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Dutch-Based Holding Company Of ASR Group's Restricted Tier 1 Notes Rated 'BB'

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OVERVIEW

- Dutch-based holding company ASR Nederland N.V. is issuing notes that will be eligible as Restricted Tier 1 (RT1) capital under Solvency II.
- We are assigning our 'BB' issue rating to the RT1 notes.
- We expect to classify the bonds as having intermediate equity content.

LONDON (S&P Global Ratings) Oct. 5, 2017--S&P Global Ratings today assigned its 'BB' long-term issue credit rating to the Restricted Tier 1 (RT1) notes to be issued by ASR Nederland N.V., holding company of ASR Group. The issue rating is subject to our receipt and review of the bonds' final terms and conditions.

The rating on the bonds is four notches below the long-term issuer credit rating (ICR) on ASR Nederland N.V. (BBB+/Stable/--); one notch to reflect the notes' subordinated status to senior bondholders, one notch to reflect the risk of potential conversion to equity and loss of principal, and two notches to reflect the mandatory and optional interest cancellation features. The notching on this instrument is wider than that applied for ASR Group's other subordinated instruments as we think the various mandatory coupon cancellation triggers of the RT1 notes create an increased risk of coupon nonpayment on a going-concern basis and we also consider the potential loss of principal for noteholders upon conversion into equity .

The ICR on ASR Nederland is two notches below that on the core operating entities of ASR Group (rated A/Stable/--), reflecting the structural subordination of the holding company's creditors to the group's core operating entities' policyholders.

Our rating and equity content assessment takes into account our understanding that:

- The bonds are subordinated to senior creditors;
- The issuer has discretion to cancel interest payments;
- Interest cancellation is mandatory under certain circumstances, including if the solvency condition is not met; if, under the EU's Solvency II Directive, ASR's own funds (capital resources) are insufficient to meet either the solvency capital requirement (SCR) and/or minimum capital requirement (MCR); or upon insufficient distributable items;
- The bonds will be eligible as RT1 capital under Solvency II; and
- The notes will convert into ordinary shares in the event that the amount of own-fund items eligible to cover the SCR is equal to or less than 75% of the SCR, the amount of own-fund items eligible to cover the MCR is equal to or less than the MCR, or a breach of the SCR has occurred and such breach has not been remedied within three months of the date on which the breach was first observed.

As the group's regulatory capital position evolves, the notching on these instruments could be altered to reflect changes in the likelihood of default. A sustainable and significant increase in ASR Group's SCR coverage could reduce the number of notches between the issue rating on the notes and the ICR, while deterioration in the group's capital position or increased sensitivity to stress could increase the notching by one or more.

ASR Group's management has indicated publicly its target to maintain its SCR coverage above 160%. We would not envisage changing the notching of this instrument if the group's SCR coverage drops to its target range from the current level in excess of 180% (194% in the first half of 2017). However, we could consider widening the notching if SCR coverage drops below this target range or if the risk profile changes in such a way that the SCR ratio would be more volatile.

We understand that the notes are perpetual, but are callable at par after at least 10 years and on any interest payment date thereafter. The notes carry a fixed interest rate which will be reset on the first call date and on each reset date thereafter as the sum of the applicable five-year mid-swap rate plus the margin. There is no step-up in the coupon rate if the bonds are not called at the first call date.

ASR Nederland has the option to redeem the bonds at par before the first call date under specific circumstances, such as for changes in tax, regulatory, or rating agency treatment. Any redemption must be replaced by an instrument of at least the same quality.

We expect to classify the bonds as having intermediate equity content, subject to our receipt and review of the bonds' final terms and conditions. Hybrid capital instruments with intermediate equity content can comprise up to 25% of total adjusted capital (TAC), which is the basis of our consolidated risk-based capital analysis of insurance companies. The inclusion of TAC is also subject to the issue being considered eligible for regulatory solvency regarding both the amount, and terms and conditions.

We think that ASR Nederland will use the proceeds for the group's general corporate purposes (which may include, without limitation, the refinancing of existing debt). We project that this additional debt will have a neutral impact on both ASR Group's financial leverage (debt plus hybrid capital, divided by the sum of economic capital available, debt, and hybrid capital) and fixed-charge coverage ratios (EBITDA divided by senior and subordinated debt interest). We project the following ratios before and after this issue:

- Financial leverage before RT1 issue--2017: 17%, 2018: 16%, and 2019: 16%
- Financial leverage after RT1 issue--2017: 20%, 2018: 19%, and 2019: 16%
- Fixed-charge coverage (FCC) before RT1 issue--2017: 6.6x, 2018: 6.8x, and 2019: 6.9x
- FCC after RT1 issue--2017: 9.2x*, 2018: 5.7x, and 2019: 5.7x

*We have also revised our projections of net income for 2017, which we now expect to be in excess of €645 million based on first-half 2017 performance.

RELATED CRITERIA

- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria - Insurance - General: Insurer Hybrid Capital Instruments With Nonviability Contingent Capital (NVCC) Features, July 24, 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
- General Criteria: Methodology: Credit Stability Criteria, May 3, 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

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.