

**Announcement: Moody's extends the review with direction uncertain on the ratings of SNS REAAL's insurance operations**

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Global Credit Research - 19 May 2015

London, 19 May 2015 -- Moody's Investors Service has extended the review with direction uncertain on the Baa3 insurance financial strength ratings (IFSRs) of SRLEV NV and REAAL Schadeverzekeringen NV, the main insurance operations of SNS REAAL NV, and the B3(hyb) subordinated debt rating of SRLEV's hybrid instruments. The program ratings of the holding company, SNS Reaal N.V., remain unaffected by this rating action.

The review with direction uncertain was initially placed on the 19 February 2015, following the announcement of the sale to Anbang Insurance Group Co. Ltd. (Anbag, unrated), a 100% subsidiary of Anbang Insurance Group Co. Ltd. (unrated), a Chinese insurance company.

**RATINGS RATIONALE**

Moody's said that the continuation of the review reflects the continuing uncertainties around the completion of the disposal of the insurance operations to Anbang. Under the agreement announced on 16 February 2015, Anbang will pay a cash consideration of EUR150 million. The buyer also commits to (1) strengthen the capitalisation of the Dutch insurer to a Solvency II level of between 140-150% (YE 2014- estimated 100%), resulting in an additional capital injection between EUR770 million and EUR1.0 billion and (2) repay EUR552 million of internal loan between SNS Bank and SNS Reaal N.V. The sale is expected to be completed in the third quarter of 2015.

The review with direction uncertain on the IFSRs of SRLEV NV and REAAL Schadeverzekeringen NV continues to reflect a variety of positive and negative credit scenarios. Positive pressures could arise if the Anbang transaction is completed resulting in a capital injection of between EUR770 million to EUR1.0 billion. Conversely, negative pressures could arise if the transaction is not completed.

There are still some uncertainties on the completion of the sale. In particular, in addition to the customary conditions of regulatory approvals from the Chinese and Dutch insurance regulators, in case of a decline in the consolidated shareholders' equity of REAAL NV by 25% or more in the period between 31 December 2014 and 30 June 2015, Anbang has the right not to purchase the Dutch insurer, incurring in no penalties. Moody's believes that this introduces some uncertainty on the completion of the sale, although we note the company announced that consolidated shareholders' equity increased in the first months of 2015 on the announcement of the 2014 annual results in April. In addition the group has taken various measures to protect its capitalisation against declines in interest rates, by increasing its hedges to protect from the low interest rate environment and by further de-risking its investments. Nevertheless pressures on insurance earnings, the large duration mismatch between assets and liabilities together with the challenging insurance market in Netherlands continues to create uncertainties on the level of shareholders' equity that company will report as at 30 June 2015 and thus on the completion of the sale.

If the sale does not complete, Moody's expects SNS REAAL's insurance operation to continue to weaken going-forward in the absence of external support. The Solvency I capital ratio of the Dutch insurer fell to 136% in 2014, resulting in a 36 percentage points decline since YE2013, driven mainly by the reduction in interest rates, high duration mismatch between SRLEV's assets and liabilities, and model/parameter adjustments. Under the forthcoming implementation of Solvency II, Reaal NV reported an estimated Solvency II coverage of a low 100% at YE2014.

**WHAT COULD MOVE THE RATING UP/DOWN**

The following factors could exert upward pressure on the ratings: (1) acquisition by Anbang which will inject between EUR770 million and EUR1.0 billion into the insurer (2) significant improvement of the fundamentals of the insurance operations such as sustainable good levels of capitalisation and profitability, while maintaining strong market positions.

The following factors could exert downward pressure on the ratings: (1) no completion of the transaction with Anbang, resulting in a sustained deterioration of capitalisation of the insurer (2) higher risk of longer coupon

deferral on the hybrids and /or not payment of the principal.

#### LIST OF AFFECTED RATINGS

The following ratings remain on review with direction uncertain

- SRLEV NV's insurance financial strength rating Baa3;
- REAAL Schadeverzekeringen NV's insurance financial strength rating Baa3;
- SRLEV NV's backed subordinated debt rating B3(hyb);
- SRLEV NV's backed junior subordinated debt rating B3(hyb);

#### PRINCIPAL METHODOLOGIES

The methodologies used in these ratings/analysis 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](http://www.moodys.com) for a copy of these methodologies.

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