



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

ORDER ADOPTING REPORT OF EXAMINATION

I, Thomas R. Sullivan, Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of ING LIFE INSURANCE AND ANNUITY COMPANY (the "Company") as of September 30, 2009, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions,

TO WIT:

1. I, Thomas R. Sullivan, as the Insurance Commissioner of the State of Connecticut, and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes;
2. The Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut;
3. On March 10, 2010, the verified Examination Report of the Company was filed with the Connecticut Insurance Department.
4. In accordance with Conn. Gen. Statutes §38a-14(e) (3), the Company was afforded a period of thirty (30) days within which to submit to the Connecticut Insurance Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On April 9, 2010, the Company filed a written submission indicating that they were in agreement with all the recommendations contained in the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

NOW, THEREFORE, it is ordered as follows:

1. That the Examination Report of the Company hereby is adopted as filed with the Insurance Department.
2. The Company shall comply with all of the recommendations set forth in the Report, and that failure by the Company to so comply shall result in sanctions or administrative action as provided by Title 38a of the Connecticut General Statutes.

Dated at Hartford, Connecticut this 29th day of April 2010.

A handwritten signature in black ink, appearing to read "Thomas R. Sullivan", written over a horizontal line.

Thomas R. Sullivan,
Insurance Commissioner

LIMITED EXAMINATION REPORT

OF

ING LIFE INSURANCE AND ANNUITY COMPANY

AS OF

SEPTEMBER 30, 2009

BY THE

CONNECTICUT INSURANCE DEPARTMENT

ING LIFE INSURANCE AND ANNUITY COMPANY

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March 8, 2010

The Honorable Thomas R. Sullivan
Insurance Commissioner
State of Connecticut
153 Market Street, 6th Floor
Hartford, CT 06103

Dear Commissioner:

In compliance with your instructions and pursuant to the requirements of Section 38a-14 of the Connecticut General Statutes (CGS), the undersigned has made a limited examination of the conditions and affairs of

ING LIFE INSURANCE AND ANNUITY COMPANY

(hereinafter referred to as "ILIAC"), a corporation with capital stock, incorporated under the laws of the State of Connecticut and having its statutory home office and its main administrative office located at One Orange Way, Windsor, Connecticut. The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The previous examination of ILIAC was conducted as of December 31, 2005. The current examination was limited to Commercial Mortgage Backed Securities ("CMBS"). Since the beginning of 2009, commercial property valuations have been in a steep downward spiral and delinquencies on commercial mortgage loans have hit multi-year highs. The insurance industry is exposed to commercial real estate through its investments in CMBS, its property holdings and its commercial mortgage lending activities. As of year-end 2008, the insurance industry as a whole and ILIAC's CMBS investments totaled \$216 billion and \$1.727 billion, respectively.

As part of the examination planning procedures, the Division of Financial Regulation of the Connecticut Insurance Department (the Division) reviewed the following:

- Materials included in the October 21, 2009 meeting with ILIAC executives; and
- October 16, 2009 NAIC Securities Valuation Office Report on ILIAC's CMBS.

A review of ILIAC's 2005 examination indicated no material concerns with respect to CMBS.

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The examination was conducted on a limited scope basis in accordance with the procedures outlined in the NAIC Financial Examiners Handbook (Handbook).

Comments in this report are generally limited to exceptions noted or to items considered to be of a material nature.

Failure of items in this report to add to totals, or for totals to agree with captioned amounts, is due to rounding.

BACKGROUND

At year-end 2008, ILIAC's bond portfolio generated potential losses (as measured by the difference between the fair value and book adjusted carrying value), of \$1.8 billion or 113.6% of total capital of \$1.524 billion. CMBS portfolio generated potential losses of \$0.6 billion, which accounted for 35.5% of total capital.

ILIAC had balance sheet leverage (as measured by cash and invested assets to total capital), of 12.4 times, which exceeded the life insurance industry average of 9.3 times. The higher leverage suggested that ILIAC's capital position, on a standalone basis, was weaker than that of its peer life insurers potentially affecting its ability to address credit quality issues and influence investment decisions. However, this calculation did not take into consideration any implicit support from ILIAC's parent or whether ILIAC's capital position might be managed on a more consolidated basis with other insurers within an insurance group. It is further noted that the ultimate parent, ING Groep N.V., will separate their banking and insurance business by 2013.

The majority of ILIAC's CMBS portfolio, (67.5%), was acquired during the non-conservative underwriting years of 2005 through 2007. Approximately \$392 million of CMBS current book value, which were acquired in the higher risk vintage year of 2005 through 2007, are held in the collateral tranches of AM and below, of which, \$150 million are held in the collateral tranches of B and below. These amounts account for 25.7% and 9.9% of 2008 capital of \$1.524 billion. Under certain stressed scenarios, these holdings have a higher probability of impairment.

A majority (69%) of ILIAC's CMBS holdings were super senior, sequential pay obligations with a contractual right to be repaid first. In addition, 99.8% of ILIAC's CMBS were designated as NAIC-1 as of year-end 2008 and 95.7% by August 2009, as 1.2% fell below investment grade quality to NAIC-3. The resulting rating downgrade impact on ILIAC (assuming no changes in the portfolio composition), would be a \$1.4 million or 20.3% increase in Risk Based Capital charges.

PROCEDURES PERFORMED

The CMBS portfolio review focused on high risk factors such as tranche seniority, collateral vintage and maturity and eight securities whose ratings were withdrawn by rating agencies during 2009.

ING LIFE INSURANCE AND ANNUITY COMPANY

CONCLUSION

As of September 30, 2009, ILIAC's CMBS assets were fairly stated in accordance with guidance outlined in the NAIC Accounting Practices and Procedures Manual and were acceptable under §38a-102 of the CGS. No significant adjustments or adverse findings were identified for the area reviewed in this limited scope examination.

SIGNATURE

In addition to the undersigned, the following Division staff participated in this examination: Kathy Belfi, CPA, Director of Financial Regulation, Christopher Gallo, Insurance Associate Examiner.

I, Elaine Wieche, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject ILIAC's CMBS as of September 30, 2009, to the best of my information, knowledge and belief.

Respectfully submitted,

Elaine Wieche

Elaine Wieche
Insurance Ecertified Examiner
State of Connecticut
Insurance Department

State of Connecticut ss

County of Hartford

Subscribed and sworn to before me, Patricia Butler, Notary Public/~~Commissioner~~
of the Superior Court, on this 8th, day of March, 2009. ^{ID}

Patricia A. Butler
Notary Public/~~Commissioner~~ of the Superior Court

My commission expires My Commission Exp. Sep. 30, 2013