Moody's Investors Service

Credit Opinion: ING Verzekeringen N.V.

Global Credit Research - 12 Dec 2012

Amsterdam, Netherlands

Ratings

Category	**Moody's Rating**
Rating Outlook	DEV(m)
Senior Unsecured	Baa2
Senior Unsecured MTN	(P)Baa2
Subordinate	Ba1 (hyb)
ING Groep N.V.	
Rating Outlook	NEG
Senior Unsecured	A3
Senior Unsecured MTN	(P)A3
Junior Subordinate-Dom-Curr	Ba1 (hyb)
Junior Subordinate-Fgn-Curr	Baa3 (hyb)
Pref. Stock	Ba1 (hyb)
ING Capital Funding Trust III	
Rating Outlook	POS

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Key Indicators

ING Verzekeringen N.V.[1]

	2011	[2]**2010**	**2009**	**2008**	**2007**
Total Assets (EUR Mil.)	**335,387**	**325,659**	**290,409**	**312,220**	**322,083**
Shareholders' Equity (EUR Mil.)	**23,537**	**20,270**	**15,967**	**12,413**	**18,801**
Net Income (EUR Mil.)	**1,220**	**(1,540)**	**(584)**	**(1,227)**	**5,833**
Gross Premiums Written (EUR Mil.)	**27,199**	**27,786**	**30,248**	**43,812**	**46,818**
Goodwill & Intangibles % Shareholders' Equity	**51.7%**	**67.9%**	**95.7%**	**145.4%**	**77.8%**
Adjusted Financial Leverage	**28.5%**	**35.6%**	**31.3%**	**45.4%**	**30.5%**
Total Leverage	**39.8%**	**46.6%**	**52.0%**	**76.3%**	**51.9%**
Earnings Coverage (1 yr.)	**4.1x**	**-1.5x**	**-0.4x**	**-1.8x**	**13.6x**

[1] Information based on IFRS financial statements [2] Restated

Opinion

SUMMARY RATING RATIONALE

Moody's Baa2 senior unsecured debt rating and P-2 short-term debt rating of ING Verzekeringen reflect the credit fundamentals of each insurance subsidiary (notably US entities, rated A3 for insurance financial strength, with a stable outlook, as well as European and Asian entities) and the structural subordination of the holding company's obligations to the obligations of the insurance operating entities.

More specifically, ING insurance operations benefit from a good franchise in some markets, namely in the Benelux and in the US, and relatively limited exposure to high risk assets. These strengths are partly offset by a high exposure to interest rate risk and financial risks in general, resulting from the Group's product risk profile, and volatile profitability.

ING Verzekeringen N.V. is currently owned at 100% by ING Groep N.V., the holding company of the ING Group. However, as a part of its restructuring plan, the group has committed to dispose all its insurance activities. Therefore, ING Verzekeringen's rating mostly reflects the stand-alone financial strength of the insurance group. Nonetheless, we note ING Verzekeringen occasionally receives support from ING Group, by providing liquidity support or by way of contingent capital solutions for example.

ING Group is preparing for a separate stand-alone future for the European operations, whilst preparing for the IPO of its US operations. The Group also started to sell its Asian operations. The uncertainties related to the divestment process and the potential changes in the capital structure and debt structure of the holding company at the end of the process are reflected in the developing outlook for ING Verzekeringen (see outlook section below).

Dated subordinated debts issued by ING Verzekeringen with optional deferral coupon mechanism are rated Ba1(hyb), two notches below the Baa2 senior debt rating, instead of one notch which is typical in Moody's notching guidelines. This wider notching continues to reflect the low to moderate risk of a coupon deferral associated with the execution risk posed by ING Group's restructuring process.

Credit Profile of Significant Subsidiaries

Headquartered in Amsterdam, the Netherlands, ING Verzekeringen N.V. is the holding company for all the ING Group's insurance activities. The main subsidiaries of ING Verzekeringen are operating in the Benelux (with a dominant insurance franchise in the Netherlands, ranking number one in life insurance and four in non-life), in the US (with a top ranking in retirement services and important positions in individual life insurance, annuity and retirement services), and in Asia (mostly in Japan and in South Korea). ING Verzekeringen also holds subsidiaries in other European countries (mainly in Southern Europe and in Central and Eastern Europe) and asset management operations worldwide. Although it holds some non-life insurance operations (primarily in the Benelux), ING Verzekeringen is primarily focusing on life insurance and pensions.

For more details on US operations or on European and Asian operations, please refer to Moody's Analysis and Moody's Credit Opinion on ING US Life companies, and Moody's Analysis on ING Verzekeringen.

Credit Strengths

- Dominant franchise in the Netherlands, ranking number one in life insurance and four in non-life, and top rankings in the US market for individual life insurance, annuity and retirement services

- Good asset quality and liquidity of the operating companies

Credit Challenges

- Protect the balance sheet of insurance operations from a relatively high exposure to low interest rate and to volatility in financial market

- Limit the volatility of insurance operations' profitability

- Manage the separation of insurance activities from ING Bank and more generally manage the execution risks related to the whole divestment process

Rating Outlook

The outlook of ING Verzekeringen's Baa2 senior debt rating is developing. The developing outlook reflects the uncertainties related to the divestment process of ING's insurance operations. Negatively, the execution risks associated with the separation of the insurance activities continue to pose pressure on ING Verzekeringen's rating. Further uncertainty exists with regards to ING Verzekeringen's ultimate position in the organizational structure following the divestment. Positively, the stated intention to repay debts of ING Verzekeringen, and the potential reduction in the business risk profile that could result from the sales, could lead to an improvement of the holding's financial strength.

The outlook on the Ba1(hyb) subordinated debt rating of ING Verzekeringen is positive, reflecting the possibility that this rating may be upgraded, if and when the risk associated with ING Group's restructuring process ends or diminishes significantly.

What to watch for:

- Progress of the sale of the remaining Asian insurance operations and of the IPO of the US operations

- Impact of continued volatility in financial markets on ING Verzekeringen results

What Could Change the Rating - Up

- Significant improvement of the financial strength of its insurance operations

- Significant deleveraging and substantial repayment of debt

What Could Change the Rating - Down

- Weakening of the financial strength of the insurance operations that it holds

- Worsening of the leverage position of the company

Recent Results and Company Events

On 19 November 2012, ING announced having reached an agreement on amendments to the EC Restructuring Plan. Notably, the amendment extends the timeline to divest the insurance and investment management businesses to the end of 2018. In addition, at least 50% of ING's Asian operations must be divested by year-end 2013, with the remainder by year-end 2016. At least 25% of ING US must be divested by year-end 2013, more than 50% by year-end 2014, and the remainder by year-end 2016. More than 50% of the European operations must be sold by year-end 2015, and the remainder by year-end 2018. In addition, the Group will call the EUR1.25 billion 2021 dated subordinated debt in December 2012 as permitted by the EC.

In October 2012, ING announced agreements to sell in Q1 2013 its insurance operations in Malaysia, Macau, Hong Kong and Thailand, representing around 25% of ING's insurance business in Asia/Pacific and a total consideration of EUR2.9 billion .

For 2011, ING Verzekeringen reported an operating result of EUR2.2 billion, up from EUR1.6 billion in 2010. The company recorded a EUR1.1 billion reserve charge for policyholder behaviour assumption changes related to guarantees in the variable annuity (VA) closed block at its US operations, offsetting the gain on the sale of the Latin American operations (EUR1.0 billion). Net income for 2011 amounted to EUR1.2 billion (2010: loss of EUR1.5 billion) and shareholders' equity stood at EUR23.5 billion at year-end 2011, up from EUR20.3 billion as at year-end 2010.

For the first nine months of 2012, ING Verzekeringen reported a net profit of EUR75 million compared to EUR1,280 million for the same period in 2011. The result to date in 2012 was notably impacted by net losses on hedges in the US and in the Benelux as well as the change in provision for separate account in the pensions contracts in the Netherlands (EUR505 million), partly offset by realized capital gains on equity investments (EUR329 million in the nine months).

Capital Structure and Liquidity

ING Group has historically had an integrated treasury and capital management strategy, whereby perpetual hybrid securities were always raised via direct issuance of the parent company, ING Groep N.V.. Conversely, lower Tier-2 capital or subordinated debt is raised directly from the main banking or insurance operations according to their needs. However, as ING Group will sell its insurance activities, ING Verzekeringen is expected to become increasingly autonomous.

During 2011, the indebtedness of the insurance operations had reduced as i) the Group used the proceeds of the Latin America transaction to reduce the leverage in ING Insurance and ii) to a smaller extent, as a result of the liability management offers. In March 2012, ING Verzekeringen completed a second liability management transaction on part of its senior debts. The primary goal of this exercise was to remove change of control clauses included in these debts, which could have been triggered during the divestment process. However, as the previous debts have been replaced by similar debts issued to ING Groep N.V., this second liability management exercise had a neutral effect on ING Verzekeringen's financial leverage and earnings coverage.

As at 30 June 2012, ING Verzekeringen's debts were compiled of EUR2.6 billion of perpetual subordinated debts issued to ING Groep N.V. (a similar amount of debts have been issued by ING Groep N.V. and on-lent to ING Verzekeringen on a like-for-like basis), EUR1.7 billion of dated subordinated debts (maturing after 2020), EUR2.5 billion senior debts, and EUR8.8 billion of other borrowed funds, including transactions with ING Bank and USD2.0 billion drawn under a USD5.0 billion senior unsecured credit facility by the US operations in April 2012. Furthermore, the US operations issued USD850 million senior notes in July 2012 .

Moody's estimated ING Verzekeringen's financial leverage at 28.5% at year-end 2011 (improving from 35.6% at year-end 2010), driven by the improvement in shareholders' equity, which is consistent with Moody's expectations at the current rating level.

Total leverage remained high in 2011 at around 40% (2010: 47%), but the main difference between total leverage and financial leverage is partly explained by debts related to collateral received on derivative operations and some operating debts in the mortgage and other business. Double leverage at ING Verzekeringen was 143% at year-end 2011 (2010: 158%).

In 2011, fixed charge coverage at ING Verzekeringen was 4.1x, after having been negative for three years. Therefore, on a 5-year average, fixed charge coverage remained below Moody's expectations for ING Verzekeringen's current rating level. Moody's continues to expect that - similarly to other financial groups - prospective fixed charge coverage will remain below levels seen historically, given the continuous pressure on earnings for the various insurance operations. This also represents a constraint on ING Verzekeringen's financial flexibility.

Given the current debt structure at the Group, we view the refinancing risk only concerns senior debt. Although most of the borrowed funds have short-term maturities, we note that most of these operations are linked to the collateral received for the derivatives used by ING Verzekeringen or represent ING Group internal transactions which are expected to be restructured before the sale of the insurance operations. We also expect the Group to use the proceeds from the sale of the Asian operations and of the US IPO to repay debts. In particular, we noted ING announced its intention to use the proceeds of the sales to maintain a constant level of leverage at ING Verzekeringen, including the leverage of its subsidiaries. The Group also announced its intention to call the EUR1.25 billion 2021 dated subordinated debt by the end of 2012 as permitted by the EC.

adviser.