

## ING Insurance Co. of Canada

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**RatingsDirect  
Publication Date**

Oct. 18, 2006

**RATING A+/Stable/— (STRONG)**

An insurer rated 'A' has strong financial security characteristics, but is somewhat more likely to be affected by adverse business conditions than are insurers with higher ratings.

**RELATED RATINGS**

**Belair Insurance Co. Inc.**

Financial Strength Rating      A+/Stable/—

**ING Novex Insurance Co. of Canada**

Financial Strength Rating      A+/Stable/—

**Nordic Insurance Co. of Canada**

Financial Strength Rating      A+/Stable/—

**Trafalgar Insurance Co. of Canada**

Financial Strength Rating      A+/Stable/—  
*Local currency*

### Major Rating Factors

**Strengths:**

- Largest property and casualty (P&C) insurance company in Canada
- Superior claims management expertise
- Multiline insurance writer with good customer and geographic diversification
- Strong brand name
- Large and very strong parent

**Weaknesses:**

- Heavy reliance on the cyclical auto insurance sector
- Commodity-like products
- Very fragmented and competitive industry
- High degree of regulation on pricing and business practices with the personal lines
- Large preferred and common equity holdings held within investment portfolio
- Independent broker-controlled distribution

## Rationale

The counterparty credit and financial strength ratings on: Belair Insurance Co., ING Insurance Co. of Canada, ING Novex Insurance Co. of Canada, The Nordic Insurance Co. of Canada, and Trafalgar Insurance Co. of Canada reflect the company's leading market position, continued strong operating and underwriting performance, strong capital position, and the successful integration of Allianz Canada.

The above-listed companies represent the primary operating subsidiaries of Toronto-based insurance holding company ING Canada Inc., and will collectively be referred to as ING Canada.

Through participation reinsurance agreements, all of the insurance companies in ING Canada effectively operate as one; accordingly, the financial strength ratings have been equalized. As well, the ratings on the Canadian operating companies benefit from the implied support of the very strong ING Group.

The ratings on ING Canada reflect the following:

- Leading market position: No. 1 player in the Canadian market with approximately 11.0% market share as measured by direct written premiums.
- Size and scale: In 2005, generated C\$3.9 billion (2004: C\$3.6 billion) in gross premiums and a net income of C\$740.9 million (2004: C\$594.5 million). In addition, the holding company reported shareholders' equity of C\$3.2 billion (Q2 2006).
- Improved operating environment: Like its peers, the company has benefited from government auto reforms in various provinces that were put into place approximately two years ago. Moreover, claims frequency has been at an all-time low as a result of the milder weather, higher gas prices, public fear of rate hikes resulting from a claim, and increased car safety.
- Consistent and strong performance: Continued to outperform the industry in 2005 and through second-quarter 2006. The company has outperformed as far back as 1993. As of second-quarter 2006 the company's insurance subsidiaries generated a 12-month combined ratio of 87.0% and an ROE of 33.5%.
- Higher yielding investment portfolio: Despite a low-interest-rate environment, the company has consistently been able to produce solid investment returns, including the realization of significant capital gains. Still, this has resulted from its larger exposure to preferred and common shares compared with its peers.
- Benefit of strong parent and brand: The company benefits from group expertise and leverages off the brand awareness success of its sister company ING DIRECT Canada.
- Strong management: Good track record of maintaining disciplined underwriting. Since 1988, has successfully integrated 11 acquisitions (including Allianz Insurance and Trafalgar Insurance) into its group of companies.

## Outlook

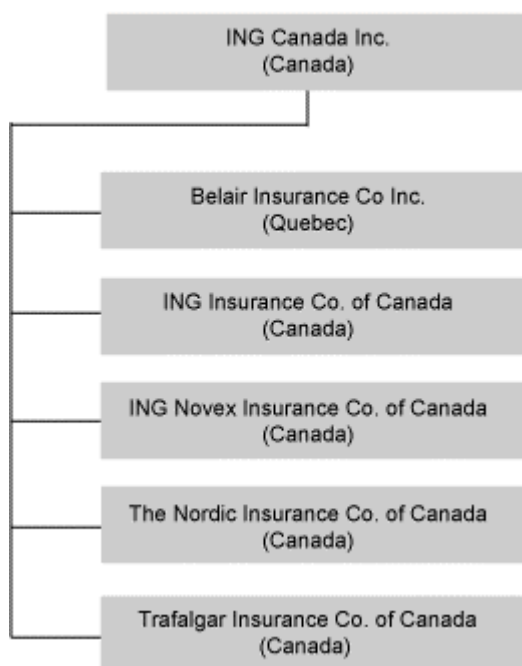
The stable outlook reflects Standard & Poor's Ratings Services' expectation that ING Canada will continue to produce strong operating results and outperform the industry. Although the industry is highly competitive, it is expected that through size and scale, continued underwriting, and claims management discipline, the company will be able to continue to outperform its peers and maintain its market-leading position.

## Competitive Position

ING Canada is the largest P&C insurance company in Canada with an approximately 11% market share. On Dec. 15, 2004, the company completed an IPO for about 30% of its common shares and raised about C\$1.0 billion in new equity. ING GroepN.V. (AA-/Stable/A-1+), through its wholly owned subsidiary ING International, owns the remaining 70% of the company. Its business position is strongly supported by its well-

established distribution channels and diversified product lines. ING Canada represents the Canadian P&C insurance operations of ING Groep, a multinational financial services company based in the Netherlands.

### ING Canada Inc. Corporate Structure



#### **Historical**

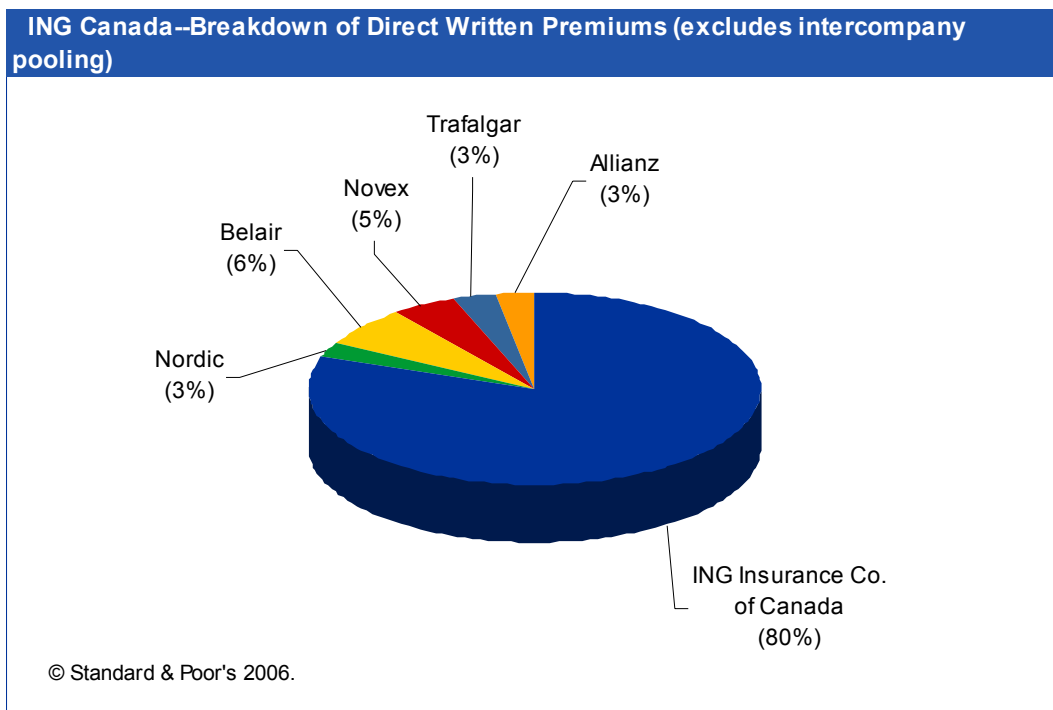
ING Canada has been created through consolidation and internal growth. Since 1988, the company has successfully acquired and integrated 11 acquisitions, including Allianz Canada and Trafalgar Insurance, which were purchased for C\$370 million in December 2004.

ING Canada's business was founded in 1809 with the incorporation of its first predecessor company, The Halifax Insurance Company. The business has operated as an indirect wholly owned subsidiary of ING Group since 1959. As a result of the company's growth strategy, ING Canada has grown from No. 18 in 1988 to be the largest player.

ING Canada conducts business in all provinces and territories of Canada and has approximately 2.9 million P&C insurance policies and more than 3 million customers. Its business is managed regionally with shared services and operations support on a national basis. The company's distribution channels consist of approximately 2,800 independent brokerages across Canada and direct distribution. Independent brokers are the company's main distribution channel, and accounted for about 91.5% of direct written premiums in 2005. Belair Insurance through belairdirect represents the company's direct channel; although small in size, the company continues to devote increasing resources to this fast growing channel.

The company's operating subsidiaries provide traditional personal and commercial products as well as a number of specialty niche products. The various insurance subsidiaries include: ING Insurance Co., Nordic Insurance Co., Belair Insurance Co., ING Novex Insurance Co., Trafalgar Insurance Co., and Allianz Insurance Co.

Chart 2 displays the companies' direct written premiums breakdown, excluding intercompany pooling.



ING Insurance provides personal and commercial insurance products across Canada; Nordic provides personal auto and home insurance in Ontario, and services clients of the Alberta and Ontario Facility Associations; Belair is a direct writer of personal auto and home insurance; ING Novex is a group writer of employees, associations, and affinity groups; and Trafalgar is a niche player in the personal auto and property sector providing coverage for clients 50 years and older in Alberta, Ontario, and the Atlantic provinces through its “Grey Power” brokers. On April 5, 2006, Allianz Canada, which provides auto and home products across Canada, was amalgamated into Nordic. Through participation reinsurance agreements, all of the companies within ING Canada effectively operate as one; accordingly, the financial strength ratings have been equalized.

ING Canada has a good business mix of personal (68%) and commercial (32%). ING Canada maintains defensible niches in several areas including the specialty personal lines and affinity groups. The Canadian operations are relatively well-diversified by product. Some geographic concentration does exist in Ontario and Quebec, which account for 68.7% of ING Canada’s gross written premiums in 2005; however, this is due simply to demographics and the public auto system in the western provinces.

***Prospective***

ING Canada is expected to continue to maintain its business position given its No. 1 market position, its established brand name, its multichannel distribution network of independent brokers (including affiliated/owned brokers), and its direct distribution. Standard & Poor’s expects ING Canada to maintain its strategy of being a market leader and consolidator.

## Management And Corporate Strategy

### *Strategic objectives*

ING Canada's business strategy is to continue to grow at a rate of 3% or greater than the industry average and to exceed average industry ROE by at least 5% while maintaining its significant market position in the Canadian P&C industry. It plans to achieve this by leveraging its scale and brand names while continuing to maintain good relationships with customers and brokers. To remain profitable, the company must maintain strong underwriting and investment discipline, remain focused on its core product lines, and control operating costs.

Another important part of its strategy is growth through acquisition. The company plans to continue to build scale and maintain its No. 1 market position in the fragmented Canadian marketplace.

### *Operational management*

Operational management is viewed as strong. The company has a national presence with a regional focus. ING Canada's national presence allows it to maintain superior underwriting results by accessing the underwriting environment in each region with a view of expanding in regions where conditions are favorable and contracting business in regions that are not favorable. To assist in its growth, the company plans to continue to invest in technology to create expense efficiencies and to enhance platforms (especially for its direct Internet-based products). In 2005, the company spent C\$109 million on IT including C\$64 million on new initiatives.

### *Financial management*

ING Canada's financial management has proven to be sound. Through disciplined underwriting and pricing policies, the company has been able to select appropriate risks and tailor products to meet those risks. Although the company did not have underwriting profits from 1997-2002, it has routinely outperformed the industry from a combined ratio and ROE perspective. ING Canada uses reinsurance to limit its retention of risk. On average, about 4% of gross written premiums are reinsured.

## Accounting

ING Canada's quality of earnings is good. There have not been any recent goodwill write-downs or impairments. Although the company has always been profitable, its earnings follow the cyclical nature of the industry. As of its latest estimates on June 30, 2006, for years 2001, 2000, and 1999 the company had unfavorable reserve development totaling C\$138.1 million. The unexpected change in claims patterns in the Ontario auto book led to the strengthening of reserves. In addition, with the acquisition of Allianz and Trafalgar the company needed to increase reserves by C\$70 million to bring them in line with other insurance subsidiaries in the company. These adjustments were reflected in the purchase price and did not occur after the purchase. Transition costs related to the acquisition were C\$11.6 million in 2005.

## Operating Performance

### *Current performance*

ING Canada's operating performance for year-end 2005 and the first half of 2006 was quite strong and reflects: continued strong underwriting income, reserve redundancies into earnings from actual claims experience being less than previously reserved for, strong performance from recently acquired Allianz Canada, and significant

investment returns from its investment portfolio. As of first-half 2006, the company generated a 12-month ROE and combined ratio of 33.5% (2005: 35.2%) and 87.0% (2005: 86.0%), respectively. Top-line growth in 2006, however, has been a challenge as premium rate reductions implemented in previous years continue to work their way through the portfolio. The company does, however, take on more investment risk compared with its peers.

### **Historical**

Despite the impact of increased catastrophe claims in personal property in 2005, ING Canada continued to experience strong underwriting profitability. Similar to 2004, auto insurance continued to perform well. Auto reforms that were introduced over the past couple of years continue to be effective at containing costs. Product availability and affordability have accordingly been restored. In addition, auto claims frequencies continue to remain low. It is expected that frequencies will eventually rise, but if they remain low, further premium reductions are expected which could affect future profitability; on average, ING Canada has reduced auto rates by 7.5% in 2005. Sustainability of cost containment measures as well as potential rate reductions will continue to be the key performance driver.

During 2005, the company saw slight improvement in its commercial lines as well. Underwriting income from commercial insurance increased C\$24.8 million in 2005 on a decrease in the combined ratio of 0.6%. Favorable claims development of C\$66.5 million more than offset the impact from catastrophes of C\$17.4 million and higher severity in the current accident year. (See tables 1 and 2 for combined ratios and premium breakdowns by business line.)

Table 1

<b>ING Canada—Combined Ratio By Business Line</b>					
<b>(%)</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Personal</b>					
Auto	78.8	82.9	105.9	108	107.9
Property	104.0	92.5	91.3	94.0	97.5
Total	85.7	85.5	101.9	104.1	104.8
<b>Commercial</b>					
Auto	87.0	81.2	91.1	95.8	101.3
Other	86.4	89.6	90.5	95.1	97.3
Total	86.6	87.2	90.6	95.3	98.5

Table 2

<b>ING Canada—Premium Breakdown By Business Line</b>					
(%)	2005	2004	2003	2002	2001
<b>Personal</b>					
Auto	48.0	47.9	50.1	50.5	45.7
Property	20.0	19.6	18.1	19.5	19.6
Total	68.0	67.5	68.2	69.9	65.3
<b>Commercial</b>					
Auto	8.5	8.4	8.4	8.0	9.3
Non-auto	23.5	24.0	23.4	22.1	25.4
Total	32.0	32.5	31.8	30.1	34.7

Through its acquisition strategy, ING Canada has been able to build size and scale. It has leveraged its competitive advantage to provide more sophisticated pricing and superior claims management to outperform the industry (see table 3). The company has historically performed well against the Canadian P&C industry. ING Canada's combined ratio (claims and expenses to net earned premiums) has averaged 94.8% for the five years ended 2005, favorable compared with the industry average of 99.7%. During this same period, ING Canada's ROE averaged 21.2% compared with the industry's 10.3%. Aside from scale and strong underwriting, the company has more investment risk with its higher proportion of preferred and common share investments, which enhances profitability during good times, but could negatively affect earnings in a down cycle.

Table 3

<b>Performance Versus Industry</b>												
(%)	Q2 2006 (LTM)	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
<b>ING Canada</b>												
ROE	33.5	35.2	39.6	15.5	4.5	11.3	12.5	7.4	12.6	17.7	18.4	17.0
Combined ratio	87.0	86.0	86.0	98.1	101.2	102.7	103.1	103.2	102.3	100.9	99.4	98.2
<b>Canadian industry</b>												
ROE	N.A.	17.9	18.1	11.3	1.7	2.6	6.3	6.5	6.8	13.1	13.6	11.7
Combined ratio	N.A.	92.3	90.7	98.7	105.8	111.0	108.7	105.8	107.8	102.5	103.4	104.1

LTM—Last 12 months. N.A.—Not available.

Although the company has historically exercised underwriting discipline, like the rest of the industry, it was not immune to the adverse developments in the auto insurance sector, particularly in Ontario. As a result of rising accident benefit and bodily injury claims, the company had reserve deficiencies in 1999, 2000, and 2001, as past historical experience data was not effective in predicting future claims. As of its latest estimates on June 30, 2006, these deficiencies totalled C\$138.1 million for these years. The company's reserves are currently maintained at the midpoint of actuarial estimates. (See tables 4 and 5 for ING Canada operating company breakdown and P&C consolidated performance.)

Table 4

<b>ING Canada—Operating Company Breakdown (2005)</b>							
	<i>Belair Insurance Co.</i>	<i>ING Insurance Co.</i>	<i>ING Novex Insurance Co.</i>	<i>Nordic Insurance Co.</i>	<i>Allianz Insurance Co.</i>	<i>Trafalgar Insurance Co.</i>	<i>ING P&amp;C Consolidated</i>
<b>Financial Statistics (thou. C\$)</b>							
Assets	794,474	5,900,834	351,870	2,145,771	1,348,407	339,712	9,023,013
Liabilities	572,842	4,927,609	303,822	1,527,052	1,003,463	281,478	6,798,237
Shareholders' equity	221,632	973,225	48,048	618,719	344,944	58,234	2,224,776
Gross premiums written	350,251	3,136,208	183,179	859,458	681,223	144,239	3,904,723
Net premiums earned	322,541	1,950,611	61,436	844,752	579,807	80,635	3,839,782
Underwriting profit/(loss)	45,157	273,092	8,599	118,267	81,176	11,291	537,582
Net income	58,733	366,910	10,065	192,015	103,143	12,094	740,868
<b>Percentage of ING Canada (%)</b>							
Assets	7.3	54.2	3.2	19.7	12.4	3.1	100
Liabilities	6.6	57.2	3.5	17.7	11.6	3.3	100
Shareholders' equity	9.8	43.0	2.1	27.3	15.2	2.6	100
Gross premiums written	6.5	58.6	3.4	16.1	12.7	2.7	100
Net premiums earned	8.4	50.8	1.6	22.0	15.1	2.1	100
Underwriting profit/(loss)	8.4	50.8	1.6	22.0	15.1	2.1	100
Net income	7.9	49.4	1.4	25.8	13.9	1.6	100
<b>Performance Ratios (%)</b>							
Return on average equity	30.5	37.5	25.7	36.7	30.5	6.2	35.2
Claims ratio	56.3	56.3	56.3	56.3	56.3	56.3	56.3
Expense ratio	29.7	29.7	29.7	29.7	29.7	29.7	29.7
Combined ratio	86.0	86.0	86.0	86.0	86.0	86.0	86.0
Operating expenses/average assets	12.3	10.1	5.3	12.7	10.8	2.2	12.5

Table 5

<b>ING Canada (P&amp;C Consolidated)</b>							
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>	
<b>Financial Statistics (mil. C\$)</b>							
Gross written premiums	3,904.7	3,572.6	3,439.1	3,129.4	2,207.7	2,073.8	
Net premiums earned	3,839.8	3,360.0	2,756.2	2,332.1	2,014.5	1,898.9	
Underwriting income (loss)	537.6	467.3	49.3	(29.3)	(56.3)	(59.7)	
Net income	740.9	594.5	191.2	49.4	115.6	118.8	
Total assets	9,023.0	9,180.6	6,686.8	6,085.2	5,243.4	4,056.4	
Total shareholders' equity	2,224.8	1,980.8	1,335.8	1,147.5	1,095.1	966.6	

Table 5

<b>ING Canada (P&amp;C Consolidated) (cont. 'd)</b>						
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Performance Ratios (%)</b>						
Return on average common equity	35.2	39.6	15.5	4.5	11.3	12.5
Operating income/average equity	49.8	49.9	21.0	4.6	14.3	14.6
Operating income/average assets	11.5	10.4	4.1	0.9	3.2	3.5
Operating expenses/average assets	12.5	12.5	13.0	11.3	12.6	13.3
Net income/average assets	8.1	7.5	3.0	0.9	2.5	2.9
Return on revenue	20.1	19.6	8.3	5.5	5.0	4.6
Operating income/gross written premiums	26.8	23.2	7.6	1.7	6.7	6.8
Operating income/net premiums earned	27.3	24.6	9.5	2.2	7.3	7.4
Operating expenses/gross written premiums	29.2	27.7	24.1	20.4	26.5	26.1
Operating expenses/net premiums earned	29.7	29.4	30.0	27.3	29.1	28.5
Claims ratio	56.3	56.7	68.2	73.9	73.7	74.6
Expense ratio	29.7	29.4	30.0	27.3	29.1	28.5
Combined ratio	86.0	86.1	98.2	101.3	102.8	103.1
Net risk	172.6	169.6	206.3	203.2	184.0	196.4
<b>Leverage &amp; Capital Ratios (%)</b>						
Debt + preferred shares + hybrids/total capital	0.0	0.0	0.0	0.0	2.9	0.0
Permanent capital/total assets	24.7	21.6	20.0	18.9	21.5	23.8
Change in net equity	12.3	48.3	16.4	4.8	13.3	N.A.
Internal capital generation	35.2	35.9	15.4	4.4	11.2	24.6
MCT (150% minimum)	215.8	188.8	190.3	N.A.	N.A.	N.A.

N.A.—Not available.

**Prospective**

Standard & Poor's expects the regulatory reforms that have been imposed in the past couple of years to continue to be effective at containing costs. Premium reductions that have resulted from these reforms in various provinces will reduce premium growth, and lead to lower underwriting results. In addition, operating performance will be negatively affected as claim frequencies are expected to return to historical levels in the long run. Moreover, although commercial lines are expected to continue to perform above historical levels, prices are softening as competition intensifies.

**Investments And Liquidity**

Standard & Poor's views ING Canada Inc.'s (holding company) investment portfolio as strong given the quality of the underlying investments, the prudent level of diversification, and consistent asset allocation philosophy. Still, the company does take more investment risk than its peers given the higher proportion of equities within its investment portfolio, and its balance sheet is liability sensitive due to the relatively long duration of its bond portfolio. Standard & Poor's also views ING Canada's liquidity profile as very strong given the high level of marketable securities in the company's investment portfolio.

### Historical

As of Dec. 31, 2005, the investment portfolio was allocated as follows: federal, provincial, and municipal bonds (28.8%), corporate bonds (16.2%), common equity holdings (17.8%), preferred stock and hybrid securities (17.7%), cash and short-term instruments (11.0%), mortgage loans (1.0%), ABS (4.6%) and other (2.9%). The bond portfolio remains highly rated, with 95.6% rated 'A' or better, 4.3% rated 'BBB', and only 0.1% rated speculative-grade. Although the duration of the company's bond portfolio remains longer than the duration of its liabilities, which could leave the company vulnerable in a period of rapidly rising interest rates, this gap has narrowed. Starting in 2006, the company expanded its investment options to include investment-grade international bonds and the use of derivatives to support the management of the duration of its fixed income portfolio. The asset duration moved to 4.3 years at Jan. 31, 2006, from 6.3 years at Dec. 31, 2005. This more closely aligns its investment duration with the duration of its liabilities. The company intends to target asset duration of 4.0 to 4.5 years. The company does have a higher proportion of common and preferred share equities exposure than its peers. Its preferred share holdings have an average Canadian scale rating of 'P-2' and provide the company with tax-free dividends; common share holdings focus on high dividend-paying stocks and mainly are invested in highly reputable financials such as banks and insurance stocks. As well, the company does have a level of single-name concentration within its investment portfolio with its 10 largest holdings representing about C\$1.8 billion or 62% of ING Canada Inc.'s total equity.

Asset allocation guidelines and constraints on security selection are established in an investment policy that is approved by the board of directors annually. The company has set the maximum net exposure to non-Canadian currencies to no more than 2% of capital. The company uses currency derivatives to hedge against the U.S. dollar.

The returns on the company's investment portfolio for the past five years are shown in table 6.

Table 6

<b>ING Canada Inc.—Investment Returns For Holding Company</b>					
(%)	2005	2004*	2003	2002	2001
Investment income/average invested assets	5.0	5.1	5.7	5.8	6.7
Realized investment gains & losses/average invested assets	3.3	2.5	0.9	0.1	1.2

\*Includes only one-month investment results for Allianz Canada.

A large proportion of the investment portfolio is held in highly rated marketable securities. As at Dec. 31, 2005, about 49.6% of the company's C\$7.1 billion investment portfolio was held in fixed-income securities. Of the fixed-income securities, 95.6% of the portfolio was rated 'A' or better. As at Dec. 31, 2005, the weighted-average rating of the fixed-income portfolio was 'AA'. Its preferred share portfolio is also relatively liquid, with a weighted-average portfolio Canadian scale rating of 'P-2'. Overall, the market value of the investment portfolio exceeded the book value by approximately C\$304.2 million.

### Prospective

ING Canada is expected to maintain its relatively high-quality and diversified investment portfolio in its current form. Although returns are enhanced by the company's equity investments and liability sensitive balance sheet during good times, the reverse will hold true during economic down cycles.

Although ING Canada's investment mix is slightly less conservative than some of its peers, the company is expected to maintain its very strong liquidity profile. In addition, no significant capital expenditures are expected in the near future.

## Capitalization

ING Canada continues to maintain an appropriate level of capitalization for the ratings both at the individual operating company and at the Canadian group level.

### Historical

Standard & Poor's believes ING Canada's total shareholder equity base of C\$3.2 billion as of June 30, 2006, to be satisfactory and appropriate for its business mix and current ratings level. As of June 30, 2006, ING Canada's capital adequacy ratio was 197.9% (2005: 215.8%), which was above the minimum regulatory guideline minimum capital test (MCT) ratio of 150% and represents excess capital of C\$552 million (2005: C\$718 million) over the regulatory minimum. In addition, the company ensures that each operating company also maintains the minimum MCT requirement (see table 7).

At the end of 2004, ING Canada completed an IPO and raised slightly more than C\$1.0 billion. About C\$300 million from the proceeds was used to finance the acquisition of Allianz Canada, and the balance was used to repay promissory notes held by ING Insurance International. As at June 30, 2006, the company still had debt outstanding of C\$127 million owed to an affiliate, ING Verzekeringen N.V. This matured on Aug. 27, 2006, and has been paid with available cash.

Table 7

<i>Minimum Capital Test Ratios</i>							
	<i>Belair Insurance Co.</i>	<i>ING Insurance Co.</i>	<i>ING Novex Insurance Co.</i>	<i>Nordic Insurance Co.*</i>	<i>Allianz Insurance Co.*</i>	<i>Trafalgar Insurance Co.</i>	<i>ING Canada total†‡</i>
Q2 2006	293.4	169.3	240.0	210.7	N/A	292.7	197.9
2005	282.6	188.2	302.2	263.9	188.4	298.5	215.8
2004	224.9	177.1	230.1	208.6	184.7	190.2	188.8
2003	186.5	191.3	208.4	187.7	201.9	165.6	190.3

\*Allianz Insurance merged with Nordic Insurance on April 6, 2006; ratings on Allianz were withdrawn. †2003 figure excludes Allianz and Trafalgar.

### Prospective

Standard & Poor's expects ING Canada to maintain a Canadian regulatory MCT ratio of 175% or higher for each of its individual operating companies. Although the company's dividend payout has not yet been determined, it is expected to be relatively low to allow the company to continue with its acquisition strategy.

### Reinsurance

The company uses reinsurance to prudently manage its claims exposure. The company's primary reinsurer is ING Re (Netherlands) N.V. (AA/Stable/—). In addition, the company also has treaties with several unaffiliated companies, all of which are highly rated. In general, ING Canada's maximum net retention on a single risk is C\$5 million property and C\$7 million liability. In a number of cases, such as special classes of business or types

of risks, the retention is lower through specific treaties or by using facultative reinsurance (reinsurance of individual risks by offer and acceptance). The company does not assume reinsurance outside its group of companies. In 2005, for multirisk events or catastrophes, retention was C\$17.5 million with a reinsurance coverage limit of C\$1.2 billion. The company also retained 10% of the exposure between C\$25 million and C\$600 million. This compares with 2004, when its retention was C\$5 million with a coverage limit of C\$1.2 billion and 10% retention of the exposure between C\$12.5 million and C\$600 million. For 2006, the company is increasing its retention to C\$25 million with a reinsurance coverage limit of C\$1.25 billion. In addition, it will retain 20.25% of the exposure between C\$25 million and C\$50 million, 10% of the exposure between C\$50 million and C\$100 million, and 9.5% of the exposure between C\$100 million and C\$600 million.

### **Financial Flexibility**

ING Canada's financial flexibility is strong given its size and scale in the Canadian marketplace, demonstrated access to the capital markets, intercompany reinsurance, the high quality of its core capital, and implicit support that is available from its very strong global parent.

#### ***Historical***

ING Canada historically has had the flexibility from its internal sources to fulfil cash requirements and to satisfy regulatory capital requirements. These internal sources generally include operating earnings, investment returns, and capital injections from the parent. On Sept. 20, 2005, ING Canada filed a short-term base shelf prospectus. This filing allows the company to offer a total of up to C\$1 billion in any combination of debt, preferred, or common shares over a 25-month period. ING Canada also has an uncommitted revolving credit facility of C\$50 million with the Royal Bank of Canada, which was undrawn at June 30, 2006.

#### ***Prospective***

Standard & Poor's believes that ING Canada's level of financial flexibility will continue to be supported by its strong and leading Canadian franchise, and its continued access to the Canadian capital markets. Although acquisitions could lead to the use of financial leverage and the dilution of ING Groep's ownership position, we expect that the parent will continue to maintain a controlling interest in these operations. Dividends are expected to remain at manageable levels; however, there is still no dividend policy; the company is expected to continue with its prudent use of reinsurance.

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