ING GROUP

Shareholders' news

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Decline of debt/equity ratio allows for change in dividend-funding policy

Banking business boosts results

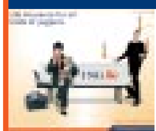
Michel Tilmant (left) and Cees Maas during the press conference

"I am glad to tell you that ING has achieved strong results in the first half of 2004," said Michel Tilmant, chairman of the Executive Board, during the press conference in ING House on Thursday, 5 August." All three banking business lines showed top-line growth and improved their cost/income ratios. Also, risk costs went down sharply. The life-insurance businesses in the US and Asia benefited from higher sales, stricter product pricing and lower credit losses. Although the figures are good, they are not a reason to be complacent." He continued talking extensively about improving total return to shareholders: "I want to provide our shareholders with a return that should exceed that of our peers in the market. This is a key condition to ING's success in the future. But it is not something that can be attained overnight. It will take some time, and, even more importantly, you will have to judge our performance over a longer period." In order to improve its shareholder return, Tilmant explained that ING accelerated a programme to actively manage the portfolio of businesses. "We are taking steps to sell units that no longer fit into our long-term strategy, such as the Australian non-life insurance joint venture and CenE Bankiers in the Netherlands. As a result, ING's debt/equity ratio is improving, and I am happy to announce that we decided to change ING's dividend-funding policy to limit dilution of earnings per share."

Banking

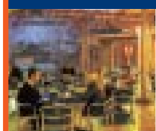
Profits from the banking operations more than doubled compared to the first half of 2003. This strong development was driven by a healthy increase in operating income, a sharp reduction in risk costs and continued cost control. All three banking business lines – Wholesale Banking, Retail Banking and ING Direct – reported strong increases in results.

Insurance



Insurance profits showed a solid increase. Favourable developments mainly came from exceptionally strong non-life results in Canada and higher life results in the US and Asia. Profits at Nationale-Nederlanden declined due to higher costs and lower one-off gains. Promising is the across-the-board strong growth in the value of new business at ING's life insurance operations.

Asset management



The profit contribution from asset management was strong. Functional operating profit increased by 20%. The profit growth was realised mainly within Insurance Americas and the institutional asset management business of Wholesale Banking. Total assets under management rose 6% to EUR 490.8 billion at the end of June.

Group results[1]

The favourable profit developments of 2003 continued in the first half of 2004. *Operating net profit* rose 35.2% to EUR 2,796 million. This growth was led by strong increases in operating profit from ING's three banking business lines, driven by a sharp decline in risk costs and higher income. The insurance businesses in the Americas and Asia/Pacific also posted higher profit, induced by exceptionally strong results from non-life insurance, higher life insurance sales in the US and Asia, and a gain on the sale of ING's non-life joint venture in Australia. Profit from Insurance Europe fell due to lower results in the Netherlands.

Net profit rose 40.0% to EUR 2,843 million, including EUR 47 million in realised capital gains on equities in the first half of 2004 as well as realised capital losses and a negative adjustment to the revaluation reserve shares which totalled EUR 38 million in the first half of 2003.

Currency impact

The weakening of most currencies against the euro had a negative impact of EUR 46 million on first-half net profit. That was partially offset by a gain of EUR 87 million after tax on the US dollar hedge, compared to a gain of EUR 54 million on the hedge in the first half of 2003. ING has hedged the expected profits in US dollar and dollar-linked currencies for the remainder of 2004.

Second-quarter profit

Second-quarter operating net profit rose 37.7% to EUR 1,605 million, compared with the second quarter of 2003. Second-quarter net profit declined 11.9% to EUR 1,641 million, due to a gain of EUR 697 million in the second quarter of 2003, when ING recouped most of the negative value adjustment on the revaluation reserve shares taken in the first quarter of 2003.

Capital base and debt position

The capital coverage ratio for ING's insurance operations increased to 184% of regulatory requirements at the end of June, compared with 180% at year-end 2003. *The Tier-1 ratio* of ING Bank Holding N.V. stood at 7.65% on 30 June 2004, up from 7.59% at the end of 2003. *The solvency ratio* (BIS ratio) for the bank fell from 11.34% to 11.27%. Compared with year-end 2003, total risk-weighted assets rose by EUR 21.4 billion, or 8.5%, to EUR 272.7 billion. Almost half of the increase was due to the growth of ING Direct. *The debt/equity ratio of ING Groep N.V.* improved to 12.1% from 14.4% at the end of 2003. The improvement was caused by a EUR 3.4 billion increase in the capital base due to higher retained earnings, a positive revaluation of shares and real estate, and the issue of hybrid securities in June as well as a EUR 0.3 billion decrease

Financial results in ING's new structure

Consistent with ING's new organisational structure, the reporting of the financial results has changed (see table 1).
A profit and loss account is published for each of the 6 business lines. This implies that the three insurance business lines aggregate to the results of the Insurance operations as previously published.
Accordingly, the three banking business lines aggregate to the results of Banking operations as previously published. Next to the six business lines, a corporate line ("other") has also been included.

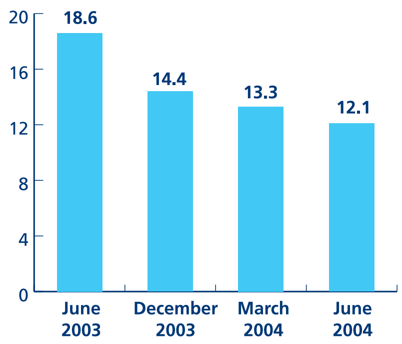
[1] All figures compare first half 2004 with first half 2003 unless otherwise stated.

Table 1. ING Group key figures

	First Half			Second Quarter		
In EUR million	**1H 2004**	1H 2003	% Change	2Q 2004	2Q 2003	% Change
Operating profit before tax:						
- Insurance Europe	**774**	798	-3.0	365	400	-8.8
- Insurance Americas	**800**	634	26.2	460	395	16.5
- Insurance Asia/Pacific	**527**	176	199.4	405	105	285.7
- Other	**-43**	88		39	184	
Insurance operating profit before tax	**2,058**	1,696	21.3	1,269	1,084	17.1
- Wholesale Banking	**1,170**	752	55.6	511	358	42.7
- Retail Banking	**678**	493	37.5	351	257	36.6
- ING Direct	**203**	31	554.8	128	24	433.3
- Other	**-71**	-66		-21	-25	
Banking operating profit before tax	**1,980**	1,210	63.6	969	614	57.8
Total operating profit before tax	**4,038**	2,906	39.0	2,238	1,698	31.8
Taxation	**1,100**	678	62.2	568	444	27.9
Third-party interests	**142**	160	-11.3	65	88	-26.1
Operating net profit*	**2,796**	2,068	35.2	1,605	1,166	37.7
- of which Insurance	**1,469**	1,265	16.1	935	761	22.9
- of which Banking	1,327	803	65.3	670	405	65.4
Capital gains/negative value adjustment shares	**47**	-38		36	697	
Net profit	**2,843**	2,030	40.0	1,641	1,863	-11.9
Net profit per share *(In EUR)*	**1.36**	1.03	32.0	0.79	0.95	-16.8

* Operating net profit = net profit excluding realised capital gains/ losses on shares and negative revaluation reserve shares

ING Group Debt/Equity ratio



in core debt. As ING's capital position is more than adequate and the debt/equity ratio of the group has been reduced, it has been decided to change ING's dividend-funding policy to limit dilution of earnings per share.

Insurance operations

Operating net profit from insurance rose 16.1% to EUR 1,469 million led by higher profit from the Americas and Asia/Pacific. *Net profit* from insurance increased 21.3% to EUR 1,516 million in the first half.

Total operating income increased 3.4%, driven by a 5.0% increase in premium income to EUR 21,894 million, led by the US and Asia. Excluding the impact of currencies, acquisitions and divestments, premium income rose 12.6%. Investment income declined 1.8% to EUR 4,716 million, largely due to currency effects in the Americas.

Operating expenses from the insurance operations declined 2.5% to EUR 2,318 million. Excluding the impact of currencies, acquisitions and divestments, operating expenses increased 5.2%, mainly due to a restructuring provision of EUR 21 million and costs related to clearing backlogs and improving service levels in the Netherlands. Almost all other operations worldwide showed either a modest increase or a decrease in operating expenses.

Insurance Europe

Operating profit before tax from Insurance Europe declined 3.0% to EUR 774 million, due to lower life insurance results in the Netherlands. Almost all other units, including Belgium, Poland and Hungary, posted higher results. Total operating profit before tax from life insurance in Europe fell 6.6% to EUR 634 million. Operating profit before tax from non-life insurance increased 17.6% to EUR 140 million, driven by an improvement in the claims ratio to 61.9% from 73.6% in the same period last year.

Total operating income declined 4.5% to EUR 8,313 million, mainly due to a 4.8% drop in premium income. Lower life sales in Belgium and the sale of the health insurance business in the Netherlands were only partly offset by growth elsewhere.

Operating expenses rose 2.4% to EUR 866 million. Excluding the impact of divestments, operating expenses rose 13.2%, due to a sharp increase in the Netherlands, including a restructuring provision of EUR 21 million as well as higher pension costs and expenses to reduce backlogs and improve efficiency. Expenses in Belgium were almost flat, while operating expenses in the rest of Europe fell 4.0%.

Table 2. Key Balance Sheet Figures

In EUR billion	30 June 2004	31 December 2003	% Change
Shareholders' equity	**24.1**	21.3	12.8
- insurance operations	**13.3**	12.0	11.5
- banking operations	**17.4**	16.7	4.1
- eliminations*	**-6.6**	-7.4	
Total assets	**871.6**	778.8	11.9
Operating net return on equity	**24.8%**	21.5%	
- insurance operations	**23.0%**	22.7%	
- banking operations	**17.9%**	11.1%	
Shareholders' equity per share (EUR)	11.16	10.08	10.7

* own shares, subordinated loans, third-party interests, debenture loans and other eliminations

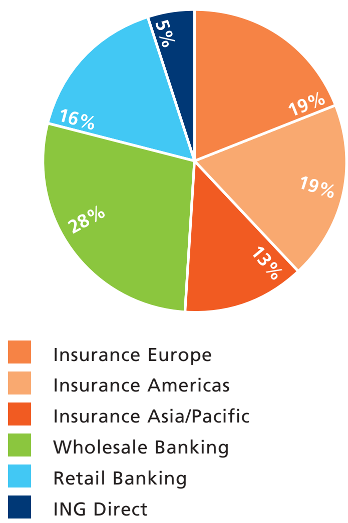
ING changes dividend funding policy

With the publication of its results for the first half of 2004, ING has announced a change in the funding of its dividend policy. As in the past, shareholders can choose to receive the dividend in either cash or shares. But ING will no longer issue new shares in order to finance the cash portion of the dividend. According to Cees Maas, Chief Financial Officer of ING Group, "the effect of this change is positive for shareholders and will reduce dilution."

ING Group will pay an interim dividend of EUR 0.49 per ordinary share, equal to a rounded half of the total dividend paid over the book-year 2003 (EUR 0.97), in line with the dividend policy. The ING share will be quoted ex-dividend as from 6 August 2004. From 6 August up to and including 27 August 2004 shareholders can decide to receive the interim dividend 2004 in cash or shares.

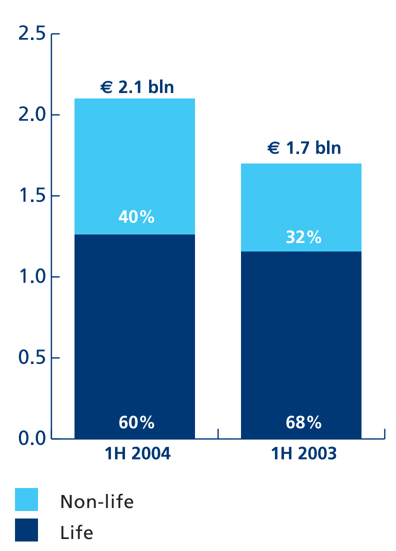
The exchange ratio, which will be announced on 3 September after closing of the Euronext Amsterdam Stock Exchange, will be based on the volume-weighted average share price over the period of 30 August to 3 September inclusively. The interim dividend will be made payable on 10 September 2004. The value of the dividend in cash will be 0 to 4% lower than the dividend in stock.

Profit contribution of business lines*

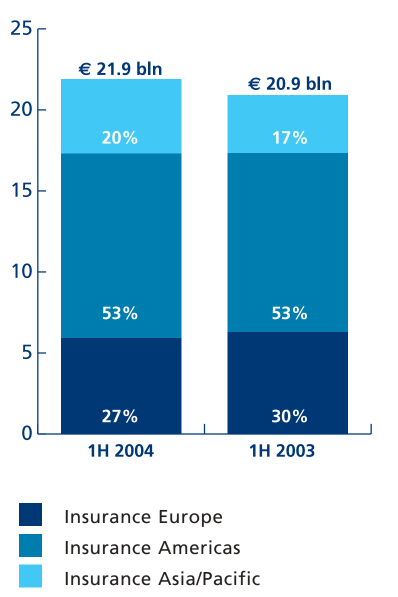


* excluding corporate line (other)

Operating profit before tax – Insurance operations



Premium income



The value of new life insurance business written by Insurance Europe was EUR 70 million, an increase of 48.9% compared with one-half of full-year 2003 production. The value of new business in the Netherlands recovered, increasing from EUR 5 million to EUR 30 million. The overall internal rate of return (IRR) of Insurance Europe is 12.8%, up from 10.9% in 2003. The improvement in the IRR was seen largely in the Netherlands, where the company took steps to adjust pricing on single-premium products without a material effect on sales levels. As a result, the internal rate of return in the Netherlands improved strongly to 11.0% from 8.0% in 2003.

Insurance Americas

Operating profit before tax from Insurance Americas increased 26.2% to EUR 800 million in the first half of 2004, bolstered by exceptionally low claims at the Canadian non-life insurance business, lower credit-related investment losses and higher asset levels driven by strong sales of core products from the US life business. Profit growth was dampened in part by the decline of all currencies in the region against the euro. Excluding currency effects, operating profit before tax increased 39.1%.

Total operating income increased 2.1% to EUR 14,014 million, driven by higher premium income in the US. Excluding currency impacts, total income increased 12.7%. Premium income rose 4.3% as higher production in the US and Canada was partially offset by lower premiums from Latin America. In the US, enhanced product designs in annuities and life insurance, combined with expanded distribution capacity, helped increase market share. Premium income rose 7.6% to EUR 9,364 million in the first half and climbed 19.5% at constant currency rates. Individual life sales in US dollars increased 48.6% driven by new universal life products introduced in the fourth quarter of 2003. Annuity sales increased 51.2% at constant exchange rates, driven by higher sales of equity-indexed fixed annuities, enhanced variable annuity product features, and expanded distribution. The mortality experience in the US individual life reinsurance business during the year 2003 was worse than expected. As a result, ING Re is conducting an in-depth study of its mortality experience and assumptions.

Operating expenses fell 4.2%, due to the decline of most currencies against the euro. At constant exchange rates, expenses increased 5.3%, due to the transfer of some investment management activities from banking to insurance in the US and the consolidation of subsidiaries in Mexico. Excluding those impacts, operating expenses rose 1.1% as a result of higher production and benefit costs.

The value of new life insurance business written by Insurance Americas increased 74.5% to EUR 82 million compared with one-half of the full-year new business value in 2003, due in part to the inclusion of the Latin American pension business starting in 2004. The overall internal rate of return for the first half of 2004 was 9.7%, up from 9.0% for the full year 2003, due to continued focus on profitable revenue growth in the US and the inclusion of the Latin American pension business.

Insurance Asia / Pacific

Operating profit before tax from Insurance Asia/Pacific increased to EUR 527 million from EUR 176 million, including a one-time gain of EUR 219 million from the sale of ING's 50% stake in its Australian non-life insurance joint venture. Excluding that gain, operating profit rose 75.0% to EUR 308 million, led by higher life insurance profits in South Korea and Japan, and very strong results from the Australian non-life insurance joint venture, which was sold as of 30 June 2004. Operating profit from life insurance increased 55.6% to EUR 252 million. Across Asia/Pacific, profits were driven by higher premium income, lower claims and strict cost control.

Premium income rose 22.4% to EUR 4,303 million, fuelled by South Korea and Japan, where premiums increased 40.9% and 52.6% respectively. Double-digit premium growth rates were recorded in Hong Kong, Thailand, India and China.

Operating expenses fell 13.0% reflecting a number of one-off items as well as continued efforts to control costs.

The value of new life insurance business written by Insurance Asia/Pacific was EUR 134 million in the first-half year, accounting for almost half of ING Group's

Value new life insurance production

The value of new life business written in the first half of 2004 was EUR 286 million. Almost half of the new business value arises from developing markets. ING invested EUR 906 million to write new life insurance business. The overall rate of return expected on this investment is 11.4% up from 10.9% overall for 2003. The value of new business and IRR for 2004 reflect ING's internal capital requirements, including the impact of financial options and guarantees for all business units where these benefits are significant.

total, and up 6% compared with one-half of the full-year production in 2003. The overall internal rate of return is 14.1%. This compares with an overall rate of return of 14.7% in 2003. The decline in IRR is primarily attributable to an increase in the capital levels reflected in the Taiwan business.

Banking operations

Operating net profit from banking rose 65.3% to EUR 1,327 million, lifted by higher profit from all three business lines. Drivers were an increase in operating income, a sharp reduction in risk costs and continued cost control. Net profit increased 70.1%, including a negative adjustment of EUR 23 million on the revaluation reserve shares in the first half last year. Operating profit before tax rose 63.6% to EUR 1,980 million.

Total operating income from banking rose 10.9% to EUR 6,406 million. *The interest result* rose 12.1% to EUR 4,390 million, due to a higher average balance sheet total, mainly driven by the continued strong growth of ING Direct. The total interest margin narrowed 6 basis points to 1.53% compared with the same period last year. That was fully attributable to the increased share of the balance sheet total from outside the Netherlands, where interest margins are lower, mainly triggered by ING Direct, which has an interest margin of about 1%. The interest margin narrowed in the second quarter to 1.49% from 1.56% in the first. *Bank lending* increased by EUR 21.8 billion, or 7.5%, from the end of 2003 to EUR 314.4 billion at the end of June. Corporate lending rose by EUR 10.8 billion, while personal lending increased by EUR 11.1 billion. The growth in personal lending was almost entirely due to a EUR 10.5 billion increase in residential mortgages, of which EUR 5.7 billion was from ING Direct.

RAROC

The Risk Adjusted Return on Capital (RAROC) measures performance on a risk-adjusted basis. The pre-tax RAROC of ING's banking operations improved strongly to 23.9% in the first half of 2004, compared with 18.0% in the year-earlier period. This was due entirely to higher economic returns, notably from Wholesale Banking and ING Direct, as well as continued strong returns from Retail Banking. The full-year 2003 RAROC was 17.0%.

Commission income rose 9.7% to EUR 1,352 million, mainly driven by higher securities-related commissions. Management fees were up EUR 97 million, or 34.2%, of which EUR 44 million was caused by the transfer of activities between insurance and banking. Commissions from the securities business rose 19.6%, due to higher activity on the stock markets. Brokerage and advisory fees declined 41.0% to EUR 49 million. Commission from insurance broking rose 13.4% to EUR 76 million, mainly in the Netherlands. *Other income* increased 5.7% to EUR 664 million.

Total operating expenses increased 5.3% to EUR 4,161 million, due in large part to higher expenses to support the growth of ING Direct. The cost/income ratio of the banking activities improved to 65.0% in the first half of 2004, from 68.4% in the first half of 2003.

ING added EUR 265 million to the *provision for loan losses* in the first half of 2004, compared with EUR 615 million in the same period last year. The addition equalled an annualised 21 basis points of average credit-risk-weighted assets, which is well below the long-term average of about 35 basis points. In the full-year 2003, the addition to provision for loan losses was 46 basis points of average credit-risk-weighted assets.

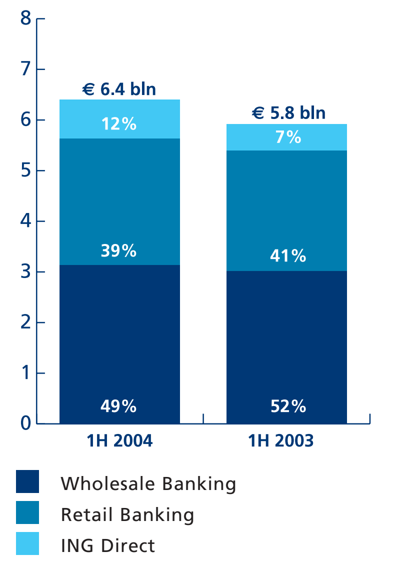
Wholesale Banking

Operating profit before tax from Wholesale Banking increased 55.6% to EUR 1,170 million, driven by a sharp decline in risk costs and continued growth in commissions and other income.

Total operating income increased 4.2% to EUR 3,104 million. Commission income rose 6.0%, while other income increased 25.0%, driven mainly by strong financial markets results in the first quarter and higher asset management results. Other income also includes a one-off loss of EUR 42 million on the sale of the Asian cash equities business, which was booked in the first quarter of 2004. The interest result declined 2.6%, mainly in the Netherlands.

Operating expenses increased 2.0% to EUR 1,795 million. On balance, one-off expenses had a limited impact in the first half. The cost/income ratio for Wholesale Banking improved to 57.8% from 59.1% in the first half of 2003 and 63.3% for full-year 2003.

Income banking operations



The addition to the provision for loan losses declined sharply in the first half to EUR 139 million from EUR 466 million in the same period last year, mainly in the Netherlands, Germany and the Americas.

The pre-tax RAROC for Wholesale Banking improved strongly to 20.2% from 15.8% in the same period last year, driven by higher economic returns, thus meeting ING's hurdle of 18.5%

Retail Banking

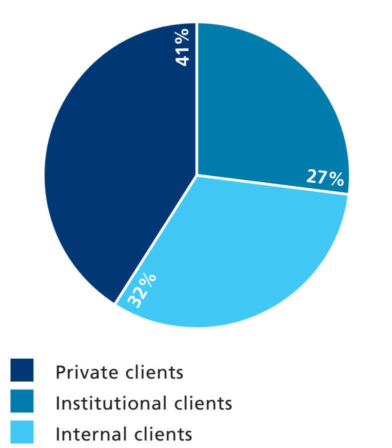
Operating profit before tax from Retail Banking increased 37.5% to EUR 678 million, driven by continued growth in income and strict cost control, which led to a 22.6% increase in the gross result.

Total operating income increased 3.6% to EUR 2,473 million in the first half of 2004. Interest income climbed 8.0% due to higher mortgage lending and increased savings, while commission income rose 9.6% mainly driven by securities-related commissions.

Operating expenses from Retail Banking declined 3.0% to EUR 1,714 million as continued cost control offset the impact of the collective labour agreement and higher pension costs. As a result, the cost/income ratio improved to 69.3% from 74.1% in the first half of 2003.

The addition to the provision for loan losses declined sharply to EUR 81 million from EUR 126 million in the first half last year, mainly in the Netherlands and Poland.

Assets under management EUR 491 billion, by client category, 30 June 2004



The pre-tax RAROC for the business line Retail Banking climbed to 54.9% from 45.3% in the first half last year. All regions reported improved RAROCs.

ING Direct

Operating profit before tax from ING Direct jumped to EUR 203 million in the first half of 2004 compared with EUR 31 million in the same period a year earlier as it continued to attract new customers and gain critical mass in the markets where it operates. Of the eight countries in which ING Direct is active, it is profitable in six. Only the UK, which started operations in May 2003, and Italy were lossmaking in the first half, although Italy turned to profit in the second quarter of 2004.

Operating income at ING Direct increased 92.5% to EUR 797 million, driven mainly by a 91.5% jump in interest income as a result of continued growth in funds entrusted. Since year-end 2003, total funds entrusted grew by EUR 28.8 billion, or 29.0%, to EUR 128.2 billion. Compared with a year ago, funds entrusted are 61.9% higher. Growth in mortgage lending also boosted income, particularly in the US and Germany. At the end of June, ING Direct had a total mortgage loan portfolio of EUR 26.7 billion, an increase of EUR 5.7 billion from the end of 2003.

Operating expenses at ING Direct increased 52.5% to EUR 549 million as a result of higher costs to handle the continued growth of the business. The cost/income ratio of ING Direct improved to 68.9% from 87.0% in the first half last year. The addition to the provision for loan losses rose to EUR 45 million (first half 2003: EUR 23 million).

The pre-tax RAROC for ING Direct improved to 19.4% from 9.7% in the first half of 2003, surpassing ING's hurdle of 18.5%. The increase was due entirely to higher economic returns as the business units reach critical mass.

Outlook

The positive trends in the first quarter continued in the second quarter. Loan loss provisions and credit losses have declined sharply, and are now well below long-term average levels. However, there is still need for caution, as stock-market volatility and swift changes in interest rates could pose challenges for some businesses in the short run. ING is optimistic about the results for the full year. At the same time ING announced it will no longer give profit forecasts.

Assets under Management

The functional operating profit from asset management, which is derived from figures included in the banking and insurance results, increased 20% to EUR 232 million in the first half of 2004. The profit growth was realised mainly within Insurance Americas and the institutional asset management business of Wholesale Banking.

Assets under management increased 6.1% to EUR 490.8 billion at the end of June 2004 from EUR 462.7 billion at the end of December 2003. The EUR 28.1 billion increase resulted from a net inflow of EUR 13.7 billion, EUR 8.6 billion from higher stock markets, and EUR 7.8 billion from positive currency rate differences. Divestments had a negative impact of EUR 2.0 billion, mainly due to the deconsolidation of Baring Private Equity Partners.

ING Real Estate reported a net inflow of EUR 3.2 billion, lifted by the purchase of Rodamco Asia, which added almost EUR 800 million in assets, as well as the ING Clarion Global Real Estate Income Fund, which was launched in the US in the first quarter with EUR 1.3 billion in assets. The fund, which was sold through ING Funds, was the largest-ever closed-end real estate fund.

Important dates* in 2004/2005

- **6 August 2004:** ING shares quoted ex-interim dividend
- **6-27 August 2004:** Shareholders can indicate choice between cash or stock dividend
- **30 August - 3 September 2004:** Volume-weighted average share price calculated for this period
- **3 September:** Announcement of exchange ratio for stock dividend
- **10 September 2004:** Payment of 2004 interim dividend
- **4 November 2004:** Publication results first nine months 2004
- **17 February 2005:** Publication of annual results 2004
- **26 April 2005:** Annual general meeting of shareholders

* All dates shown are provisional.

Colophon

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