



STANDISH



ING Americas Companies

ING USA Annuity and Life
Security Life of Denver

RATING: Q2
Other Ratings as of: December 2008
Moody's: Aa3
S & P: AA
Best: A+

State of Domicile: Colorado/Iowa
Holding Company: ING Groep, N.V.
Type: Stock
Incorporated: 1929/1973

The ING Americas life insurance companies (ING US) are subsidiaries of ING Groep N.V. (ING), a global financial services holding company based in the Netherlands. ING offers banking, insurance and asset management to over 75 million private, corporate and institutional clients in over 50 countries. The ING Americas companies are an integral part of the parent's operations, contributing 22% of ING's earnings in 2007. There are two companies in our universe that exist under ING Americas: Security Life of Denver and ING USA Annuity and Life. Standish evaluates these companies on a consolidated basis due to their closely related operations and reinsurance transactions between the entities.

ING's global operations are organized into six business lines, with earnings split evenly between banking and insurance. These businesses are: Insurance Americas, Insurance Europe, Insurance Asia/Pacific, Wholesale Banking, Retail Banking, and ING Direct. Insurance Americas combines the developed markets of Canada and the United States with the growth potential of Latin American markets. In 2007, ING acquired several small companies to expand its business in several key growth markets, including Turkey, South Korea, Thailand, and Latin America. In June 2008, ING agreed to acquire Oyak Emeklilik, Turkey's sixth largest pension company for EUR 10 million. In July 2008, ING closed on its acquisition of CitStreet LLC, one of the premier retirement plan and benefit service and administration organizations in the US. This move makes ING the second-largest defined contribution business in the US with 14 million plan participants. ING also sold several non-core businesses in 2007, such as Regio Bank in the Netherlands, its Taiwanese life insurance business, and a non-life insurance business in Mexico. ING continued to invest in its businesses in 2007 to improve efficiency and growth potential in them, mainly in its companies located in Central Europe and North America.

In 2008, ING suffered sizable losses to its residential and commercial mortgage-backed security portfolios in the amount of over EUR 4 billion. ING suffered its first quarterly loss in the 3rd Quarter of 2008. In October 2008, the Dutch government purchased EUR 10 billion worth of non-voting core Tier-1 ING securities, injecting needed capital into the company. This action helped ING strengthen its balance sheet and capital reserves and removed the possibility that ING could see its credit rating reduced by any of the rating agencies. In September 2008, ING disclosed that it would recognize a EUR 100 million loss related to the Lehman Brothers bankruptcy. In the same month, ING decided not to make an offer on ABN AMRO Netherlands, the company it almost merged with in March 2008 and the company that was nationalized by the Dutch national government in October 2008.

ING US offers various insurance products, including annuities sold to individuals through a diverse distribution network. The companies also focus on selling life insurance and wealth management products to the affluent and middle markets. ING US is an active player in the institutional investment products business,

primarily offering GICs and funding agreements to these investors. The combination of solid product offerings, broad distribution and increased brand recognition has enabled the firms to develop top ten positions in most product categories in the U.S. as well as leading market shares in Canada and Mexico.

In 2007, the total premium generated by ING US increased to \$12.0 billion and was spread out over three main product lines: group annuities (54.1%), individual annuities (41.9%), and individual life policies (4.0%). This product mix produced a statutory income of \$65 million, down from \$258 million in 2006. The main reason for the pullback was the group annuity business, which generated a net loss of \$22 million compared to a net gain of \$95 million in 2006. The company, for the fourth straight year, had a realized capital loss in 2007 of \$181 million, which caused net income to drop to -\$20 million. These disappointing figures dropped return on assets and return on equity to -0.05% and -0.56%, respectively, from 0.34% and 4.04%, respectively in 2006. These ratios compare very unfavorably to our peer group averages of 0.90% and 11.91%, respectively.

ING US grew its capital and surplus position to a five year high of \$3.3 billion, up from \$2.7 billion in 2006. Despite over \$600 million in write downs in the account, a capital injection of \$1.4 billion by ING caused the account to rise. ING US's risk-adjusted surplus ratio (RASR) fell to 179.4% from 191.0% in 2006, but it is higher than our peer group average of 163.4%. The reason for the drop in the RASR ratio is that the company's total assets rose 15.5% in 2007 and the capital and surplus account didn't rise as fast. By year-end 2007, the insurer had \$1.5 billion in debt outstanding and \$600 million in surplus notes, leading to a debt leverage ratio of 53.3%. Although this is a significantly higher level than our peer group average (21.5%), much of the financial leverage is inter-company funding, mitigating some of the risk.

In ING US's investment portfolio, bond holdings increased to 82.5% of invested assets from 81.0% in 2006 and mortgage holdings decreased to 11.2% of invested assets from 13.9% in 2006. Non-investment grade bond holdings jumped to 4.4% of invested assets from 2.8% in 2006, but below our peer group average of 5.2%. This jump gets the company's junk bond exposure back around its 5 year average of 4.0%. ING US commercial mortgage holdings have fallen substantially in the past five years, from 17.6% of invested assets in 2003 to 11.2% in 2007. Common stocks (1.1% of invested assets), cash (1.6% of invested assets), and alternative investments (3.0% of invested assets) make up the rest of the company's investment portfolio.

Inconsistent profitability continues to remain the primary weakness of the ING America insurance companies. ING US holds a relatively conservative investment portfolio with excellent asset liquidity, above average capitalization as well as inter-company support and the backing of a large and established parent. Based on these characteristics we rate the ING Americas companies Q2 in our Standish Stable Value Issuer Universe.

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Strengths:

- Support of large, established parent (ING Groep N.V.)
- Conservative, high-quality investment portfolio with strong liquidity
- Above average capital and surplus levels

Weaknesses:

- Sub-par profitability, which continues to be companies' main weakness
- High levels of debt leverage
- Potential for additional parent company distributions following capital infusions by parent company in recent years

Key Statistics — ING USA Annuity and Life

(\$ millions)	2007	2006	2005	2004	2003	CAGR/ Average
General Account Assets	47,487	40,671	38,951	37,142	29,214	12.91%
Separate Account Assets	50,992	44,615	37,287	32,015	2,875	105.21%
Total Assets	98,479	85,286	76,238	69,157	32,090	32.36%
Capital and Surplus	3,258	2,656	2,776	2,138	2,190	10.44%
Net GFO	65	258	181	308	-52	N/A
Net Income	-20	134	146	137	-104	N/A
Return on Assets (Stat.)	-0.05%	0.34%	0.38%	0.41%	-0.37%	0.14%
Return on Equity (Stat.)	-0.56%	4.04%	4.79%	5.39%	-4.40%	1.85%
Risk Adjusted Surplus Ratio	179.4%	191.0%	221.5%	187.1%	184.4%	192.7%

Source: Company reports and SEC filings.

ING Americas Companies

ING USA Annuity and Life
Security Life of Denver

Key Statistics — Security Life of Denver

(\$ millions)	2007	2006	2005	2004	2003	CAGR/ Average
General Account Assets	22,580	22,246	21,977	19,175	17,126	7.16%
Separate Account Assets	1,642	1,516	1,837	1,975	1,730	-1.31%
Total Assets	24,222	23,762	23,815	21,150	18,856	6.46%
Capital and Surplus	1,306	1,595	1,530	1,070	899	9.77%
Net GFO	-49	19	-5	-9	-30	N/A
Net Income	20	135	139	41	-142	N/A
Return on Assets (Stat.)	0.09%	0.61%	0.68%	0.23%	-0.85%	0.15%
Return on Equity (Stat.)	1.39%	8.67%	10.73%	4.19%	-14.76%	2.04%
Risk Adjusted Surplus Ratio	130.4%	172.0%	193.7%	159.3%	139.6%	159.0%

Source: Company reports and SEC filings.



► A BNY MELLON ASSET MANAGEMENT COMPANYSM

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