expand through increasing brand awareness, improving customer loyalty and promoting new innovative investments platforms.

CONCLUSIONS AND AMBITIONS

Retail Banking performed well in 2007, especially in its key product areas of mortgages and savings. It undertook important initiatives to enhance efficiency and to drive growth. The new Dutch and Belgian strategies are focused on increasing efficiency and reducing costs to secure long term profit growth and executing these strategies will be an important focus for 2008.

ING decided to transfer mid-corporate clients in its home markets from Wholesale Banking to Retail Banking with effect from 1 January 2008. The transfer will allow ING's domestic banking organisations in the Netherlands, Belgium, Poland and Romania to operate under a single management and a single brand.

ING expanded in Central and Eastern Europe and Asia, gaining momentum in Poland and Romania and starting preparations to open a new operation in Ukraine. The acquisition of Oyak Bank in Turkey gives ING a strong platform in this important market. The 30%-stake in TMB in Thailand enables ING to extend its footprint in the fast growing Asian market, including in Private Banking. With respect to Private Banking, ING performed well, in particular in Asia.

The ambition is to increase the contribution of the growth markets to overall retail banking profit in the next three years. ING will continue to screen opportunities for greenfields or acquisitions.