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**Research Update:**

# ING Groep N.V. And Subsidiaries Ratings Lowered On Weaker Earnings; Outlook Remains Negative

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## Research Update:

# ING Groep N.V. And Subsidiaries Ratings Lowered On Weaker Earnings; Outlook Remains Negative

## Rationale

On March 31, 2009, Standard & Poor's Ratings Services lowered its long- and short-term counterparty credit ratings on ING Groep N.V. and ING Verzekeringen N.V. to 'A+/A-1' from 'AA-/A-1+', and its long- and short-term counterparty credit ratings on ING Bank N.V. to 'AA-/A-1+' from 'AA/A-1+'. At the same time, the long-term counterparty credit and insurer financial strength ratings on various insurance operating subsidiaries were lowered by one notch (see ratings list below for all ratings affected). The outlook on all entities remains negative. The downgrade follows our review of European global multiline insurers announced on Feb. 24, 2009. For further information on this review see "Various Rating Actions On European Global Multiline Insurers After Portfolio Review," published today on RatingsDirect.

The downgrade reflects our concern of significant pressures on group earnings in 2009 arising from investment-related losses in the insurance division. Bank earnings are expected to be pressured by higher credit losses. The risk-transfer facility (Illiquid Asset Back-up Facility; IABF) with the Dutch state announced in January 2009 for the group's Alt-A securities portfolio, removes, in our opinion, one of the drags on earnings seen in 2008.

In the current challenging market conditions, we see ING as being focused on reducing earnings volatility, maintaining a robust capital position, reducing risk, and tightly managing costs. Actions have been taken across the group, such as the sale of ING's Taiwan life insurance operations to reduce interest rate sensitivity and the €10 billion "high-equity content" hybrid capital injection from the State of The Netherlands in November 2008. Although Standard & Poor's views favorably the proactive actions taken to replenish capital and reduce risk, capital quality has weakened during 2008. Given the weaker earnings outlook owing to economic and financial market pressures, we see this trend in capital quality as adding incremental risk.

The group reportedly aims to cut €1 billion of costs in 2009, equivalent to about 6.5% of the 2008 cost base, primarily from headcount reduction, and head office and marketing savings. This should help protect the bottom line. A €450 million net restructuring charge will be booked in the first half of 2009.

The group will continue to refocus on its core activities and markets, as announced in October 2008. The incoming CEO is reportedly undertaking a strategic review, and selective divestments are expected to take place, although no material change in strategy is expected.

ING is the Netherlands-incorporated, nonoperational holding company of the group, which comprises global banking and insurance operations. Earnings and capital allocation, in our view, are well diversified by segment and

geography. ING is rated one notch below its core operating subsidiaries as its debt-servicing capacity is dependent on distributions from those entities.

The ratings on ING's core operating subsidiaries reflect our view of its very strong competitive position, high level of diversification, proactive risk management, and strategic focus. The ratings also incorporate our view of the group's significant exposure to investment risk, and a more challenging operating environment.

## Outlook

The negative outlook continues to reflect our view of the downside risks to group performance in 2009 from the tough operating environment including equity market weakness and volatility and heightened impairment risk, combined with low interest rates and elevated credit losses. We believe that this may result in a net loss at the group level.

Key areas which we anticipate may be a drag on performance in 2009 are investment fluctuations and impairments in the insurance division and escalating credit losses at the bank. The ratings could be lowered if earnings weakness is indicative of deterioration in ING's underlying performance, or higher-than-expected investment-related losses push the group to a full-year loss in 2009. Failure to manage hybrid and debt leverage ratios within expectations could also lead to a rating downgrade.

The outlook could be revised to stable if the group demonstrates a high level of resilience in underlying performance over the coming quarters, in both the banking and insurance operations, as measured by new sales, margins, client balances, and underlying profits. An outlook revision to stable would also be predicated, all other things being equal, on ING maintaining its capital strength, executing on derisking initiatives, and managing down hybrid and debt leverage.

## Ratings List

### Ratings List

	To	From
ING Groep N.V.		
Counterparty Credit Rating	A+/Negative/A-1	AA-/Negative/A-1+
ING Verzekeringen N.V.		
Counterparty Credit Rating	A+/Negative/A-1	AA-/Negative/A-1+
ING Bank N.V.		
Counterparty Credit Rating	AA-/Negative/A-1+	AA/Negative/A-1+
ING America Insurance Holdings Inc.		

Counterparty Credit Rating	A+/Negative/A-1	AA-/Negative/A-1+
Lion Connecticut Holdings Inc.		
Counterparty Credit Rating	A+/Negative/--	AA-/Negative/--
ING USA Annuity and Life Insurance Co.		
Counterparty Credit Rating	AA-/Negative/A-1+	AA/Negative/A-1+
Insurer Financial Strength Rating	AA-/Negative	AA/Negative
Security Life of Denver Insurance Co.		
Counterparty Credit Rating	AA-/Negative/A-1+	AA/Negative/A-1+
Insurer Financial Strength Rating	AA-/Negative	AA/Negative
Reliastar Life Insurance Co.		
Counterparty Credit Rating	AA-/Negative/A-1+	AA/Negative/A-1+
Insurer Financial Strength Rating	AA-/Negative	AA/Negative
ING Re (Netherlands) N.V.		
Counterparty Credit Rating	AA-/Negative/--	AA/Negative/--
Insurer Financial Strength Rating	AA-/Negative	AA/Negative
ING Life Insurance & Annuity Co.		
Counterparty Credit Rating	AA-/Negative/--	AA/Negative/--
Insurer Financial Strength Rating	AA-/Negative	AA/Negative
Midwestern United Life Insurance Co.		
Counterparty Credit Rating	AA-/Negative/--	AA/Negative/--
Insurer Financial Strength Rating	AA-/Negative	AA/Negative
Reliastar Life Insurance Co. of New York		
Counterparty Credit Rating	AA-/Negative/--	AA/Negative/--
Insurer Financial Strength Rating	AA-/Negative	AA/Negative
ING Life Insurance Co. Ltd.		

Counterparty Credit Rating	A+/Negative/--	AA-/Negative/--
Insurer Financial Strength Rating	A+/Negative	AA-/Negative

ING Life Ltd.

Counterparty Credit Rating	A+/Stable/--	AA-/Negative/--
Insurer Financial Strength Rating	A+/Stable	AA-/Negative

ING Bank (Australia) Ltd.

Counterparty Credit Rating	AA-/Negative/A-1+	AA/Negative/A-1+
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ING Belgium SA/NV

Counterparty Credit Rating	AA-/Negative/A-1+	AA/Negative/A-1+
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N.B.--This does not include all ratings affected.

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