

## **FITCH REVISES OUTLOOKS ON SNS REAAL INSURANCE ENTITIES TO NEGATIVE; AFFIRMS IFS AT 'BBB'**

Fitch Ratings-London-12 December 2014: Fitch Ratings has revised the Outlooks on SNS REAAL N.V. (SNS REAAL) insurance entities, SRLEV N.V. and REAAL Schadeverzekeringen N.V. (together, REAAL Insurance) to Negative from Stable and affirmed their Insurer Financial Strength (IFS) ratings at 'BBB'.

### **KEY RATING DRIVERS**

The revision of the Outlooks to Negative reflects REAAL Insurance's loss in 9M14, worse than expected by Fitch, and the consequent high likelihood that the group will post another material loss in 2014. REAAL Insurance posted a EUR225m loss in 1H14 and a further EUR112m loss in 3Q14. If a loss is posted in 2014, the group will have been loss making for three years in a row, after the negative results in 2013 (loss of EUR625m) and 2012 (loss of EUR149m).

Fitch also expects that profitability in the Dutch insurance market will remain under pressure, due to the low interest-rate environment, difficult domestic economic conditions and fierce competition. REAAL Insurance is highly exposed to negative trends in the Dutch life insurance market given its significant market position in this segment.

REAAL Insurance's regulatory solvency ratio fell to 156% at the end of 3Q14 from 172% at year-end 2013. This was due to changes in model assumptions and cost parameters in 1H14 and low interest rates in 3Q14. Although the capital position remains supportive of a 'BBB' category rating, it is exposed to further losses.

REAAL Insurance's financial leverage was over 40% at end-9M14 (2013: 42%), which Fitch views as manageable, as the group is still restructuring. However, this level is high for the rating and relative to peers.

The Negative Outlook also reflects uncertainty over the future ownership of REAAL Insurance, following the nationalisation of SNS REAAL, and in light of the Dutch state's commitment to the sale of REAAL Insurance.

In December 2013, the European Commission (EC) announced its final decision concerning the restructuring plan of SNS REAAL, after it was nationalised in February 2013. As a fully owned subsidiary of SNS REAAL, REAAL Insurance was also nationalised. In the restructuring plan, the Dutch state has committed to, among other measures, the sale of the group's insurance operations. The decision generates uncertainty over the future of REAAL Insurance.

REAAL Insurance's ratings are underpinned by its strong presence in the Dutch insurance market, notably in life and pensions. SRLEV N.V. now ranks third among Dutch individual life insurers, with a market share of around 14% and fourth in the group life business, with a market share of around 13%. REAAL Schadeverzekeringen is a significant non-life player, with a 5% market share in a fragmented market.

The EC also decided in 2013 to disallow SRLEV N.V. from paying the coupons of its subordinated bonds, which in Fitch's view, continues to impair REAAL Insurance's financial flexibility. However, the Dutch state has demonstrated its support for several financial institutions, including SNS REAAL in recent years.

## RATING SENSITIVITIES

Key ratings drivers for a downgrade would be a net loss in 2015, a decline in the regulatory solvency ratio to below 125% or financial leverage remaining above 40%.

The ratings may also be influenced by developments over the next few months relating to the future ownership structure and restructuring plan.

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Applicable criteria, 'Insurance Rating Methodology', dated 13 November 2013, are available at [www.fitchratings.com](http://www.fitchratings.com).

### Applicable Criteria and Related Research:

Insurance Rating Methodology

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=756650](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=756650)

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