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ASR Nederland Group

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Table Of Contents

Table Of Contents (cont.)

ASR Nederland Group

Major Rating Factors

Strengths:

- Strong capitalization.
- Strong investments.

Weakness:

- Strong operating performance, but not in line with the rating.
- Challenging macroeconomic and competitive environment.

Operating Companies Covered By This Report
Financial Strength Rating
Local Currency
A/Stable/--

Rationale

The ratings on the core operating entities of Netherlands-based composite insurer ASR Nederland Group (ASR), ASR Levensverzekering N.V. and ASR Schadeverzekering N.V. are based on its strong capitalization and strong investments. These strengths are partly offset by ASR's operating performance which we see as a weakness to the rating, as well as the challenging macroeconomic and competitive environment in the Dutch market.

Since breaking up with Fortis and being purchased by the Dutch government, the management team has taken steps to improve the resilience of the balance sheet as well as the stability of operating performance. The track record of achievement in this area has led us to revise our assessment of management and corporate strategy from marginally negative to marginally positive. Operating performance remains a weakness to the rating, but management actions have reduced the extent to which this drives our view of the financial risk profile.

Though considered strong, operating performance remains a relative weakness to the rating; in particular in the life operations where new business margins remain low relative to peers. However, we do not expect to revise down our assessment of operating performance from strong to good, as our criteria define these terms, nor do we expect it will be detrimental to the balance sheet.

The group has de-risked its balance sheet through changes to the composition and profile of the asset portfolio, and by reducing the interest rate sensitivity of its liabilities. ASR has also improved the efficiency of its processes and its claims handling capability. Given that the one-offs associated with these measures are mostly implemented we expect greater resilience in the financial risk profile against ongoing volatility.

ASR has taken a number of important steps to improve the strength and stability of the balance sheet. We believe that this will continue to support the rating. As such we anticipate:

- A dividend is likely to be paid in respect of 2012 and 2013 as the company builds a track record on its path to an anticipated IPO. However, we believe capitalization as measured by Standard & Poor's risk adjusted capital model will remain strong;
- ASR will continue to prudently manage capital and investments, predominantly using the stressed Solvency I

metric.

Operating performance will continue to be hampered by the macroeconomic environment, which is increasing claims and claim duration in the disability portfolio in particular; causing significant investment volatility and the guarantees in the pensions business to bite. Our expectations are that:

- Profits before tax will remain in the €200 million to €300 million range;
- Embedded value margins on new business will remain low relative to peers, but are likely to improve slightly as operating expense efficiencies are implemented; and
- Company published combined ratios are likely to remain about 99%-100% during 2012 and 2013 as disability claims stay high and the company increases its focus on the low margin health sector.

The macroeconomic context in the Dutch market and strategic decisions regarding the exit of single premium business will continue to weigh heavily on the competitive position of ASR:

- The pace of decline in life gross written premium should slow as ASR completes its withdrawal from single premium business;
- We anticipate that the reliance on regular premium business will also mitigate the impact of changes in customer remuneration;
- Annual premium equivalent (APE) will rely almost exclusively on regular premium business and will trend down to between €30 million to €40 million in 2012 and 2013; and
- Non-life premiums will see modest increases driven predominantly by sales of the health proposition. We anticipate they should rise to above €2.5 billion in 2012 and 2013.

ASR is classified as a government-related entity under our criteria, but this does not provide additional rating support above the stand-alone credit profile. This is based on our view of the "limited" link between ASR and the government of the State of the Netherlands (AAA/Negative/A-1+) and the "limited" importance in the role the company plays. This implies a "low" likelihood of timely and sufficient support if the need arise.

Outlook

The stable outlook reflects our view that the de-risking of the balance sheet and improvements in capitalization have increased financial-risk-profile resilience, mitigating the relative weakness of the operating performance.

The key rating triggers relate to ASR's capitalization, competitive position, and operating performance.

The Dutch market presents significant downside risk to the rating. Were our assessment of ASR's capitalization to weaken from strong this may lead us to reappraise the financial risk profile of the group. If ASR were unable to achieve company reported returns on equity greater than 7% over 2012 and 2013 this would indicate to us that management had failed to achieve its long-term aim to improve operating performance.

On the life side, we may negatively re-evaluate our view of ASR in the event that APE fell below €30 million per annum and margins did not rise, as this would indicate to us that the company had failed to improve profitability by withdrawing from certain poorly performing markets.

From a non-life perspective, downside risk may arise from a worse operating performance than we currently expect as well as a failure to modestly increase non-life gross written premium. In particular we may take a negative view of ASR's operating performance if we see combined ratios rising above 101% in 2012 and 2013.

Based on ASR's stated strategy and on market dynamics, we see limited upside for the ratings, although we believe that ASR has positive momentum in certain areas. We could consider raising the ratings if we saw a continuing strengthening of the balance sheet accompanied by material profitable growth in volume of premium written.

The event risk associated with the Dutch government selling its shareholding in ASR may also change our assessment of the group's credit strength. Any partial sales of ASR Levensverzekering's back book may lead us to change our assessment that these operations are core to the group.

Corporate Profile: A Dutch Multiline Insurer

ASR is a Dutch composite insurer that in 2011 wrote €4.4 billion of gross premiums, down from €4.8 billion in 2010. Of this, about 47% was life and 53% was non-life. As such the group is the one of the largest insurers in The Netherlands. According to "Dutch Insurance Industry in Figures 2012", ASR was number six (including health insurance) in the Dutch market ranked by turnover, with a market share of 6%. According to ASR's figures this comprises a market share of 12.0% in life insurance, where according to ASR it was the fifth largest, and 9.0% in non-life insurance, where it was the second largest. The company also has a leading market share of 23% in disability insurance.

Of the reported life insurance gross premiums in 2011, the lines of business were individual life (29%) and group life (16%). Of the non-life insurance GPW in 2011, the main lines of business were property and casualty (26%) and disability (18%). The remaining 11% was composed of health and funeral business.

In keeping with other groups in The Netherlands, ASR operates a multi-brand strategy; the ASR brand is used to sell life products (individual and group), property & casualty business and mortgages; disability and income protection is sold under De Amersfoortse; Ditzo is a direct distribution brand that sells accident and health products; travel and leisure insurance is sold via Europeesche Verzekeringen; finally funeral business is sold under the Ardanta brand.

In addition to insurance, ASR has banking and property development interests in The Netherlands, which accounted for around 7% of its total reported assets at year-end 2011, combined with other noninsurance entities.

The Dutch government has been ASR's sole shareholder since Oct. 3, 2008. Following the dismantling of the Fortis group: ASR acted as the consolidation vehicle for all the former Dutch insurance operations of the Fortis Group, apart from Amlin Corporate Insurance (formerly known as Fortis Corporate Insurance).

Government-Related Entity Status: Low Likelihood Of Extraordinary Government Support

We believe the likelihood of the government providing extraordinary government support to ASR in the event of economic and financial stress as "low". As such the rating does not benefit from any uplift as a result of government ownership. Government ownership is not anticipated to last much longer; privatization appears likely over the next two years.

In accordance with our criteria for government-related entities (GREs), our view of a "low" likelihood of extraordinary government support is based on our assessment of the "limited" importance of ASR's role to the government and the "limited" link between ASR and the government. This assessment of the government's explicit support means that the rating of 'A' for ASR is based solely on its stand-alone credit profile (SACP) of 'a'.

Competitive Position: Strong, Reflecting Its Position As A Leading Dutch Insurer

Table 1

ASR Nederland N.V./Competitive Position

(Mil. €)	HY 2012	2011	2010	2009	2008
Gross premium written	2,283	4,511	4,738	4,914	5,779
Annual change in gross premium written (%)	N.M.	-4.8	-3.6	-15.0	11.2
Non-Life: Gross written premium	1,430	2,353	2,328	2,346	2,288
Non-Life: Annual change in gross premium written (%)	N.M.	1.1	-0.8	2.5	9.4
Life: Gross written premium	1,104	2,166	2,514	2,692	3,491
Life: Annual change in gross premium written (%)	N.M.	-13.8	-6.6	-22.9	12.3
APE	32	121	196	188	305
Net premium earned	2,199	4,285	4,518	4,623	5,517
Annual change in net premium earned (%)	N.M.	-5.2	-2.3	-16.2	6.1

N.M.--Not meaningful.

We view ASR's competitive position as strong. Our assessment recognizes that ASR is a diversified player that has the ability to refocus strategically across different business lines where it believes that pricing is unattractive in certain markets. However, our view is constrained by ASR's presence in and exposure to the extremely challenging Dutch insurance market.

Life market

On the life side ASR writes both individual and group life business. The company has all but withdrawn from single premium business in the belief that the pricing conditions are unfavorable. The company has chosen instead to focus on managing the back book and on regular premium business. In addition, as competition with the banks for asset accumulation products becomes more intense the group is looking to increase sales of risk benefits where margins are higher. We view these strategic decisions favorably.

Overall this strategy has led to a significant decrease in new business APE (annual premium equivalent) from €188 in 2009 to €121 million in 2011. However, there have been positive trends in VNB (value of new business) and margins. In absolute terms margins remain low, with some small uplift as expense reductions feed through. We expect margins to remain low in the present pricing conditions and interest rate environment.

2013 will see the introduction of a change in the remuneration of brokerage services by individual consumers in The

Netherlands. For the provision of advice and sales of life products, brokers will no longer be remunerated on the basis of commission. Instead the customer will have to pay for this upfront. We anticipate that the impact on ASR will be mitigated by the shift away from single-premium business, as well as a split in sales across both individual and corporate customers.

Non-life market

On the non-life side ASR wrote gross premiums of €2.4 billion in 2011, up from €2.3 billion in 2010. Over 2012 we expect the value of gross written premium to increase as the company grows its health business and looks to put price increases into the motor market.

ASR is a leading player in the disability market, with a market share in excess of 20%. This sector has seen increasing competitive pressure in recent years. As such the company chose to be less active in the group disability market in recent years as competition intensified. However, we understand the company expects to increase its share of this market going forwards as some participants now choose to reduce their exposure to this sector.

Historically ASR's presence in the health market has complemented the sale of disability insurance. However, a recent strategic initiative by ASR has been to increase its presence in the health market, in which the group has a niche position. ASR is able to compete with some of the much larger players in this area by associating itself with four other companies so that the group can overcome the barriers to entry in this market and offer its customers the broad range of services and access to hospitals that is required. ASR has achieved significant growth from a small base in this sector. We expect the margins obtained from this business to be low.

Over the long term we expect ASR's premium growth to largely depend on the health of the Dutch economy. However, over the rating horizon we expect penetration rates in the Dutch economy to fall and hence ASR's premiums to follow this trend. Over the next year or two, we believe ASR will continue to concentrate on profitability ahead of growth.

The pace of decline in life gross written premium should slow as ASR completes its withdrawal from single premium business. APE will be almost exclusively reliant on regular premium business and will trend down to a range of €30-€40 million in 2012 and 2013. We anticipate the non-life premiums will see modest increases driven predominantly by sales of the health proposition. They should rise to above €2.5 billion in 2012 and 2013.

The ability of ASR to maintain profitable market share within a difficult market, demonstrating that it can leverage its competitive position, is a key component of our assessment of the organization's business risk profile going forward.

Management And Corporate Strategy: Marginally Positive, Reflecting Mainly Neutral Assessments

We view the management and corporate strategy of ASR as marginally positive for the rating. This reflects our mainly positive assessments under our criteria (see "Management And Corporate Strategy Of Insurers: Methodology And Assumptions", Jan. 20, 2011).

Having separated from the Fortis group in October 2008, ASR has been preparing to become a privatized company, which is we believe may happen over the next two years subject to market conditions. Many aspects of its management and corporate strategy show positive momentum. A more positive assessment will develop over time if the group can continue to demonstrate the success of its strategy and financial management within a difficult market.

Strategic positioning

ASR's strategy is clearly outlined in its 2011 annual report. Consistent with the previous year it is based on three pillars: customer interests, financial robustness, and efficiency. We believe that these objectives are consistent with the group's capabilities and recognize the constraints imposed by market conditions. Furthermore, the management team has been quick to act where the pricing environment has been assessed as unfavorable.

While the company has not fully achieved the 2012 targets set in 2009, the ASR management team has taken significant steps to improve the operating performance and balance sheet strength of the organization. Furthermore, we recognize that the macroeconomic and market conditions in which management has attempted to achieve its strategy have been challenging. We also note that ASR has been an early mover in adopting best practice to compensate the misselling of unit-linked policies, indicating its desire to place customer interests at the heart of its strategy.

The role of the Dutch government is limited to ownership; it is not involved in the day-to-day management of ASR. Despite uncertainty about its future ownership structure we assume that the current strategy will remain in place because we see it as sensible for a group operating in the competitive Dutch market.

Operational effectiveness

The management team appears experienced and knowledgeable across all its significant business units. It continues to implement a number of cost and process efficiency programs. We consider that management is building a track record of success in carrying out its strategic initiatives and operational improvements in a difficult economic environment.

Financial management

ASR set three specific long-term financial targets in 2009 to be achieved by 2012. We believe that the company has made good progress toward meeting these goals, but will not achieve them in their entirety. We note that the company has gradually de-emphasized its long-term operating targets from its reporting, while changing some of its disclosure. The company no longer publishes embedded value margins, nor does it state its cost-cutting targets. In addition, the company has changed the reporting of its combined ratio metric; with ASR no longer disclosing a separate disability and non-life combined ratio

These features mean we view the financial management of ASR as neutral and a relative weakness to our otherwise positive assessment of management and corporate strategy.

Enterprise Risk Management: Adequate And Improving

We view ASR's enterprise risk management (ERM) processes as adequate, but we also note that significant progress has been made to establish and improve control processes throughout the group. Market and life insurance risks are the most important risks at ASR, followed by credit risks.

We do not expect ASR to experience losses outside normal ranges from traditional risk areas. However, we assess the importance of ERM to the rating as moderate given the broad range of products the group offers in a highly competitive market as well as the appetite for market risk. We believe this will remain the case over the rating horizon.

Prior to separation with Fortis, many risks were managed on a groupwide basis. We note that ASR has made significant strides toward developing its ERM capability to suit it as a stand-alone group. In particular, Fortis had developed its own internal model. Although we have little detail as to the structure of this model we see increasing evidence of it being used to assess investment strategy. As the company aligns its internal MCEV (market consistent embedded value) methodology with the capital model we see that this is beginning to serve as a guide to pricing on new and existing products.

We have also seen increasing evidence of improving operational controls and risk management culture. In particular, ASR demonstrated this via its monitoring of the volume of new business achieved via its direct health sales channel, Ditzo. The company has examined sales growth beyond its targets. Given these efforts we anticipate stable profitability on this line of business going forward.

Our overall assessment of ERM is supported by our view that there are adequate controls in place for all risks. Controls for a number of areas have been implemented in 2011, which will continue over 2012. Satisfactory execution of these controls and continued evidence as to their efficacy may lead us to hold a more positive view of the group's ERM in future.

Accounting: Conservative, With Generally Good Public Disclosure

ASR prepares its consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the European Union. KPMG audited the group's financial statements for 2011, for which the audit opinion was unqualified.

Public disclosure overall (including ASR's Website, interim reports, and investor presentations) is considered reasonable from a rating perspective, but with some notable exceptions; for example, the publication of an embedded value report was discontinued for 2010.

Operating Performance: Strong, But Still A Relative Risk To The Rating

Table 2

ASR Nederland N.V./Operating Performance					
	HY 2012	**2011**	**2010**	**2009**	**2008**
Return on equity, based on shareholder's equity and profit before tax (%)	0.1	0.1	0.3	0.4	(0.6)
Non-life: Claims ratio (%)*	75.8	70.9	73.0	71.6	62.1
Non-life: Cost ratio (%)*	9.2	11.0	12.0	13.7	15.8
Non-life: Commission ratio (%)*	16.2	17.0	15.3	16.1	16.2
Non-life: Combined ratio (%)*	101.2	98.9	100.3	101.4	94.2
Non-life: Net result*	42.0	145.0	104.0	82.0	48.0

Table 2

ASR Nederland N.V./Operating Performance (cont.)					
Life: Net result*	122.0	135.0	276.0	248.0	(533.0)
Impairments	(63.0)	(358.0)	(39.0)	(256.0)	(933.0)
Profit before tax*	123.0	252.0	421.0	330.0	(845.0)
Total comprehensive income after tax*	303.0	(51.0)	607.0	979.0	(1823.0)

*Company reported figures.

We consider ASR's operating performance to be strong, but a relative weakness to the rating. The company continues to implement measures to improve its operating performance. Nevertheless, the company's earnings remain constrained by competitive pressures on pricing, as well as low interest rates. Operating performance remains a relative rating weakness. However, we do not anticipate earnings to deteriorate over the rating horizon.

Profits in 2010 increased by 24.3% from 2009, while 2011 saw a reversal in profitability. The reported net result in 2011 was a profit of €205 million, a decrease of €103 million or 35.5% on the prior year. The decrease was driven by two factors: an increase in impairments and a provision for misselling. Impairment charges in 2011 rose sharply on 2010 from €39 million to €358 million. This increase was driven by impairments on the group's available for sale bond portfolio. The establishment of a provision for compensating policyholders who were missold unit-linked contracts was also established in 2011, which resulted in an additional expense of €125 million, on top of the €750 million reserve made in the prior year.

Underlying these results, however, we recognize that ASR has taken significant steps to improve the profitability of its operations and the stability of its earnings. ASR has looked to increase the efficiency of back-office administration by outsourcing and reducing the number of products, made strategic decisions as to those markets in which it wishes to operate and looked to realize value in the property portfolio, but also protect the balance sheet through the increased use of hedging.

In 2009, the company set the following internal targets for operating performance to be achieved by year-end 2012:

- Profitability in the range of 8%-12% of total equity;
- A net combined ratio for disability of 92% and of 98% for other non-life; and
- An average margin of at least 1.5% on new business in life insurance.

In line with our view of November 2011 (see "ASR Nederland Group," published Nov. 16, 2011 on the Global Credit Portal) we do not believe the company will achieve all these goals by 2012. However, we recognise that ASR has made significant improvements against its own targets.

Using the company's figures the return on equity (ROE) was 9% over 2011. Combined ratios were 98.9% in 2011 compared with 101.4% in 2009. However, technical losses on the motor and fire portfolios persist, indicating that the health and disability business continues to support the overall operating performance. On the life side ASR no longer publically discloses its new business margins and is reviewing its methodology internally. However, on a consistent basis new margins are not in line with targets and are not expected to be so.

Going forward, we note that the company has chosen not to set public targets with regard to its cost-cutting program.

However, we anticipate the implementation of further measures, even if on a smaller scale than before, and profits to increase in 2012 as the effects of the cost-cutting measures continue to feed through. The rebalancing of the investment portfolio away from the financial sector and the peripheral sovereigns should help to reduce impairments going forward. In addition, we expect the program for compensating unit-linked policyholders to be completed with no further provisioning.

Within the life insurance portfolio a significant proportion of the business comprises pensions business, with interest rate guarantees. Since 2008, ASR has taken steps to place hedges on this book of business with a view to preventing any further deterioration in earnings as a result of yield curve movements.

Company profit before tax will remain in the range €200 million to €300 million. Company published combined ratios are likely to lie in the range 100% to 99% over 2012 and 2013 as disability claims remain high and the company increases its focus on the low margin health sector. We consider that the health business has the scope to provide stable profits, however, we believe this will do little to improve overall profitability.

Investments: Strong, Reflecting Strong Credit Quality

Table 3

ASR Nederland N.V./Investment Statistics					
(%)	**HY 2012**	**2011**	**2010**	**2009**	**2008**
High risk assets/total invested assets (%)	13.9	13.8	20.5	20.6	20.7
Investment grade bonds (%)	83.0	84.0	86.0	83.0	89.5
Investment portfolio composition					
Cash & cash equivalents (%)	9.7	8.7	2.0	2.7	2.7
Total bonds (%)	66.3	67.4	68.6	68.5	67.7
Common stock (%)	4.7	4.0	7.8	6.6	5.7
Real estate (%)	9.2	9.8	12.7	14.0	15.0
Total mortgages (%)	10.1	10.1	8.9	8.2	8.9
Total fair value invested assets (excl. policyholder assets) (€ million)	31.7	29.7	26.8	25.7	24.7

We view ASR's investment strategy as strong. ASR's total invested assets of €31.7 billion as at June 30, 2012, comprised a 66% allocation to fixed income, 9% in real estate, 10% mortgages, and 5% equities. The remaining portfolio was invested in cash.

The company has no significant concentrations and uses interest rate and equity hedging instruments to control risks. We consider the credit quality of the bond portfolio to be strong. We note that the company does have market risk exposures through investments in real estate and equities. This constrains our view of the company's asset portfolio.

Credit risk

Since 2009 the company has generally looked to reduce the credit and interest rate risk held within its investment portfolio. The proportion of the portfolio held in fixed income has remained broadly constant, but the average credit quality has improved markedly. As at year-end 2009, the company held 42% of its fixed income portfolio in 'AAA' rated bonds. This has since risen to 57% as at year-end 2011. Over the same timeframe the company has markedly reduced its exposure to eurozone peripheral sovereigns from €606 million to €13 million.

We believe the credit risk associated with the loan and mortgage portfolio is low. The loans are collateralized with insurance-linked savings products and the assets of the borrower. In addition, 28% of the portfolio is guaranteed by the Dutch state. We note that as at Dec. 31, 2011 1.7% of the portfolio was in arrears up from 1.2% at the prior year. However, we still consider this to be low.

Reinsurance credit risk is small, with just €462 million of exposure to reinsurers at year-end 2011 (€427 million in 2010), 99% of which was to counterparties rated at least 'A-' or higher (99% in 2010). Similarly, cash of €1,773 million was nearly all held in 'A' rated institutions.

Market risk

Over the period 2009 to 2011 ASR has sought to reduce its exposure to market risk, in particular to real-estate and equity risk. On the equity side this has involved reducing absolute exposure to this asset class: €1.2 billion as at year-end 2011, compared to €1.8 billion as at year-end 2009. Furthermore, the company has sought to hedge some of its more illiquid positions, in particular its preference share investments and 5% investments, which have a favorable tax treatment in The Netherlands.

In the last quarter of 2011, ASR also sought to reduce its exposure to, and realize the value in, its asset portfolio though the establishment of the ASR Dutch Prime Retail Fund. This saw the market value of the assets held by the company fall from €3.5 billion in 2010 to €2.9 billion in 2011.

ALM risk

ASR has invested heavily in controlling its ALM risk. The duration of assets (10.1 years) was shorter than the duration of liabilities (13.4 years) at year-end 2011. As the ECB 'AAA' yield curve declined over the year, so the duration of the assets and liabilities increased, raising the interest rate sensitivity of portfolio. However, the purchase of long-dated swaps and swaptions has helped to reduce the mismatch from 4 years to 3.3 years over 2011. The work to reduce the interest rate sensitivity is recognized in the improvement of the stressed regulatory solvency ratio. The effect of a 1% decline in interest rates on regulatory solvency has fallen from 31% to 7% over 2011.

Liquidity: Strong, Reflecting Strong Balance Sheet Liquidity

We believe ASR's liquidity is strong. This is mainly due to the strong liquidity of the balance sheet, which is dominated by liquid financial assets. We note favorably that the proportion of invested assets that is composed of cash and cash equivalents has increased markedly from 2% as at year-end 2010 to 10% as at June 30, 2012. Meanwhile the bond portfolio appears liquid with 83% being investment grade.

In addition to its liquid investments, ASR can access up to €2 billion of secured financing in the form of securities lending and finance through repurchase agreements. Consequently, the group forecasted that if a €1.8 billion stress scenario were to occur on March 31, 2012, its available net liquidity would be about €4.6 billion two weeks later. We view this as evidence of satisfactory liquidity management.

Capitalization: Strong, With Renewal Of Dividend Payment

Table 4

ASR Nederland N.V./Capitalization Statistics					
(Mil. €)	**HY 2012**	**2011**	**2010**	**2009**	**2008**
Regulatory Solvency* (%)	264.0	230.0	221.0	232.0	170.0
Impact on regulatory solvency of stresses					
Equities: -20%	-17.0	-13.0	-21.0	-20.0	-12.0
Interest: -1%	0.0	-7.0	-31.0	-9.0	-67.0
Spread: +0.75%	-16.0	-16.0	-17.0	-18.0	-17.0
Property: -10%	-15.0	-15.0	-17.0	-19.0	-20.0
Shareholders' equity (€ million)	2,090.0	1,854.0	1,931.0	1,389.0	432.0

We view ASR's capitalization as strong. Capital adequacy, as measured by the Standard & Poor's risk-based capital model is assessed as strong. This view is supported by a robust regulatory position, which can withstand significant combined stresses in terms of interest rates on the liability side as well as equity, bond, and property prices on the asset side.

Within our assessment of capital using the Standard & Poor's model in keeping with criteria we treat the preference shares held by the company as bonds based on their credit ratings, we treat the large rural portfolio as investment property, and we provide qualitative credit for the hybrid debt issued by ASR. Though we assess ASR's hybrid debt as being of minimal equity credit we recognize on a qualitative basis that it does have some positive characteristics.

Risk-based capital adequacy, as measured by our model, is now strong (being previously good), but qualitative credit is also given for the larger part of ASR's hybrid debt issued in 2009. We believe ASR's earnings retention capacity will help it maintain its capital adequacy at a level consistent with its current ratings over the rating horizon.

Historically to support ASR's capital adequacy, the Dutch government has not required any dividend payments so far. ASR paid a dividend for the first time in 2011.

Solvency coverage was 264% (excluding the need for the forbearance measures allowed by the Dutch state) for the group on June 30, 2012 on a statutory basis, which is up from 230% at year-end 2011 (221% at year-end 2010).

Reinsurance

The short-tail nature of ASR's non-life business leads to low non-life reinsurance utilization, being just 8.5% in 2011. The largest risk retention is €3.0 million per risk and €15.0 million per event. A loss of €15 million equates to less than 1% of year-end 2011 reported shareholders' equity.

Life reinsurance utilization is also low. The largest risk retention is €0.75 million per risk and €3.0 million per event.

Financial Flexibility: Strong, If Largely Untested

In our opinion, ASR's financial flexibility is strong, if largely untested. We do not anticipate that the group will require additional short-term liquidity or long-term capital over the rating horizon. We believe the group would more likely need to replenish capital following a severe adverse movement arising from its market risk. However, as a GRE--albeit one with a low likelihood of support--we currently expect ASR to benefit from the financial support of its owner, if needed.

Sources of capital (see "Liquidity") may include an equity issue, an increase in the use of reinsurance, or further borrowing (including hybrid debt, which ASR last issued in August 2009 as part of a financial restructuring).

Related Criteria And Research

- Principles Of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Use Of CreditWatch and Outlooks, Sept. 14, 2009
- Holding Company Analysis, June 11, 2009
- Group Methodology, April 22, 2009
- Interactive Ratings Methodology, April 22, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15,2008
- Counterparty Credit Ratings And The Credit Framework, April 14, 2004

Ratings Detail (As Of December 21, 2012)	
Operating Companies Covered By This Report	
ASR Levensverzekering N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Counterparty Credit Rating	
Local Currency	A/Stable/--
Junior Subordinated	BBB
Junior Subordinated	BBB+
ASR Schadeverzekering N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Domicile	Netherlands

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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