



# ING Insurance

Update on preparations for the IPO of ING Insurance

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[www.ing.com](http://www.ing.com)

# Taking steps to improve earnings and to prepare for independent capital structure

## Focus on improving capital generation and earnings

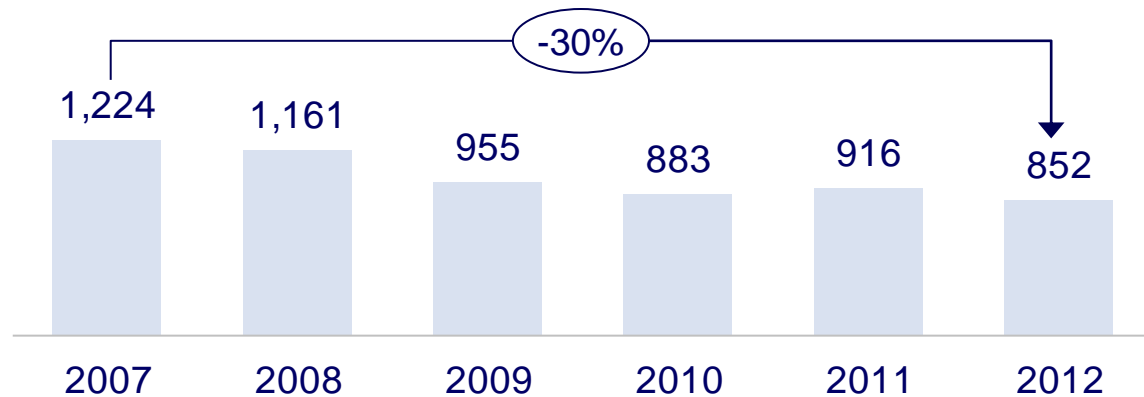
- Continued focus on cost reductions
- Active management of Individual Life closed book
- Re-pricing and changed conditions improve return and risk profile of in-force Group Life book in the Netherlands
- Underwriting and re-pricing actions to restore Non-life profitability
- Successful shift to higher margin Life product mix in CRE
- Pursuing growth of third-party business Investment Management
- Gradual shift to higher return assets

## Moving to an independent capital structure

- ING Insurance (INGV) capital framework formulated but capital target yet to be finalised under regulatory, rating and economic constraints
- Net debt at INGV has been further reduced; ultimate objective for leverage amount to be consistent with leverage and fixed charge coverage ratios of a single A rated company

# Expenses in the Netherlands declined significantly and will be further reduced

Insurance NL has strongly reduced admin expenses (in EUR mln)



Transformation programme is already yielding cost savings (in EUR mln)

	Achieved in 1H2013	Target by end 2014
<b>Cost savings*</b>	65	200
<b>FTE reduction</b>	506 FTE	1,350 FTE

\* Run rate annual savings are coming through in the administrative expenses (total)

Efficiency has increased

- Insurance Netherlands has reduced its administrative expenses by 30% since 2007 driven by a strong reduction in FTEs
- The realisation of continued cost savings in 2011 and 2012 have been offset by the transfer of Mandema from ING Bank to Insurance NL and higher regulatory costs
- Pension costs are volatile driven by changes in the discount rate

Ongoing focus on cost efficiency

- In November 2012, Insurance Netherlands announced further measures to reduce expenses
- These plans aim to deliver a structural reduction of expenses of EUR 200 million by the end of 2014
- The cost savings programme is on track with EUR 65 million of structural cost reductions already realised in 1H2013
- We will continue to further optimise our cost structure and additional cost savings are being investigated

# Protecting solvency with a conservative investment asset mix

## Insurance Europe General Account\* (in EUR bln)

	2Q2013		4Q2010
Government Bonds	40.9	↑	31.4
Corporate Bonds	5.3	↓	6.6
Financial Bonds	3.5	↓	5.2
Covered Bonds	0.9		0
ABS	6.4		7.0
Mortgages	6.2		6.6
Other loans	4.4	↓	9.9
Public Equities	1.8	↓	3.4
Other Equities**	2.5		2.4
Real Estate Equities	1.4		0.6
Real Estate	1.6		2.7
Cash	5.9		2.8
Other	2.8		4.0
<b>Total</b>	<b>83.6</b>		<b>82.6</b>

\* Based on IFRS Values and excluding Asia

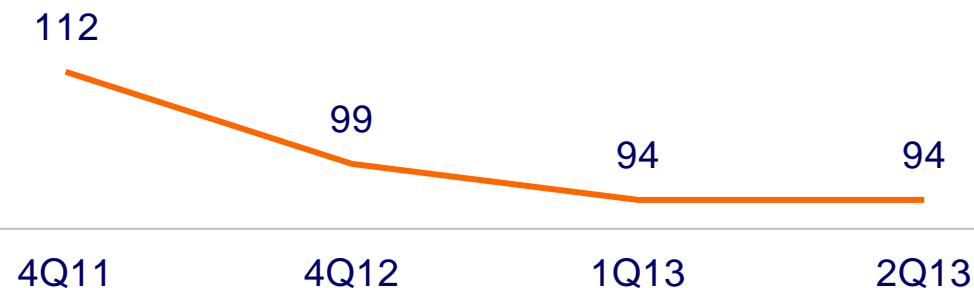
\*\* includes private equity and mutual funds

## Insurance Europe general account has been de-risked

- The general account has been de-risked over the last years in light of the economic crisis and to protect regulatory capital
- The government bond portfolio and cash increased significantly while corporate/financial bonds and other loans were reduced
- Our equity exposure has been reduced in absolute terms but is now unprotected compared to a fully hedged exposure in 2012
- De-risking efforts and the low interest rate environment have negatively impacted the investment spread

## Investment spread Insurance Europe Life General Account invested assets (in bps)

4-quarter rolling average



# Reviewing options to increase allocation to higher return assets

## Insurance Europe government bonds

By rating			By geography		
	2Q2013	4Q2010		2Q2013	4Q2010
AAA	62%	65%	Germany	29%	21%
AA	27%	14%	Netherlands	17%	11%
A	3%	16%	France	14%	23%
BBB	6%	3%	Finland	3%	0%
BB and lower	2%	2%	Belgium	12%	9%
			Austria	10%	8%
			Italy	3%	10%
			Others	12%	18%

## Insurance general account

- We currently have a conservative investment portfolio
- General account investments are close to 100% investment grade bonds
- 62% of government bonds invested in AAA countries and 89% in AAA/AA
- This reflects risk appetite but also the matching of our long duration liabilities
- We are reviewing options to increase our allocation to higher return assets, but this will be capital dependent

# Moving to an independent capital structure

## Capital constraints

Regulatory framework

Economic framework

Rating agency framework



## Key capital considerations

Local solvency positions of our entities

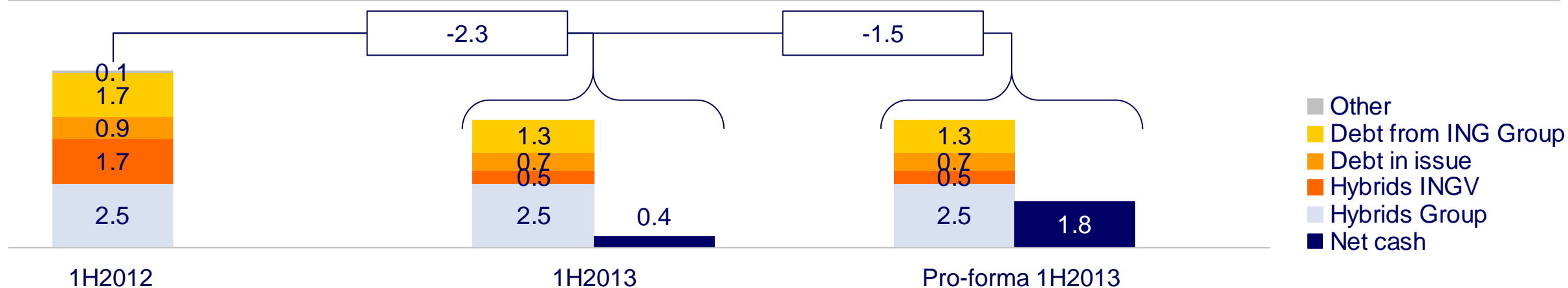
Withstand stress events

Funding of holding expenses

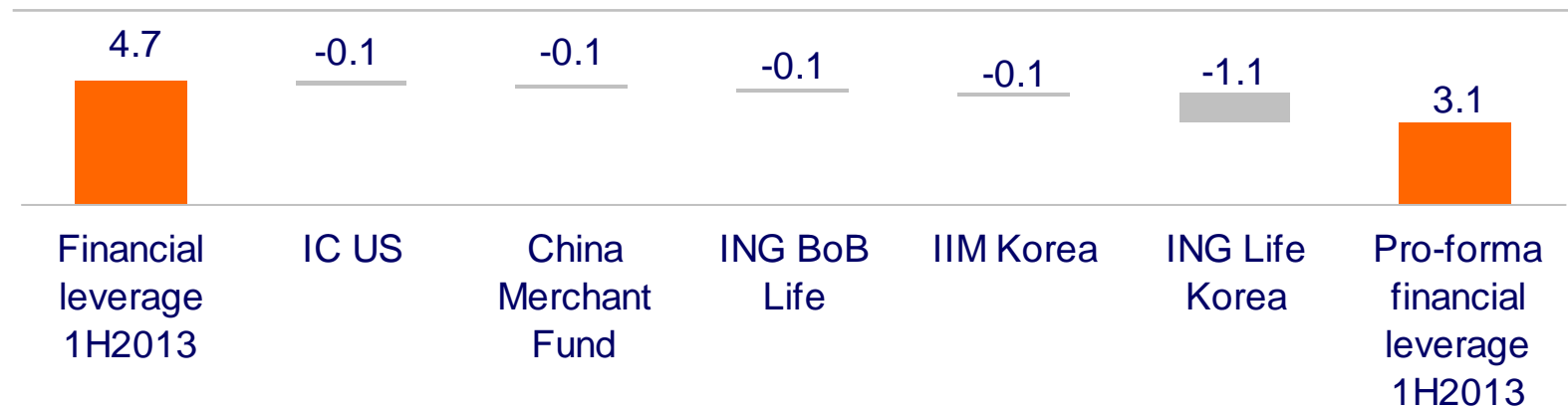
Leverage and coverage ratios

# ING Insurance (INGV) has improved financial leverage

Net debt at INGV has been reduced (in EUR bln)



Pro-forma net debt at EUR 3.1 bln



Financial leverage INGV improved

- Net debt of INGV at 1H2013 was EUR 4.7 bln, down from EUR 6.9 bln at 1H2012
- The full redemption of intercompany debt from the US and the closing of the already announced sales of Asian entities will reduce the net debt further to EUR 3.1 bln



# INGV has a clean balance sheet with limited intangibles

ING Insurance (INGV) pro-forma 30 June 2013 (in EUR bln)

Benelux	11.6	Shareholders' equity	14.4
CRE	1.4	Hybrids Group	2.5
ING Life Japan	1.7	Hybrids INGV	0.5
IIM Asia	0.1	Debt in issue	0.7
IIM Europe	0.3	Debt from ING Group	1.3
ING Re Japan	1.2		
Corporate Line Other	0.5		
Net cash position	1.8		
DTA and Other	0.7		
	19.4		19.4

- Removing the US from ING Insurance (ING Verzekeringen NV) clears the way to use ING Insurance as the IPO entity
- Pro-forma INGV equity and financial leverage mainly adjusted for the transfer of ING U.S. to ING Group, the already announced sales of Asian entities (including ING Life Korea) and the capital injection into NN Bank in July
- INGV pro-forma balance sheet includes remaining Held-for-Sale Asian assets
- As a result, the financial leverage will improve from 29% to 22%



# Local entities managed on commercial capital levels

## Capital positions of subsidiaries

- We manage our subsidiaries on commercial capital levels
- Differences between IFRS equity and local regulatory available capital vary by market, reflecting local accounting and regulatory framework
- ING Re has a very high Solvency I ratio, but is managed and regulated on an economic basis

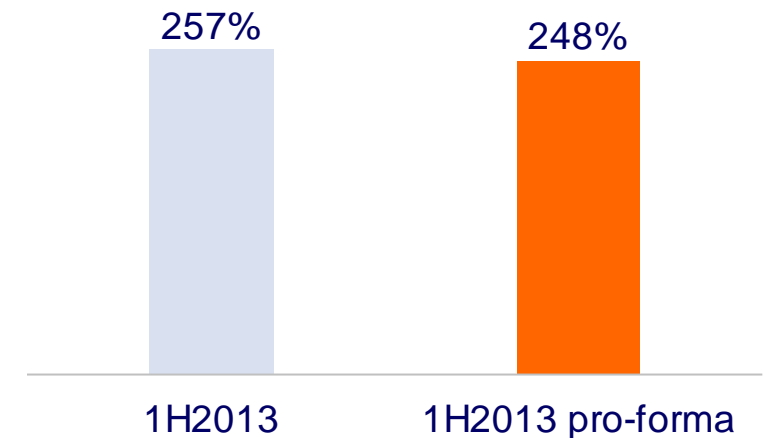
1H2013	IFRS equity* (in EUR bln)	Local regulatory available capital* (in EUR bln)	Local regulatory solvency ratio
NN Life*	9.0	5.1	189%
NN Non-Life	0.7	0.7	233%
NN Bank**	0.4	0.4	n.a.
Belgium & Luxembourg	0.6	0.5	140%
CRE	1.4	1.0	180%
ING Life Japan	1.7	1.1	1,047%
ING Re	1.4	1.3	850%

\* NN Life pro-forma 1H2013 after French downgrade by Fitch

\*\* After capital injection from ING Group in July 2013

## INGV IGD ratio pro-forma

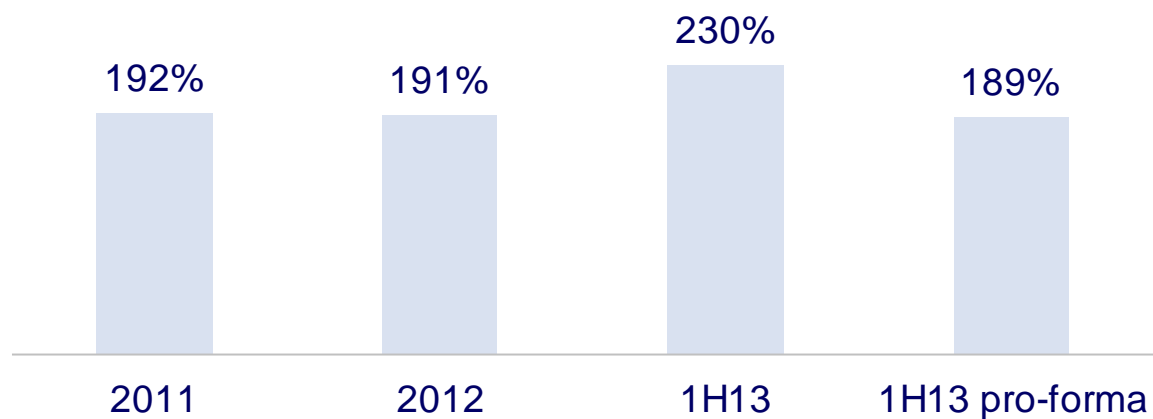
- The pro-forma IGD ratio for INGV at 248% is slightly down from 257% at 1H2013
- The negative impact from the French downgrade by Fitch is partially offset by the sale of ING Life Korea, the capital injection in NN Bank and the transfer of ING U.S to ING Group



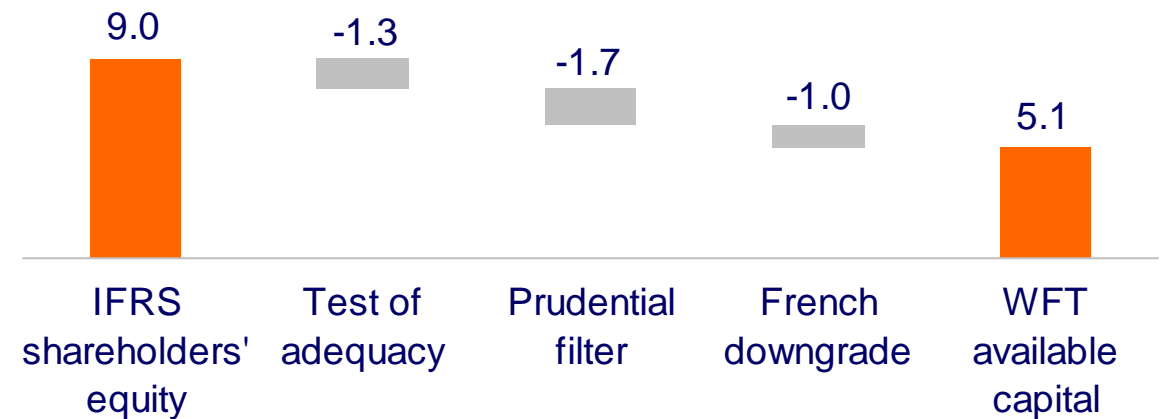
# Dutch solvency is marked-to-market

- Regulatory solvency in the Netherlands is based on Solvency I methodology with a supplementary “test-of-adequacy” (ToA)
- This essentially results in available capital that is on a full mark-to-market basis using the ECB AAA curve
- This can be seen as conservative compared to other jurisdictions but can lead to significant volatility due to the lack of a liquidity premium
- Solvency of NN Life improved to 230% in 1H2013 driven by net earnings, management action and market movements
- The Fitch downgrade of France reduced the ECB AAA yield curve and NN Life’s 1H2013 pro-forma solvency ratio by 41 percentage points
- Following the French downgrade, NN Life’s pro-forma solvency ratio at June 2013 is at the lower end of our target range
- Solvency 1.5 is being developed. While the outcome remains uncertain, it will most likely formalize the requirements for dividend payments from the Dutch life subsidiaries

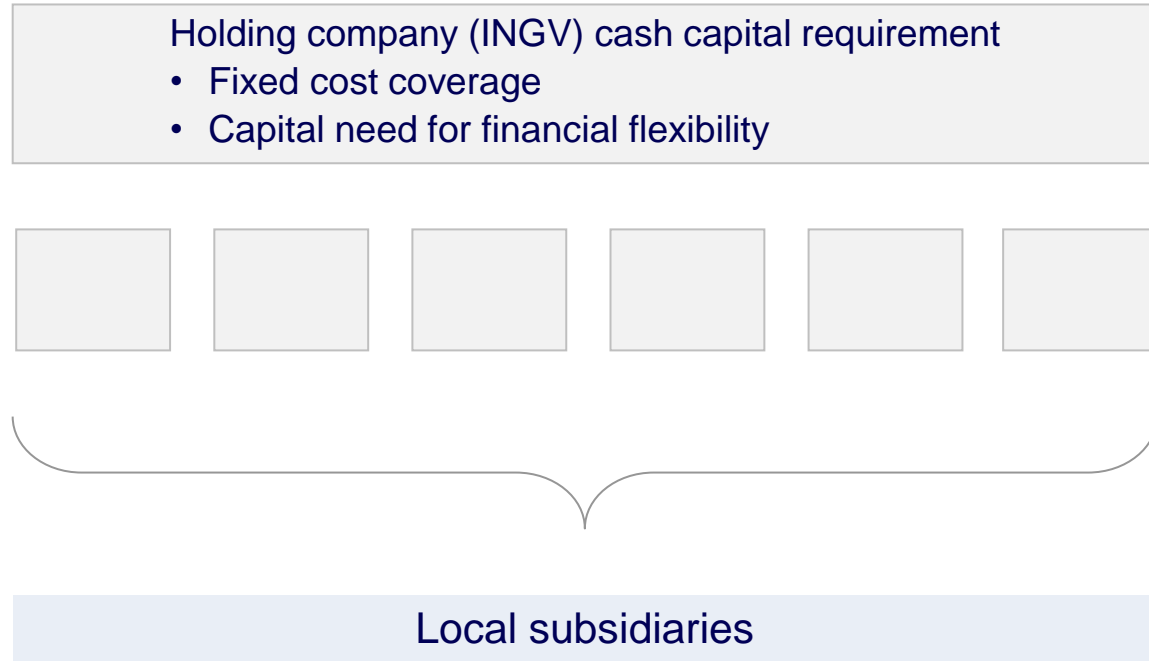
Solvency ratio NN Life



NN Life pro-forma available capital at 1H2013 (in EUR bln)



# Ultimate level of holding company cash capital yet to be determined



## Holding company capital requirement

- Cash capital is required in ING Insurance (INGV):
  - To provide flexibility to manage legal entity capital levels, particularly in stress events
  - To provide flexibility to cover holding company costs and debt service costs for an intermediate time period
- Current annual holding company operating costs for INGV (excluding debt interest) are EUR 150 mln (pre-tax)
- INGV debt is currently mostly floating rate
- Ultimate objective for leverage amount to be consistent with leverage and fixed charge coverage ratios of a single A rated company
- The ultimate level of holding company capital is yet to be determined

# INGV debt strongly reduced but final capital target still to be finalised

Local solvency positions of our entities	<ul style="list-style-type: none"><li>• Most local entities are well capitalised</li><li>• NN Life pro-forma solvency ratio is at the lower end of our target range</li></ul>
Withstand stress events	<ul style="list-style-type: none"><li>• Holding company capital level needs to be determined</li></ul>
Funding of holding expenses	
Leverage and coverage ratios	<ul style="list-style-type: none"><li>• Reduced financial leverage of INGV</li><li>• Ultimate objective for leverage amount to be consistent with leverage and fixed charge coverage ratio of single A rated company</li></ul>

# Focus on improving capital generation and earnings

- ✓ Continued focus on cost reductions
- ✓ Active management of Individual Life closed book
- ✓ Re-pricing and changed conditions improve return and risk profile of in-force Group Life book in the Netherlands
- ✓ Underwriting and re-pricing actions to restore Non-life profitability
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In preparing the financial information in this document, the same accounting principles are applied as in the 2Q2013 ING Group Interim Accounts.

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