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Research Update:

ING Verzekeringen N.V. 'A-/A-2' Ratings Affirmed On Announcement That IPO Will Include Japan; Outlook Negative

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Overview

- On Nov. 6, 2013, ING Groep N.V. (ING) announced updated plans for the divestment of its insurance and investment management businesses.
- Previously, we expected ING to divest its European insurance and investment management businesses through an IPO and sell its Japanese business separately; we now understand that both will be included within the IPO entity, ING Verzekeringen N.V. (INGV).
- ING has made significant progress with divestments and restructuring over the previous 12-18 months and we expect this to be the final material group structure announcement relating to INGV before the IPO.
- We are affirming our 'A-/A-2' long- and short-term counterparty credit ratings on INGV and our 'A+' long-term counterparty credit and insurer financial strength ratings on its Dutch operating insurance subsidiaries. The outlook remains negative.

Rating Action

On Nov. 8, 2013, Standard & Poor's Ratings Services affirmed its 'A-/A-2' long- and short-term counterparty credit ratings on ING Verzekeringen N.V. (INGV). At the same time, we affirmed the 'A+' long-term counterparty credit and insurer financial strength ratings on its Dutch operating insurance subsidiaries: Netherlands-based Nationale-Nederlanden Levensverzekeringen Maatschappij N.V. and ING Re (Netherlands) N.V. The outlook on all three companies remains negative.

Rationale

The rating affirmation follows ING Groep N.V.'s (ING's) announcement on Nov. 6, 2013, of its updated plans for the divestment of its insurance and investment management businesses. As part of its revised base-case scenario, ING now plans to divest both the Japanese and European operations through an IPO of INGV. Previously, ING was exploring the option of a separate divestment of the Japanese operations.

This announcement is not unexpected, given the complexities of separately divesting the Japanese operations and the risk exposures within this business. The Japanese operations included closed-block, variable-annuity guarantees reinsured with ING Re. In addition, ING had previously agreed with the

European Commission that it would sell at least 50% of its Japanese operations by year-end 2013. Including the Japanese operations in what it refers to as its "base case" IPO (that is, divesting it along with the European operations) enables ING to extend this deadline to year-end 2015.

ING has accelerated its preparations for the base-case IPO of INGV and now expects to initially launch it during 2014. Therefore, we do not expect any further major announcements on the scope of the IPO entity. ING will stop classifying the Japanese operations as held for sale and discontinued operations, given an announced change in the financial reporting planned for the fourth quarter of 2013.

Including the Japanese operations in the IPO entity does not materially affect our view of INGV's business risk profile, although we recognize the additional geographic diversity it provides. Our view of the business risk profile is anchored by the strength of INGV's market position in the Benelux region, supported by its brand, Nationale Nederlanden (NN). INGV's financial risk profile does include an assessment of the risks and potential volatility that could emerge over the divestment period. To a large extent, we expected the €600 million pre-tax Japanese reserve strengthening announced on Nov. 6, 2013. We also acknowledge that a potential additional accounting change for the Japanese business, which could reduce equity by €400 million pre-tax. We expect the financial risk profile to remain strong and resilient.

This announcement signals the final major step in the divestment journey for INGV. It has already completed other Asian trade sales, the U.S. IPO, and subsequent transfer of the remaining stake in ING U.S. to ING from INGV in recent months. The key residual unknown is the capital adequacy and capital structure of INGV when the IPO launches, but we expect ING and INGV to act to maintain INGV's strong financial risk profile.

Outlook

The negative outlook reflects our view that INGV's financial risk profile could deteriorate, in part because we consider that the risks and uncertainties associated with the divestment of ING's insurance operations from ING could affect our assessment of capital and earnings and financial flexibility. We also anticipate that wider economic factors, such as low interest rates, could depress earnings.

We may lower the ratings on INGV if:

- The divestment process or economic pressures adversely affect capital and earnings such that our assessment falls below strong levels or becomes less resilient than it is now, including the impact of INGV-specific capital management targets in preparation for the IPO; or
- We expect the insurance operations' access to sources of capital will weaken after it separates from the ING Group or if leverage ratios increase toward 35%; or
- Our assessment of its risk tolerances or risk management framework

weakens our assessments of risk position, ERM, or management and governance. This could result from markedly heightened investment risk exposures or unexpected volatility within the closed-block, variable-annuity businesses in Japan, for instance, or capital allocation inconsistent with its strategic goals.

We could also lower the ratings on INGV if we lower the ratings on ING because ING and INGV remain linked. ING currently has a negative outlook.

We could revise the outlook on INGV to stable if:

- We are more certain that the impact of divestment by ING on INGV's capital and earnings and financial flexibility will not adversely affect a strong and resilient financial risk profile; and
- Pressure on earnings from economic difficulties is mitigated by management actions to bolster product-line profitability (in particular, through cutting costs significantly, especially in the Netherlands).

Ratings Score Snapshot

Financial Strength Rating	A+/Negative
Anchor	a
Business Risk Profile	Strong
IICRA*	Intermediate Risk
Competitive Position	Strong
Financial Risk Profile	Strong
Capital and Earnings	Strong
Risk Position	Intermediate Risk
Financial Flexibility	Strong
Modifiers	+1
ERM and Management	+1
Enterprise Risk Management	Strong
Management and Governance	Satisfactory
Holistic Analysis	0
Liquidity	Strong
Support	0
Group Support	0
Government Support	0

*Insurance Industry And Country Risk Assessment.

Related Criteria And Research

Related criteria

- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related research

- ING Verzekeringen N.V.'s Core Subsidiaries Ratings Affirmed At 'A+' After Insurance Criteria Change; Outlook Negative, May 22, 2013

Ratings List

Ratings Affirmed

ING Verzekeringen N.V.

Counterparty Credit Rating	A-/Negative/A-2
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ING Re (Netherlands) N.V.

Nationale-Nederlanden Levensverzekeringen Maatschappij N.V

Counterparty Credit Rating	
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Local Currency	A+/Negative/--
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Financial Strength Rating	
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Local Currency	A+/Negative/--
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ING Verzekeringen N.V.

Subordinated	BBB
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Commercial Paper	A-2
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ING U.S. Inc.

Commercial Paper*	A-2
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Westland/Utrecht Hypotheekbank N.V.

Senior Unsecured*	A-
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*Guaranteed by ING Verzekeringen N.V.

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