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ASR Nederland N.V.

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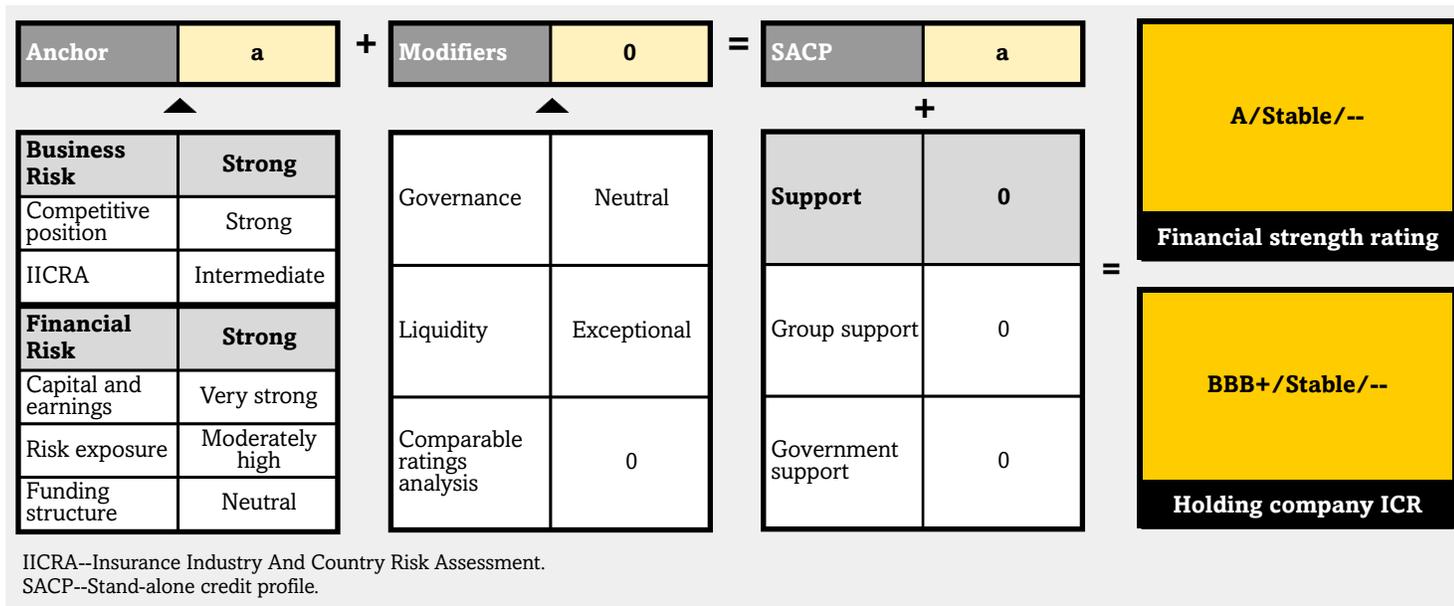
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ASR Nederland N.V.



Credit Highlights

Overview	
Key strengths	Key risks
Diversified business lines in the Dutch financial services sector, with prominence in life and non-life insurance in The Netherlands.	Small and midsize bolt-on acquisitions could increase earnings and capital volatility.
Despite challenges from the pandemic, consistent operating performance, with healthy returns in 2020, and S&P global Ratings forecasts this will continue in 2021.	Concentration of business in the competitive Dutch insurance market.
Expected to remain well capitalized under S&P Global Ratings' capital model, at the 'AAA' level, as well as under Solvency II.	Material pension obligations create potential volatility on the balance sheet.

Our ratings on ASR Nederland N.V. (ASR) and its core insurance operating entities reflect the company's prominent position in the Netherlands' insurance market, and its diversified business product lines. In first-half 2021, ASR sustained its position in the Dutch market through strong organic growth in the non-life segment including property/casualty (P/C), disability, and health insurance, with the operating result up about 45%. In life insurance, ASR strengthened its position within capital-light business lines, with the investment margin and operating result both improving compared with first-half 2020, despite a decline in gross premiums written.

Our ratings are underpinned by ASR's excellent capitalization, which we expect will remain in the 'AAA' range based on our risk-based capital model over the forecast period. At year-end 2020, ASR's risk-based capital adequacy was in excess of the 'AAA' level. The company also disclosed a solid regulatory solvency ratio of 197%, showing very low sensitivities as of June 30, 2021. We expect that capital will remain solidly above the 'AAA' benchmark over 2021–2023 despite potential volatilities stemming from the pandemic. However, softer forms of capital and a string of bolt-on and midsize acquisitions constrain our assessment of ASR's capital adequacy.

We expect ASR will maintain its strong underwriting profitability with higher returns than domestic peers. Net income and return on equity (ROE) contracted in 2020, but they remained in line with our expectations and will likely increase amid our overall forecast of an improved economy in 2021 and 2022. We expect net income of more than €500 million

annually during this period, supporting the build-up of capital in line with growth targets. International Financial Reporting Standards (IFRS) net income almost doubled to €454 million in first-half 2021 from €233 million in first-half 2020 due to improved investment results and strong underlying technical profitability in life and non-life.

Outlook: Stable

The stable outlook reflects our expectation that ASR will maintain its strong market position in the life and non-life Dutch insurance segments, along with resilient capitalization levels over the next 12-24 months. We expect the stable outlook on ASR to be supported by:

- Robust earnings and capital levels at least in the 'AA' range, despite the COVID-19 pandemic;
- A net combined (loss and expense) ratio below 100% according to our calculations; and
- A rational dividend policy.

These factors will, in our opinion, help ASR preserve its healthy capacity to service its debt costs amid challenging underwriting conditions in the low-interest-rate environment.

Downside scenario

We are unlikely to lower the ratings over the next 12-24 months. However, we could do so if:

- ASR is not able to restore its capital position at least to the 'AA' level in our model.
- ASR's profitability does not meet our expectations, for example, because the non-life net combined ratio rises above 102%, or net income falls below €400 million annually for a prolonged period.

Upside scenario

An upgrade is unlikely over the next 12-24 months. Nevertheless, we could raise the ratings if we are convinced that the potential for volatility in capital adequacy, currently at the 'AAA' level, has reduced. This could result from receding risks related to ASR's ongoing merger and acquisition activity, its large defined-benefit pension scheme, or the environment for life insurers in the Netherlands.

Key Assumptions

- The Netherlands' GDP increases 2.8% in 2021, 3.2% in 2022, and 2.0% in 2023.
- Long-term interest rates in the Netherlands stay structurally low at negative 0.08% in 2021, positive 0.25% in 2022, and positive 0.42% in 2023.
- Dutch unemployment levels stabilize at 3.8% in 2021, 4.1% in 2022, and 3.9% in 2023.

ASR Nederland N.V.--Key Metrics

	2022f	2021f	2020	2019	2018	2017
Gross premium written (mil. €)	>5000	>5000	5,276.0	4,666.0	4,459.0	3,920.0

ASR Nederland N.V.--Key Metrics (cont.)

	2022f	2021f	2020	2019	2018	2017
Net income (mil. €)	>500	>500	656.0	972.0	669.0	908.0
Return on shareholders' equity (%)	8-10	8-10	12.6	20.3	15.1	22.1
P/C: Net combined ratio (%)	97-99	97-99	97.8	97.5	99.4	98.1
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
Financial leverage(%)	<30	<30	28.3	29.2	26.7	25.3
Fixed-charge coverage (x)	>6	>6	6.9	9.8	8.8	12.4

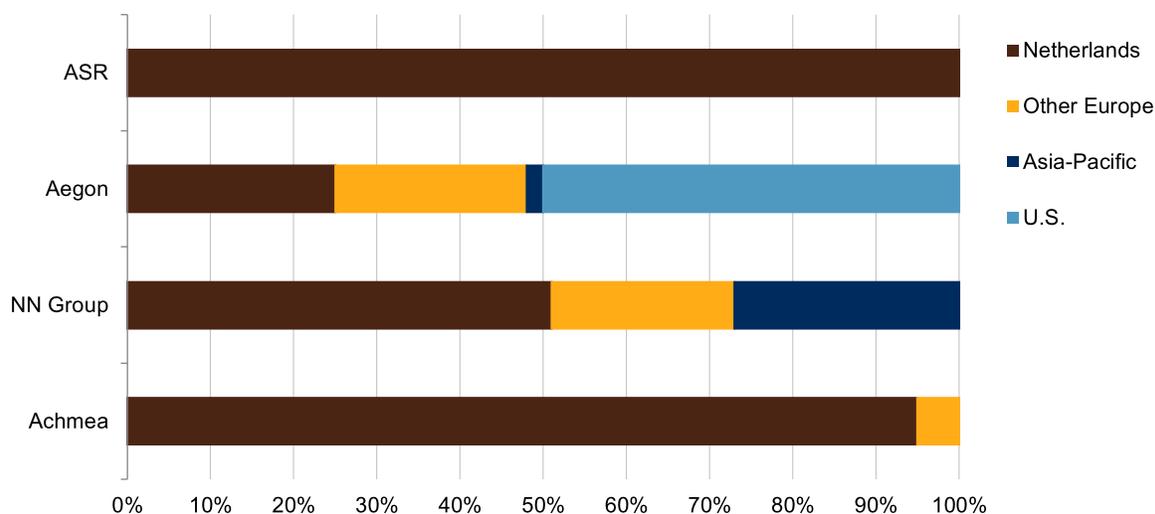
f--S&P Global Ratings forecast. P/C--Property and casualty.

Business Risk Profile: Strong

ASR is one of the major multiline insurance players in the highly concentrated life and non-life Dutch insurance market. We think it has built a well-established market position and a comprehensive product portfolio within the insurance business through a focused organic and inorganic growth strategy. The company is also diversified into asset management and distribution services, but the earnings contribution from these businesses is not material. ASR's business remains concentrated in the Netherlands and we do not anticipate any major change to this strategy.

Chart 1

ASR's Geographical Concentration



Source: S&P Global Ratings.

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ASR's bolt-on acquisition strategy creates opportunities to further consolidate the Dutch insurance market. The company's acquisitions of VVaa life, Generali Nederland, and Loyalis further improved its market positions, in particular in the historically profitable disability business. On the one hand, ASR's concentration in the Netherlands

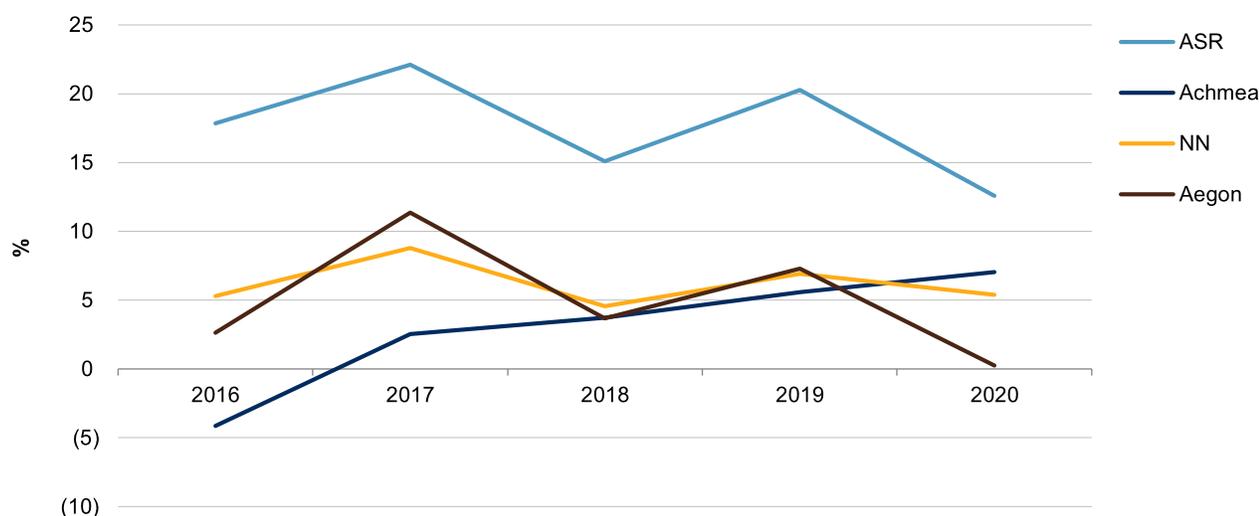
exposes it to any adverse developments in the Dutch economy. On the other hand, we believe this focused approach and the build-up of local expertise will enable ASR to deliver above-average growth in a saturated and highly competitive Dutch insurance market. In first-half 2021, ASR's non-life business expanded 13.5%, demonstrating its strong brand and distribution network in P/C, disability, and health insurance.

In life insurance, ASR is the fifth largest insurer with a market share of 13.3%. This increase is due to a rise in pension defined contribution plans and acquisitions (Loyalis and VvAA), which have partly offset a decrease in pension defined benefit solutions. ASR's acquisition of the remaining interest in Brand New Day Premiepensioeninstelling N.V. further improves its market position in the Dutch pension defined contribution market. In first-half 2021, gross premiums from defined contribution pension products (WerknemersPensioen) increased 31%. ASR successfully shifted its new business in life insurance toward less-interest-rate-sensitive products with lower capital requirements. Since 2016, new business for life insurance drastically decreased for defined benefit solutions and ASR is focusing on defined contribution plans, which will gradually reduce interest sensitivity in the life insurance back-book. Therefore, we expect its risk/return profile to improve.

Overall, ASR has, in our opinion, demonstrated stable performance with strong profitability, outperforming its Dutch peers in a challenging market environment with a ROE of 17.6% on average for the past five years (see chart 2).

Chart 2

ASR's Return On Equity



Source: S&P Global Ratings.

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Despite premium diversification within the Netherlands, group earnings are less diversified than those of higher-rated peers, in terms of geographical presence (see chart 2). The group also generates about 20% of premiums from health insurance business, which faces indirect political pressure and intense competition leading to volatile earnings.

COVID-19 losses didn't materially affect ASR's underwriting earnings in 2020. Higher claims from disability and lower investment income were partly compensated by lower claims in P/C insurance due to restricted mobility.

Despite ongoing challenges from COVID-19 in first-half 2021, ASR reported significantly better net income of €454 million compared with €233 million in first-half 2020. This came as the P/C segment continued to report lower claims due to movement restrictions. Disability claims were less adverse than 2020 due to better performance in sickness leave and individual disability. Overall, the combined ratio in non-life (based on ASR's calculation) even improved to 90.2% in first-half 2021, from 92.9% in first-half 2020.

Financial Risk Profile: Strong

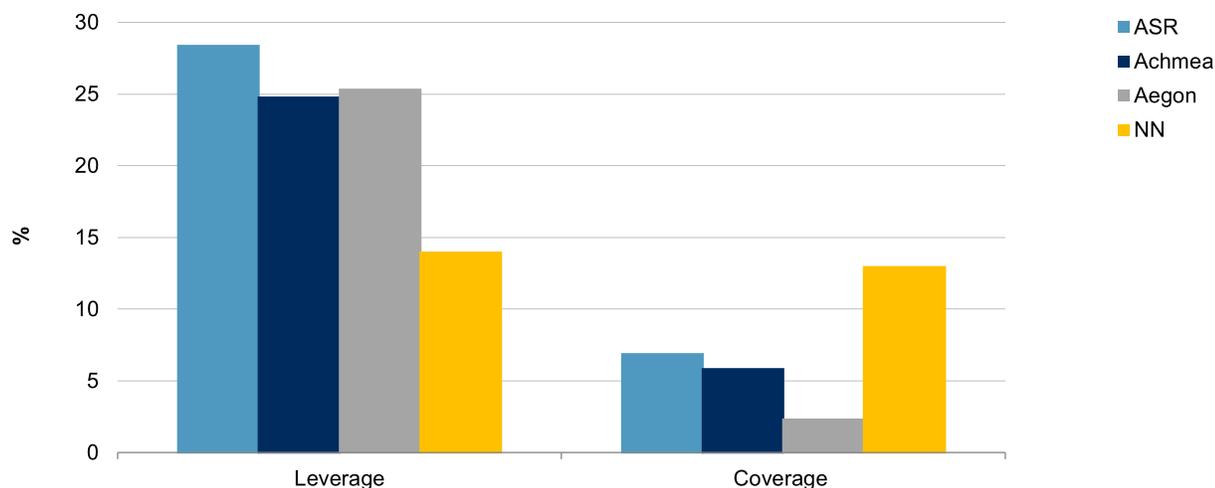
ASR currently holds excellent capital redundancy at the 'AAA' level, according to our risk-based capital model. Furthermore, ASR has a strong track record of accessing capital markets to issue restricted tier 1 and tier 2 hybrids. That said, reliance on softer forms of capital (a high proportion of hybrid capital and value of in-force business) and inorganic growth from small and midsize acquisitions somewhat constrain our assessment of its capital and earnings.

ASR's Solvency II ratio is resilient to interest rate and credit spreads, as reflected in a solid 197% in first-half 2021, compared with 199% at year-end 2020.

We expect that strong retained earnings will continue to support the group's capital adequacy, while financing organic and inorganic growth and expected dividend payouts of at least 45% of net operating result.

Material investments in riskier assets, such as equities and real estate, and existing large defined benefit pension scheme obligations somewhat weaken ASR's financial risk profile, in our opinion. Also, if we see material changes in the company's risk profile resulting from the accumulation of small bolt-on acquisitions, we may revise our assessment of capital adequacy and overall capital and earnings. We do not expect the overall risk profile of the investment portfolio to change materially. In particular, we do not expect material increases in allocations to equities and real estate.

For year-end 2020, financial leverage stood at 28.3%. We expect leverage to gradually decrease about 1%-2% per year driven by capital growth. ASR's coverage ratio for 2020 remains sound at about 6.9x given the strong underlying earnings. We expect fixed-charge coverage will remain comfortably above 5x going forward.

Chart 3**Peer Comparison--Financial Leverage And Fixed Charge Coverage**
As of year-end 2020

Source: S&P Global Ratings.

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Other Key Credit Considerations

Governance

ASR's management and governance assessment is supported by its progress in executing strategic plans, which are, in our opinion, generally very transparently communicated. The company also has a highly experienced management team that complements its operational needs. At this stage, we do not anticipate a material change in risk appetite or financial strategy. In our opinion, ASR has demonstrated a clear path, focusing on its key areas, and has successfully implemented strategic initiatives, particularly in terms of building-up its strong market position in the Dutch insurance market.

Liquidity

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

Factors specific to the holding company

We rate ASR Nederland N.V two notches below the core companies of ASR Group. This reflects our view of the structural subordination, since the holding company does not generate any operative insurance cash flows.

Accounting 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 total adjusted capital. ASR makes extensive use of shadow accounting in its IFRS reporting. As such, it 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: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Appendix

ASR Nederland N.V.--Credit Metrics History

Ratio/Metric	2020	2019
S&P Global Ratings capital adequacy	Excellent	Excellent
Total invested assets	65,371	60,923
Total shareholder equity	5,310	5,090
Gross premiums written	5,276	4,666
Net premiums written	5,176	4,551
Net premiums earned	5,200	4,625
Reinsurance utilization (%)	1.9	2.5
EBIT*	918	1,284
Net income (attributable to all shareholders)	656	972
Return on shareholders' equity (reported) (%)	12.6	20.3
P/C: net combined ratio (%)	97.8	97.5
P/C: net expense ratio (%)	21.9	23.6
P/C: return on revenue (%)	5.8	6.1
Life: Net expense ratio (%)	10.3	13.7
EBITDA fixed-charge coverage (x)	6.9	9.8
Financial obligations / EBITDA adjusted	2.2	1.6
Financial leverage including pension deficit as debt (%)	28.3	29.2
Net investment yield (%)	2.8	3.1
Net investment yield including investment gains/(losses) (%)	3.2	3.7

*Doesn't include discontinued operations. P/C--Property and casualty.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of September 14, 2021)*

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/--

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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