

ING Direct

Making banking simple

Key points

- > Milestone reached of more than 20 million customers worldwide
- > Total client retail balances production up EUR 35 billion to EUR 310 billion
- > Continued investments to support geographical growth and expand product offering
- > Mortgages firmly embedded as second core product

Profit and loss account (underlying)

in EUR million	2007	2006	change
Total income	2,196	2,233	-1.7%
Operating expenses	1,598	1,482	7.8%
Additions to loan-loss provisions	68	57	
Underlying profit before tax	530	694	-23.6%
Total profit before tax*	530	691	-23.3%

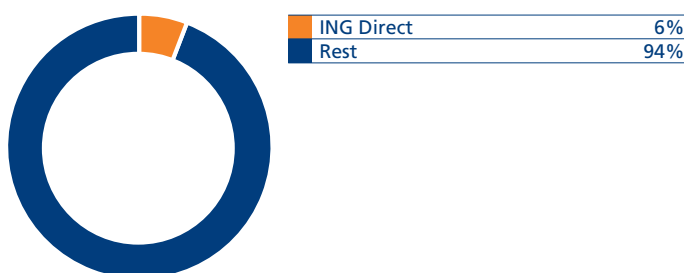
* Total profit before tax is defined as profit before tax including divestments and special items.

Key figures (underlying)

	2007	2006
After-tax RAROC	14.3%	11.8%
Economic capital (EUR billion)	2.8	3.2

UNDERLYING PROFIT BEFORE TAX

in percentages



Underlying profit before tax

in EUR million	2007	2006	change
Canada (1997)	0	62	n.a.
Spain (1999)	55	55	
Australia (1999)	84	86	-2.3%
France (2000)	46	34	35.3%
United States (2000)	78	85	-8.2%
Italy (2001)	49	43	14.0%
Germany (2002)	367	332	10.5%
United Kingdom (2003)	-120	19	n.a.
Austria (2004)	-9	-22	n.a.
Japan	-22	-	n.a.
Total	530	694	-24%

ING Direct continued to invest in building the business and expanding its product offering. The company faced a challenging year, given the interest rate environment, strong competition and required repositioning of ING Direct UK, all of which impacted profit. Total client retail balances were up EUR 35 billion (excluding currency effects), bringing the total balance to EUR 310.1 billion, driven by a record own-originated mortgages production of EUR 29 billion.

FINANCIAL DEVELOPMENTS

ING Direct continued to invest to enhance commercial growth through geographical expansion and the roll-out of new products, despite challenging market conditions. Yield curves remained flat or inverted in all currency zones, while competition for deposits intensified as many banks faced tighter liquidity and increased funding costs on the wholesale markets. In this environment underlying profit before tax declined 23.6% to EUR 530 million, compared with EUR 694 million in 2006. Including the impact of the divestment of Degussa Bank, which was sold at year-end 2006, total profit before tax decreased 23.3%.

Total underlying income declined in 2007 by 1.7% to EUR 2,196 million due to an 8.1% lower interest result. The interest margin narrowed to 0.75% from 0.89% in 2006 as a result of higher central bank rates in the euro, British pound and Australian currency zones and the intensified competition for retail funds. The total client retail balances in 2007 grew EUR 28 billion (or EUR 35 billion excluding currency effects) to EUR 310.1 billion at year-end. This includes EUR 5.3 billion from add-on acquisitions in the fourth quarter. Commission income increased due to further growth in off-balance sheet funds. Investment and other income was up EUR 104 million, supported by higher gains on the sale of bonds and loans and increased net trading income. This was in part offset by an EUR 29 million impairment on asset-backed commercial paper in Canada in the fourth quarter of 2007.

Total operating expenses increased by 7.8% to EUR 1,598 million, reflecting higher staff numbers to drive the growth in mortgages and payments accounts, preparations for the launch of ING Direct in Japan (EUR 22 million start-up costs), the consolidation of Sharebuilder in the US, as well as costs for repositioning the UK business. The underlying cost/income ratio increased to 72.8% in 2007 from 66.4% in 2006.

The operational cost to client retail balance ratio, which excludes marketing expenses, rose to 0.37% compared with 0.36% in 2006. The number of full-time staff increased to 8,883 from 7,565 a year earlier.

The addition to the provision for loan losses increased to EUR 68 million from EUR 57 million reflecting the increased volume of the mortgage portfolio. The addition was 9 basis points of average credit-risk-weighted assets, up from 7 basis points in 2006.

The underlying risk-adjusted return on capital (RAROC) after tax improved to 14.3% from 11.8% in 2006, due to lower tax charges supported by a tax asset in Germany. The pre-tax RAROC decreased to 17.7% from 19.4% primarily due to a lower risk-adjusted profit, outweighing the 14% decline in average economic capital to EUR 2.8 billion from EUR 3.2 billion in 2006 as a result of improvements in RAROC methodology.

Country developments

ING Direct's overall profit was driven by the business units in Germany, Australia, US, Spain, Italy and France. In Germany, profit before tax increased 11% to EUR 367 million from EUR 332 million in 2006. France and Italy posted increases of 35% and 14% to EUR 46 million and EUR 49 million, respectively. Profit before tax in Spain remained unchanged at EUR 55 million, while profit before tax in Australia declined slightly by 2% to EUR 84 million. In the US, profit before tax was EUR 78 million, a decline of 8% compared with 2006. In the UK, ING Direct posted a pre-tax loss of EUR 120 million compared with a profit of EUR 19 million in 2006, mainly caused by a 39% net outflow of funds entrusted from rate-sensitive customers. Profit before tax in ING Direct Canada declined partly due to lower interest results caused by an impairment of EUR 29 million on ABCP investments in the fourth quarter of 2007.

HIGHLIGHTS

Launched as an innovative financial-services company in 1997, ING Direct celebrated its tenth anniversary in 2007 as the world's leading direct bank. It is the leading direct bank in each of the nine countries in which it operates. The aim is to become the world's most preferred consumer bank.

In all of its activities, ING Direct focuses on making banking simple for customers by offering a range of straightforward and transparent banking products at low costs, combined with excellent service delivered through direct channels. The low-cost base is maintained by the use of standardised, state-of-the-art IT systems and the absence of a branch network.

The ING Direct brand has been firmly established in all nine countries and currently the aided brand awareness exceeds 80% at most of its operations. A recent survey showed that on average 91% of our customers are likely to recommend ING Direct to friends, relatives and colleagues.

Value creation

ING Direct continued to invest in long-term value creation in 2007, with growth being generated in three ways: an increase in customers at existing operations, geographical expansion and serving a broader range of customer needs. ING Direct developed the business in four major product categories: savings (the entry product), mortgages (a stable product line providing healthy margins), payment accounts (which serve to 'deepen' the customer relationship) and investment products (a good complement to savings).

In what was a challenging interest rate environment, ING Direct focused more on mortgages and less on savings growth, but savings will remain the main customer acquisition product.

Geographical expansion

ING Direct USA extended its activities to new cities in 2007: Miami, Seattle and Houston. The company was already active in New York, Philadelphia, Boston, Los Angeles, San Francisco, Baltimore, Washington, Phoenix, Atlanta and Chicago. Further geographical expansion in the US is anticipated.

Preparations are being made for ING Direct to launch in the EUR 4.9 trillion Japanese savings market. ING Direct obtained a preliminary banking licence from the Japanese regulatory authorities in 2007 and is in the process of obtaining a banking licence.