

June 2011



ING USA  
ING Life & Annuity | ING USA Annuity & Life | Security Life of Denver  
Credit Summary Report

**State of Domicile:** CT/IA/CO  
**Holding Company:** ING Groep N.V.  
**Type:** Stock  
**Incorporated:** 1976/1973/1929

**Ratings as of:** June 2011  
**Moody's:** A2  
**S & P:** A  
**Fitch:** A-

ING's insurance segment has a significant presence in relatively mature markets of The Netherlands and North America and has built strong positions in higher growth markets in Asia, Central & Eastern Europe, and Latin America. As part of a restructuring plan approved by the European Commission, ING has agreed to separate its banking and insurance operations businesses by 2013. The insurance business will possibly be divested through two separate initial public offerings; one for its European operations and one for the U.S. operations. Prior to the IPO, ING will be focused on building out its retirement and individual life insurance capacity in its leading U.S. franchise and improving its expense efficiency and investment performance. ING's U.S. insurance operations have significant exposure to the U.S. equity market through variable annuities, and sizable liabilities in its institutional investment product portfolio through GICs and funding agreements. Although both businesses are being run-off, the earnings volatility and regulatory capital pressures associated with these products will remain for several years.

During 3Q10, the company took a \$663mm goodwill impairment charge for the 2008 acquisition of Citistreet, leaving no further goodwill on the balance sheet of the U.S. insurance operations. ING is shifting its accounting and hedging practices in its U.S. insurance division in an effort to more closely align valuation assumptions with other U.S. life insurers. This resulted in a \$1.3b writedown of DAC for variable annuities in 4Q10, which will ultimately improve VA reserve adequacy and reduce earnings volatility as DAC amortization is smoothed over time. ING will take an additional \$1.3b to \$1.7b fair value reserve charge for VA guarantees at 1Q11. The reserve charge for VA guarantee liabilities will have a minimal impact on statutory capital and would reduce the RBC ratio by about 10pp. It is also possible that ING Group would inject capital into the U.S. operations to get capital ratios in line with U.S. peers and maintain consistency with stand alone credit ratings prior to the IPO. While we believe ING is taking the proper measures to strengthen VA reserves and incur writedowns of DAC and goodwill in an effort to cleanse the balance sheet before divestiture, short term profitability will be negatively impacted.

ING continues to benefit from financial market improvement, diverse revenue sources, and a strong international presence. For the full fiscal year 2010, ING Insurance posted operating income of \$2.3b, representing a 22% increase over prior year, driven by higher investment income and increased fees and premium revenues in the life insurance and investment management segments. As of 1Q11, the insurance division reported operating earnings of \$769mm on revenues of \$2.7b, representing solid y-o-y growth of 36% and 12%, respectively. The improved performance was driven by growth in sales and assets under management, which boosted fees and premium based revenues, as well as higher investment income, partially offset by higher DAC amortization, commissions, and administrative expenses. Premiums and fee revenues rose 11% y/y, primarily driven by strong sales and renewal premiums in the Asia/Pacific region, and higher AUM in Investment Management led to higher fees. New life sales increased 11.4% y/y, driven by strong pension sales in the Netherlands, higher stable value sales in the U.S., and strong bancassurance sales in Asia/Pacific, partially offset by weak pension sales due to regulatory changes in CEE and Latin America.

Profitability as measured by operating ROE was 11.8%, compared to 9.1% at 1Q10, and is favorable to that of peers. ING U.S. was the largest contributor to insurance operating earnings (27% of OI), posting 24% y/y growth attributable to strong investment and fee income from improving equity markets, helping to offset higher DAC amortization expense and a rise in individual life claims.

ING USA had general account invested assets of \$86b (92% IG rated) as of YE10, consisting of government and corporate bonds (55%), RMBS (10%), ABS (6%), CMBS (8%), commercial mortgage loans (10%), Alt-A MBS backed by the Dutch government (3%), policy loans (3%), and the remainder consisting of cash and highly liquid short term investments. The proportion of speculative grade bonds in the fixed income portfolio totaled 8%, which more than doubled over the past two years due to ratings migration. Of the higher risk assets, including RMBS and CMBS, more than half of the bonds are from the years 2005 to 2007 which were subject to weaker underwriting criteria than previous vintages. Credit impairments were somewhat modest at \$706mm, down slightly from a year ago, primarily comprised of losses on subprime RMBS. ING USA posted unrealized gains of \$2.0b at YE10, a significant turn-around from the \$3b in unrealized losses reported last year, as narrowing credit spreads and the benefit of a Dutch government guarantee for Alt-A RMBS contributed to the positive development.

Regulatory capital levels remain strong and liquidity is ample to cover near term debt obligations. Unconsolidated shareholders' equity improved by 31% y/y to \$28b attributed to earnings growth and a \$2b conversion of hybrids into equity from the parent. The European IGD Solvency ratio strengthened to 250%, up 3pp y/y, driven by a stronger capital base and a favorable asset valuation reserve impact. At the US life division, consolidated statutory capital was \$6.9b and the RBC ratio was estimated at 433%, above the company's 400% target. The financial leverage ratio of the US insurance operations ticked up to 35% at YE10 from 32% at YE09. Liquidity is supported by \$4.3b in cash & equivalents, committed credit facilities totaling \$2.5b, and \$18.8b in available borrowing capacity from the FHLB, which adequately covers minimal near term debt maturities of \$139mm (2013).

ING USA's business plan going forward is centered on its "back-to-basics" strategy in an effort to reduce cost, risk, and leverage, and to simplify the organization. Key areas of focus for the company are on client retention, expense management, asset quality, capital adequacy, re-establishment of distribution channels, and sales, with an emphasis on boosting core earnings. ING USA has a strong competitive position in the U.S. with a well established distribution network, strong capital adequacy and financial flexibility. Management has decided to narrow its focus to lower risk life insurance and retirement products without lucrative guarantees as part of its de-risking efforts in order to strengthen its regulatory capital position. While there is uncertainty surrounding the stand alone credit ratings of the separate insurance operations post divestiture, ING Group has expressed that they will be adequately capitalized to support the risks on their respective balance sheets. Any potential negative credit rating pressure will be limited. ING USA's leading market position in the savings and retirement and individual life insurance segments partially mitigate these concerns.

**Strengths:**

- Strong competitive position in the U.S. retirement and life insurance markets
- Good product positioning and efficient multichannel distribution network
- Strong enterprise risk management

**Weaknesses:**

- Uncertainty regarding future stand-alone credit quality after separation from ING Groep
- Earnings are depressed by challenging operating environment and from de-risking activities
- Statutory capital could be further pressured by deterioration of residential and commercial mortgage investments

**Key Statistics - ING Life Insurance & Annuity Company**

(\$ millions)	2010	2009	2008	2007	2006	CAGR/Avg
General Account Assets	21,634	20,273	20,603	18,090	19,299	2.90%
Separate Account Assets	47,309	42,202	36,703	48,910	44,292	1.66%
Total Assets	68,943	62,475	57,306	67,000	63,591	2.04%
Capital & Surplus	1,667	1,762	1,525	1,388	1,435	3.82%
NET GFO	119	458	(188)	250	145	-4.82%
Net Income	45	272	(428)	246	126	-22.69%
Return on Assets (Stat.)	0.07%	0.44%	-0.75%	0.37%	0.20%	0.06%
Return on Capital (Stat.)	2.70%	15.44%	-28.07%	17.72%	8.78%	3.31%
RBC Ratio (ACL)	851.6%	990.0%	774.5%	710.5%	863.3%	838.0%

**Key Statistics - ING USA Annuity & Life Insurance**

(\$ millions)	2010	2009	2008	2007	2006	CAGR/Avg
General Account Assets	25,599	25,043	25,432	24,906	18,425	8.57%
Separate Account Assets	47,778	46,874	38,658	49,351	43,099	2.61%
Total Assets	73,377	71,917	64,090	74,257	61,524	4.50%
Capital & Surplus	1,725	1,485	1,873	2,553	1,661	0.95%
NET GFO	817	829	(653)	38	128	58.95%
Net Income	(384)	(638)	(831)	(40)	(2)	272.24%
Return on Assets (Stat.)	-0.52%	-0.89%	-1.30%	-0.05%	0.00%	-0.55%
Return on Capital (Stat.)	-22.26%	-42.96%	-44.37%	-1.57%	-0.12%	-22.26%
RBC Ratio (ACL)	785.3%	614.1%	790.9%	735.6%	613.9%	708.0%

**Key Statistics - Security Life of Denver**

(\$ millions)	2010	2009	2008	2007	2006	CAGR/Avg
General Account Assets	17,874	19,469	23,143	22,580	22,246	-5.32%
Separate Account Assets	1,378	1,301	1,121	1,642	1,516	-2.36%
Total Assets	19,252	20,770	24,264	24,222	23,762	-5.13%
Capital & Surplus	1,457	1,697	1,439	1,306	1,595	-2.24%
NET GFO	(1)	222	221	27	130	NM
Net Income	(340)	24	38	20	135	NM
Return on Assets (Stat.)	-1.77%	0.12%	0.16%	0.08%	0.57%	-0.17%
Return on Capital (Stat.)	-23.34%	1.41%	2.64%	1.53%	8.46%	-1.86%
RBC Ratio (ACL)	988.3%	759.6%	893.8%	837.1%	903.0%	876.4%

Sources: Company Reports and SEC filings

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