

Moody's places the ratings of SNS REAAL's insurance operations on review with direction uncertain

19 Feb 2015

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

RATINGS RATIONALE

The rating actions follow the announcement on Monday by SNS REAAL that it has signed an agreement with Anbang Group Holdings Co. Ltd. (unrated), a 100% subsidiary of Anbang Insurance Group Co. Ltd. (Anbang, unrated), a Chinese insurance company, for the sale of REAAL NV, the holding company of SNS REAAL's insurance operations. Under the agreement, 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%, resulting in an additional capital injection between EUR770 million and EUR1.0 billion (2) repay EUR552 million of internal loan, including EUR250 million of intercompany loan to SNS Bank and EUR302 million of T2 hybrid loan to SNS REAAL N.V.. The anticipated effective date of sale is 30 June 2015 with an expected close in 3Q15, subject to regulatory approval.

The review with direction uncertain on the IFSRs of SRLEV NV and REAAL Schadeverzekeringen NV reflects 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. In this scenario, Moody's expects that SNS REAAL's insurance operation is likely to continue to weaken going-forward in the absence of external support. The Solvency I capital ratio of the Dutch insurer continued to fall in the last quarter of 2014 to an estimated 136%, 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.

In Moody's opinion, there is still considerable uncertainty regarding the completion of the transaction as a result of the conditions attached to the sale and purchase agreement. 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 no penalties. In Moody's view this introduces some uncertainty to the deal completion, given the recent high volatility in the capital ratios of the insurer as described above.

The review with direction uncertain on the B3(hyb) rating for the hybrid securities issued by SRLEV reflects the possibility of a multi-notch upgrade if SNS REAAL is able to complete the sale of its insurance operations and if Anbang recapitalises these operations as planned, most likely leading to a resumption of coupon payments. SNS REAAL has indicated that the ban on coupon payments imposed by the European Commission was lifted following the agreement reached with Anbang, but the group decided to continue not to pay coupons on SRLEV's hybrids, in accordance with the fully optional coupon skip mechanism included in these securities. Conversely, the ratings could be downgraded if we believe that the sale of the insurance operations could be cancelled, or the entity would be sold to a counterparty which will not resume coupon payments or decide not to pay part of the principal.

Moody's said that it does not expect to conclude its reviews before 3Q15, notably depending on confirmation that Anbang intends to proceed with the acquisition on the stated terms.

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 were placed 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 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.moody.com for a copy of these methodologies.

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