

Rating Action: Moody's upgrades Reaal's hybrid debt ratings to Ba3(hyb) with positive outlook

Global Credit Research - 17 Jul 2015

London, 17 July 2015 -- Moody's Investors Service has today upgraded the backed subordinated and junior subordinate debt ratings of SRLEV NV to Ba3(hyb) from B3(hyb) . Moody's has also confirmed the Baa3 insurance financial strength ratings (IFSRs) of SRLEV NV ("REAAAL") and REAAL Schadeverzekering NV ("REAAAL"). All the ratings carry a positive outlook.

This rating action concludes the review with direction uncertain initiated on 19 February 2015.

RATINGS RATIONALE

The rating action reflects Moody's expectation that the sale of REAAAL to Anbang Insurance Group Co. Ltd. (Anbang, unrated) is more likely to complete following the approval from the Dutch Insurance Regulator (DNB) and the completion of the sales agreement with Anbang. The only pending hurdle is the approval from the Chinese regulator following which Anbang will inject EUR1.35 billion in REAAAL to strengthen REAAAL's solvency II position.

The rating action follows the letter by the Dutch Ministry of Finance sent to the Parliament on 10 July 2015, which provides an update on the progress of the sale of REAAAL to Anbang, a Chinese insurance company. Under the previous agreement, Anbang had the right not purchase REAAAL if the insurers' shareholders' equity on an IFRS basis declined by more than 25% between December 2014 and June 2015. This right, which in Moody's opinion was a considerable uncertainty regarding the completion of the transaction, has been cancelled in the new agreement.

- INSURANCE FINANCIAL STRENGTH RATINGS

The confirmation of the Baa3 IFSR reflects the likely stabilisation in REAAAL's credit fundamentals as a result of the strengthening in the insurer's solvency position. In Moody's view, the capital injection will likely provide REAAAL with more flexibility to implement management actions to reduce the pressures and the sharp volatility of its solvency position. The large duration mismatch and the meaningful spread deficiency, exacerbated by the sharp decline in interest rates (driven by high guaranteed liabilities and high quality but low-yielding investments), have been the main reasons of the deterioration in capital. Nevertheless, we believe that execution risks to strengthen REAAAL's credit fundamentals will likely remain given the headwinds the group faces in a context of a persistently low interest rate environment and the challenging outlook for the Dutch insurance market.

Following the completion of the sale, Anbang will have to inject EUR1.35 billion to strengthen the Dutch insurer's Solvency II capital cover to 140%-150%. The capital injection represents an increase of EUR580 million-EUR350 million from the initial injection estimated on the announcement of the proposed sale in February. As a result of this higher amount, the sales agreement was revised, inter alia, to reflect the following : (1) price on sale was revised down to EUR85 million or EUR1 net after the deduction of tax claims, from an initial price of EUR150 million; (2) original price adjustment mechanism and Anbang's right to not acquire the insurer has been cancelled; (3) Anbang has to repay the intra-group loans by SNS REAAAL (EUR302 million) and SNS Bank (EUR250 million) to REAAAL and SRLEV. In addition, the loan by SNS Bank to REAAAL has to be repaid by 31 December 2015.

- HYBRID INSTRUMENTS RATINGS

The upgrade on the hybrid debt ratings reflects the (1) reduced risk of not payment of principal based on our expectation that the deal will be completed and thereby REAAAL's solvency position will be significantly strengthened after Anbang's EUR1.35bn capital injection (2) Moody's expectation that REAAAL will likely resume the payment of coupons on the subordinated debt following Anbang's capital injection, which will have to be made within 90 days of the completion of the deal.

REAAAL's Ba3(hyb) subordinated and junior subordinated debt ratings are three notches below the Baa3 IFSR, which is one notch wider than the standard debt notching for insurance operating companies. The wider debt notching reflects the still remaining risk of not resumption of the coupon payments. Once REAAAL's will resume coupon payments, Moody's is likely to upgrade the hybrid debt ratings by one notch to revert back to standard

debt notching, absent any deterioration in REAAL's credit fundamentals.

OUTLOOK

The positive outlook reflects the potential improvement in REAAL's financial profile following the future capital injection once the deal completes. We will also assess the strategy that Anbang intends to pursue in REAAL as part of the positive outlook.

The positive outlook on the debt ratings reflects our expectation of a likely upgrade in the debt ratings once REAAL resume the coupon payments on the hybrid debt.

WHAT COULD MOVE THE RATING UP/DOWN

The following factors could exert upward pressure on the IFSR: (1) substantial improvement in REAAL's financial profile by reducing the volatility in economic capitalisation to interest rate movements and remediating the large duration mismatch and spread deficiency problems (2) meaningful improvement in REAAL's operating profitability; and (3) improvement in market position in life and non-life, both of which have been under pressure as a result of the problems faced by the insurer.

The rating is on positive outlook and it is unlikely the ratings will be downgraded in the next 12-18 months.

However, the rating could be stabilized if: (1) substantial deterioration in REAAL's long-term economic capitalisation either from a sustained material reduction in Solvency II position, increased volatility or material reduction in the quality of capital, (2) financial or total leverage exceeding 50% ; and (3) continuing pressures on market position in the Dutch market insurance market.

LIST OF AFFECTED RATINGS

The following ratings have been upgraded with positive outlook

- SRLEV NV's subordinated debt rating upgraded to Ba3(hyb) from B3(hyb);
- SRLEV NV's junior subordinated debt rating upgraded to Ba3(hyb) from B3(hyb);

The following ratings have been confirmed with positive outlook

- SRLEV NV's insurance financial strength rating Baa3;
- REAAL Schadeverzekeringen NV's insurance financial strength rating Baa3;

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Global Life Insurers published in August 2014, and Global Property and Casualty Insurers published in August 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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