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Research Update:

SNS REAAL Insurance Operations (SRIO) On Watch Developing After Announced Sale News

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Overview

- SNS Reaal group has announced that it has reached an agreement to sell its insurance operations (SRIO) to Anbang Insurance Group (Anbang; not rated). The deal is to close in third-quarter 2015.
- The deal would considerably strengthen the group's capital position, in particular its regulatory solvency.
- We remain unclear about Anbang's financial strength in term of its effect on our ratings on SRIO and the closure of the deal
- We are therefore placing our issuer credit ratings on the insurance operating companies of the SNS REAAL group--SRLEV N.V. and REAAL Schadeverzekeringen N.V.--on CreditWatch with developing implications.
- We expect to resolve the CreditWatch by third-quarter 2015 and may update it in the meantime as more information becomes available.

Rating Action

On Feb. 17, 2015, Standard & Poor's Ratings Services placed on CreditWatch developing its 'BBB+' insurer financial strength and counterparty credit ratings on the insurance operating companies of the SNS REAAL group--SRLEV N.V. and REAAL Schadeverzekeringen N.V. (collectively known as SNS REAAL Insurance operations or SRIO).

We also placed on CreditWatch developing the 'BBB-' counterparty credit rating on the group's insurance holding company, REAAL Verzekeringen N.V.

We affirmed the 'D' ratings on SRLev's two subordinated debt issues.

Rationale

SNS Reaal has announced that Anbang would pay €150 million for 100% of SRIO. It would also pay €552 million to repay intercompany debt and, most significantly, between €770 million and €1 billion to recapitalize SRIO. Such an injection would restore capital on a Solvency 2 basis to the target of 140%-150%. This would be in line with peers.

SRIO's regulatory solvency fell sharply during fourth-quarter 2014, following several quarters of negative development. Over the fourth quarter, the group's Solvency 1 position declined to 136% from 156% and that of SRLev to 141% from 164%. These falls were more rapid than we had anticipated, and leave the group more thinly-capitalized than Dutch peers. We continue to regard SRIO's capital

and earnings as moderately strong; however, the erosion of capital during 2014 is a key rating concern.

The sale is set to complete in third-quarter 2015. However, should the shareholders' funds of REAAL NV fall by more than 25% over first-half 2015, Anbang has the option not to proceed. A 25% fall in shareholders' funds from December 2014 would equate to around €500 million. Shareholders' funds fell by around €300 million in the second half of 2014. However, SRIO will hedge this risk and we expect that the deal will proceed.

SRLev has two extant subordinated debt issues. Coupons on these notes have not been paid since the nationalization in January 2013. The European Commission has lifted its ban on coupon payments; however, coupons will be optionally deferred by SRLev until the deal closes. Under our imputed promises criteria, we rate the notes 'D'. This will remain the case until the coupons are paid.

CreditWatch

The CreditWatch placement reflects our uncertainty over the conclusion of the deal and the ongoing capital strength of SRIO.

The ratings may remain on CreditWatch longer than the usual 90-day horizon, but we will update our CreditWatch as fresh information on the progress of the sale agreement and SRIO's capital position becomes available. At the latest, we expect to resolve the CreditWatch when the sale agreement concludes.

We could take a negative rating action if SRIO's capitalization and regulatory solvency continue to weaken or if the transaction were not to conclude as planned.

We could take a positive rating action if:

- The deal closes successfully and Anbang injects significant new capital into SRIO; and
- We are able to gain comfort about Anbang's financial strength and SRIO's role within the acquirer's group structure, so that neither constrains the ratings at its current level.

Related Criteria And Research

Related Criteria

- Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital

Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
SRLEV N.V.		
REAAL Schadeverzekeringen N.V.		
Counterparty Credit Rating		
Local Currency	BBB+/Watch Dev/--	BBB+/Stable/--
Financial Strength Rating		
Local Currency	BBB+/Watch Dev/--	BBB+/Stable/--
REAAL Verzekeringen N.V.		
Counterparty Credit Rating	BBB-/Watch Dev/--	BBB-/Stable/--

Ratings Affirmed

SRLEV N.V.	
Subordinated	D
Junior Subordinated	D

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