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## ASR Nederland N.V.

**Primary Credit Analyst:**

Tatiana Grineva, London (44) 20-7176-7061; tatiana.grineva@spglobal.com

**Secondary Contact:**

Mark D Nicholson, London (44) 20-7176-7991; mark.nicholson@spglobal.com

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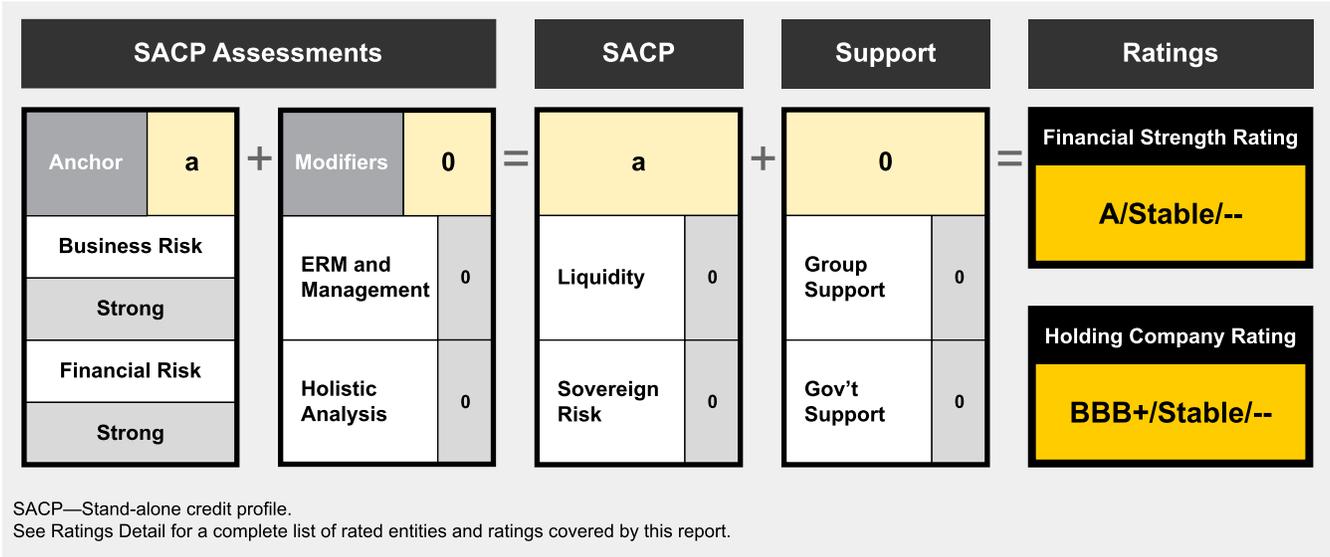
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# ASR Nederland N.V.



## Major Rating Factors

### Strengths

- Diversified portfolio of business, with prominent presence in life and non-life insurance sectors and some presence in health insurance and banking sectors.
- Stable earnings, with healthy returns on equity despite fierce competition in the mature insurance market.
- Very strong capitalization, with capital adequacy in the 'AAA' range.
- Low level of financial leverage.

### Weaknesses

- Exposure to one geographic market, where we see fierce competition in the non-life sector, fading prospects in the life sector, and the effect of political influence in the health sector. All sectors have limited potential for organic growth.
- An appetite for acquisitions creates uncertainty that capital adequacy will remain within the 'AAA' range.
- Large defined-benefit employees' pension scheme may expose the balance sheet to volatility and weakens our assessment of the financial risk profile.

## Rationale

Our ratings on the Dutch insurance holding company ASR Nederland N.V. and its core insurance operating entities reflect the company's prominent position in The Netherlands insurance market, its diversified portfolio of business, very strong level of capitalization, stable earnings, and low level of financial leverage. We consider that ASR's

enterprise risk management (ERM) and management and governance are neutral rating factors. We believe ASR possesses exceptional liquidity owing to the strength of its available liquid resources. The ratings are constrained by the group acquisitiveness, which creates uncertainty that capital adequacy will remain within 'AAA' range, and by the large defined-benefit employees' pension scheme, which may expose the balance sheet to volatility.

### Outlook: Stable

The stable outlook reflects our expectation that ASR will maintain its strong competitive position and at least very strong capital adequacy over the next 12-24 months. This will be supported by stable earnings, with net income in excess of €500 million annually in 2018-2020; a net combined ratio below 100% (based on S&P Global Ratings' calculation), which will preserve its healthy capacity to service its debt costs amid challenging underwriting conditions in a low-interest-rate environment; and a rational dividend policy.

### Downside scenario

We consider it unlikely that we will lower the ratings over the next 12-24 months. Nevertheless, we could lower the ratings if:

- We revised our capital and earnings assessment downward to strong;
- ASR's profitability does not meet our expectations. This could be the case if the non-life segment net combined ratio is above 102%, or net income falls sustainably below €400 million annually in 2018-2020; or
- The fixed-charge coverage ratio falls below 4x.

### Upside scenario

We consider it unlikely that we will raise the ratings over the next 12-24 months. Nevertheless, we could raise the ratings if we feel more comfortable that the prospect of volatility in capital adequacy, which is currently maintained at the 'AAA' level, had reduced. This could result from receding risks related to ASR's ongoing merger and acquisition (M&A) activity, the large defined-benefit pension scheme, or the environment for life insurers in the Netherlands.

## Macroeconomic Assumptions

Table 1

The Netherlands Selected Indicators									
	2013	2014	2015	2016	2017	2018f	2019f	2020f	2021f
GDP per capita (in '000)	51.7	52.3	44.9	45.8	48.5	53.4	57.6	59.1	60.6
GDP growth	(0.2)	1.4	2.3	2.2	3.2	2.7	2.3	1.8	1.5
GDP per capita growth	(0.5)	1.1	1.8	1.7	2.5	2.1	1.7	1.2	0.9
CPI inflation	2.6	0.3	0.2	0.1	1.3	1.6	1.7	1.8	1.9
Bank credit to resident private sector/GDP	114.6	109.0	112.6	109.9	111.7	110.4	109.4	107.8	106.5

f--Forecast. CAR&FXR--Current account receipts plus usable foreign exchange reserves. A free and interactive version of a larger number of sovereign risk indicators can be found at [spratings.com/sri](http://spratings.com/sri)

## Company-Specific Assumptions

- Gross written premiums (GWP) for 2018 will grow by 10% as the result of the acquisition of Generali Nederland.
- For 2019 and 2020, GWP will remain flat without further acquisitions, as a result of a decrease in premium on the life side in line with market trends and marginal growth in non-life premiums, despite high levels of competition.
- Combined ratio will be less than 100% (based on S&P Global Ratings' calculations).
- We anticipate that ASR will maintain its dividend policy of distributing about 45%-55% of net operating result attributable to shareholders (i.e., net of hybrid costs).
- The overall risk profile of the investment portfolio will be stable. In particular, we do not expect further increases in allocations to equities and real estate.

**Table 2**

ASR Key Metrics							
	2013	2014	2015*	2016	2017	2018f	2019f
Gross premium written (mil. €)	3,923	3,787	4,092	4,328	3,920	>4,200	>4,200
Net income (mil. €)	276	378	604	658	908	>500	>500
S&P Global Ratings capital adequacy	Strong	Very Strong	Very Strong	Very Strong	Extremely Strong	Extremely Strong	Extremely Strong
Financial leverage (%)	11	13	17	18	19	<20	<20
Fixed charge coverage (x)	6.5	8.7	12.8	10.3	12.4	>5	>5
Total shareholders' equity	2,518	2,326	3,558	3,770	4,431	N/A	N/A
Return on shareholders' equity (%)	11.1	15.7	20.5	18.0	22.1	N/A	N/A
P/C net combined ratio	108.5	100.4	99.5	100.2	98.1	100<	100<
Life: net expense ratio (%)	17.7	15.7	13.0	10.1	9.9	N/A	N/A

f--Forecast. N/A--Not applicable. \*The figures for 2015 have been restated. We did not use restated data in our analysis of published tables, and therefore 2016 financial information is not directly comparable to prior years.

## Company Profile

ASR is a composite insurer domiciled in the Netherlands. It has two core operating entities, ASR Schadeverzekering N.V. and ASR Levensverzekering N.V. ASR also offers investment and (bank) savings products, and asset management services to institutional clients. ASR operates almost exclusively in the Dutch market, except for a small Belgian funeral insurance portfolio.

ASR was nationalized in 2008 as part of the break-up of Fortis Group. In June 2016, ASR became a listed company.

## Business Risk Profile: Strong

ASR is one of the top four Dutch insurers in the highly concentrated life and non-life insurance markets. ASR has meaningful diversification by line of business, which affords the group strategic flexibility. ASR's business remains

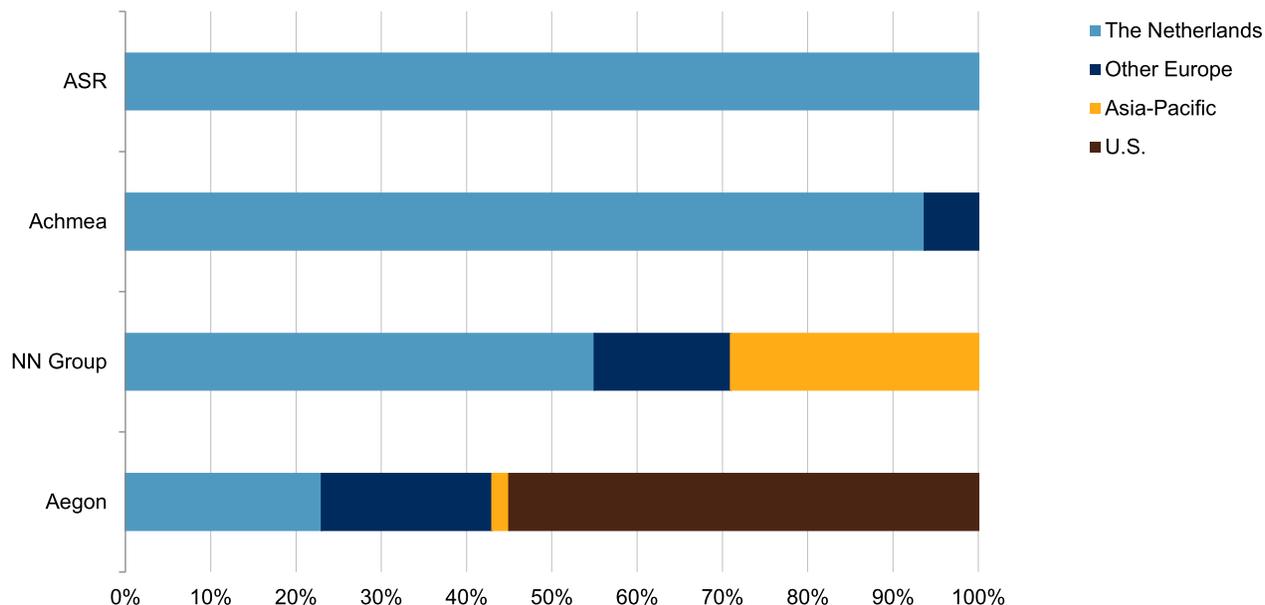
concentrated in the Netherlands, however, and we do not anticipate any major change to this strategy.

Despite the unfavorable business environment in the Dutch life and non-life insurance market, ASR's operating performance has remained resilient, with stable return on equity in recent years. In our view, ASR has managed to deliver strong and stable earnings due to a well-diversified portfolio, ongoing cost-cutting initiatives in both life and non-life books, repricing parts of the non-life book, and the successful consolidation of a string of acquired companies.

We see limited organic growth opportunities in the market and do not expect the operating environment to improve materially for any sector (non-life, health, or life) compared to 2017. For 2018, ASR's premiums will grow by 10% mainly due to the Generali Nederland acquisition. For 2019 and 2020, barring future acquisitions, we expect premium levels to be broadly flat in both life and non-life businesses.

### Chart 1

#### ASR Peer Comparison--Geographical Concentration



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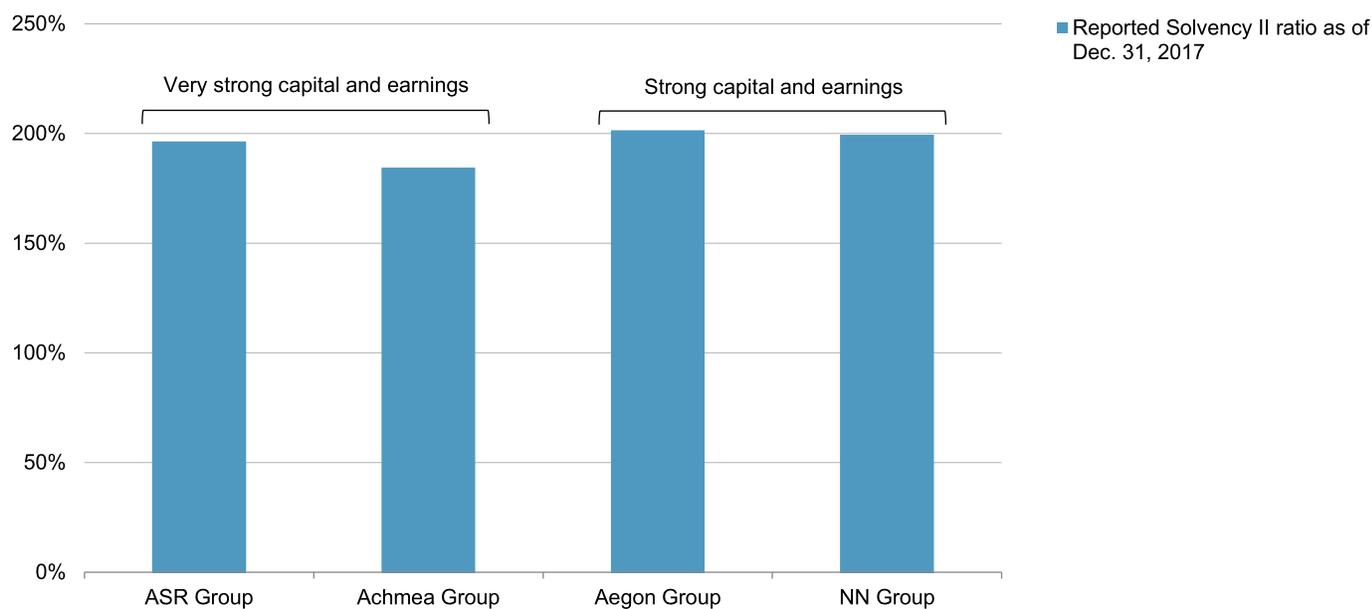
## Financial Risk Profile: Strong

ASR's capital adequacy is redundant at the 'AAA' level, according to our risk-based capital model. However, softer forms of capital (material proportion of hybrid capital and value of in-force that contribute to total adjusted capital) and a string of bolt-on and midsize acquisitions constrain our assessment of ASR's capital and earnings, though we still view it as very strong.

The insurer's large defined-benefit pension scheme obligations compared to total adjusted capital (TAC) also weakens our assessment of the financial risk profile due to the potential volatility they create in the balance sheet.

## Chart 2

### ASR Peer Comparison--Capitalization



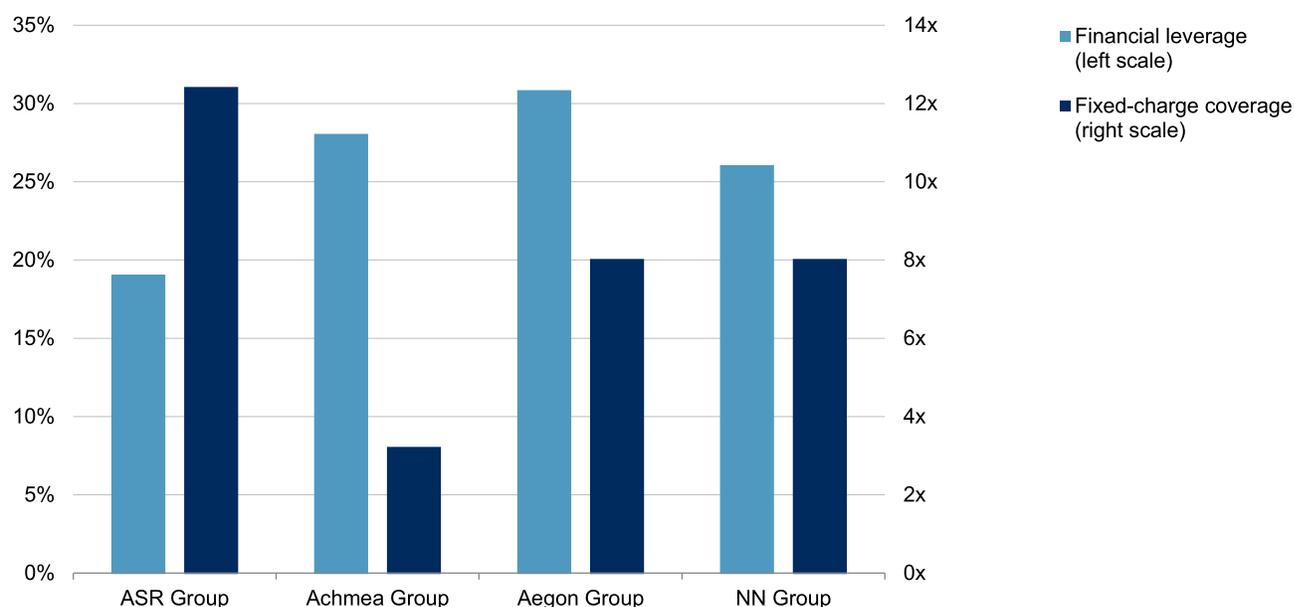
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We believe ASR's net earnings will be in excess of €500 million per year in 2018-2020. There is limited scope for the business to increase sales in the Dutch market. As such, ASR's focus will remain on ongoing improvements to operating expenses.

ASR has a comfortable level of leverage and strong coverage of its fixed charges. We believe ASR's financial flexibility is adequate. The group has accessed the debt capital markets in the past, including through hybrid issuance in 2014, 2015, and 2017, and through equity issuance on several occasions following its IPO in June 2016. ASR also has the capacity to raise additional hybrid debt and increase its reinsurance utilization. Its ability to raise equity when needed is untested, however.

Chart 3

## ASR Peer Comparison--Financial Leverage And Fixed-Charge Coverage



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## Other Assessments

We consider ASR's ERM to be adequate, though we note the significant progress made by the group to establish and improve control processes since the split with Fortis. The importance of ERM is high, reflecting the composite nature of the group's risk profile and the high levels of investment leverage.

Our assessment of ASR's management and governance is supported by its progress in executing its strategic plans. Its strategies are generally consistent with its capabilities and the group is cognizant of market place conditions. At this stage, we do not anticipate a material change in risk appetite or financial strategy as a result.

We regard ASR's liquidity as exceptional. Although the company has material real estate and equity exposures, the group maintains significant liquidity in the form of its large cash holdings and a highly rated bond portfolio, which provide a buffer against liquidity stresses.

## Other Considerations

ASR does not publicly report embedded value. However, we do give credit for the present value of future profits on a market consistent embedded value basis in our assessment of TAC.

ASR makes extensive use of shadow accounting in its International Financial Reporting Standards reporting. As such, ASR is able to minimize volatility to the profit and loss account resulting from movements in interest rates where its assets and liabilities are sufficiently well-matched. The capital model is adjusted for this accounting treatment.

## Related Criteria

- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

### Ratings Detail (As Of August 20, 2018)

#### ASR Nederland N.V.

Issuer Credit Rating

*Local Currency*

BBB+/Stable/--

Junior Subordinated

BB

Junior Subordinated

BBB-

#### Related Entities

##### ASR Levensverzekering N.V.

Financial Strength Rating

*Local Currency*

A/Stable/--

Issuer Credit Rating

*Local Currency*

A/Stable/--

##### ASR Schadeverzekering N.V.

Financial Strength Rating

*Local Currency*

A/Stable/--

Issuer Credit Rating

*Local Currency*

A/Stable/--

**Ratings Detail (As Of August 20, 2018) (cont.)****Domicile**

Netherlands

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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