

## Eureko Group

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# Eureko Group

## Major Rating Factors

### Strengths:

- Very strong capitalization.
- Strong competitive position.
- Strong financial flexibility.

### Weaknesses:

- Underperforming life and pensions businesses, particularly in The Netherlands.
- High geographic concentration in The Netherlands.

<b>Holding Company:</b> Eureko B.V.
<b>Counterparty Credit Rating</b> <i>Local Currency</i> A-/Negative/--
<b>Operating Companies Covered By This Report</b>
<b>Financial Strength Rating</b> <i>Local Currency</i> A+/Negative/--

## Rationale

The ratings on Achmea Pensioen- & Levensverzekeringen N.V., Achmea Schadeverzekeringen N.V., Achmea Zorgverzekeringen N.V., Interpolis BTL N.V., and N.V. Interpolis Schade--the operating entities of Netherlands-based insurance group Eureko--reflect the group's very strong capitalization, strong competitive position, and strong financial flexibility. The ratings are constrained, however, by Eureko's underperforming life and pensions businesses, particularly in The Netherlands, and its limited geographic diversification.

Eureko's capitalization is viewed as very strong. During the course of 2008 and 2009, Eureko took action to protect its balance sheet, by reducing risk in its investment profile.

Eureko's strong competitive position is supported by its leading positions in the Dutch insurance markets and its diversity by distribution and product line. This is offset, to a degree, by the proportionally low geographic diversity of the group outside The Netherlands.

Eureko's financial flexibility (defined as the ability to source capital relative to capital requirements) is strong. Eureko successfully issued hybrid securities in July 2008 and accessed additional funding from its shareholders in first-quarter 2009. Eureko did not approach the Dutch government to request additional funding.

Eureko does not yet create sufficient positive value in its underperforming Dutch life and pensions businesses to meet Standard & Poor's expectations. This represents a continuing weakness in the ratings. Underwriting performance in non-life insurance deteriorated in 2009, primarily due to market pressures, but underlying health insurance results held up better than expected and we expect them to provide some support to the group's performance going forward.

## Outlook

The negative outlook reflects continued challenging conditions in Eureko's core market. The ratings may be lowered if Eureko cannot improve its operating performance to levels comparable with its peers in life and non-life insurance in The Netherlands. We expect it to achieve any improvements through greater efficiencies and not at the expense of

market positions. Notwithstanding a comparison with peers, we should expect the following minimum standards to be achieved: non-life insurance to produce a combined ratio under 97%; life insurance to produce new business margins in excess of 1.2%; basic health insurance to show a reduced expenses ratio; and supplementary health insurance to show a combined ratio under 95%.

A revision of the outlook to stable is likely if Eureko produces results that are at least in line with its major peers in the Dutch market.

## Corporate Profile: Major Dutch Insurance Group

Eureko offers a full range of life, non-life, health, and pension products, primarily in the Dutch market. In The Netherlands, it is one of the top three players by gross premiums written (GPW) in the non-life sector, in life and pensions, and in health (including occupational health). Eureko also has insurance operations in Ireland (Friends First), Greece (InterAmerican), and Turkey (Eureko Sigorta), and smaller interests in France, the Slovak Republic, Romania, Bulgaria, Belgium, and Russia.

Eureko also offers banking services in The Netherlands. The group is privately owned, with the largest shareholders being Vereniging Achmea (55.2% as at Dec. 31, 2009) and Rabobank Nederland (39.4%). Vereniging Achmea is a Dutch mutual operating for the benefit of Eureko, its employees, and its member customers.

In the fourth quarter of 2009, Eureko signed an agreement with the Polish Ministry of Finance and thereby gave up its claim to gain control of Powszechny Zakład Ubezpieczeń S.A. (PZU). Eureko received compensation from the Polish government and will float part of its stakeholding in an IPO of PZU, probably in 2010.

## Competitive Position: Leading Positions In Dutch Insurance Markets

Table 1

Eureko Group/Competitive Position					
	--Year ended Dec. 31--				
(Mil. €)	2008	2007	2006	2005	2004
<b>Consolidated</b>					
Total gross premiums written	19,306	14,853	14,302	6,577	5,524
Total assets under management	81,333	89,522	77,081	82,703	98,131
Nonlinked (%)	55.3	56.3	51.1	48.3	24.5
Linked (%)	21.4	23.6	26.5	23.2	8.2
Third-party funds (%)	0.0	--	--	8.6	50
Banking assets (%)	23.3	20.1	22.4	19.9	17.3
<b>Non-life*</b>					
Gross premiums written	15,075.0	10,436	9,838	3,770	3,212.6
Net premiums written	14,340.0	9,610	9,093	3,632	3,091
<b>Life</b>					
Gross premiums written	4,231.0	4,417	4,464	2,807	2,312

\*Non-life ratios are distorted by the combination of non-life and health business.

Eureko's strong competitive position is supported by its leading positions in the Dutch insurance markets and its

diversity by distribution, brand, and product line in those markets. By GPW, it ranks in the top three in the life, non-life, and health segments, and No. 1 overall in the Netherlands.

Standard & Poor's expects the group to build on its strong competitive position to produce superior earnings in its home market, but notes that this has not been the case in the past few years. Premiums in basic health fell in 2009, due to lower state contributions, and in life, by about 8%, due to increased competition from bank savings and Eureko's withdrawal from broker-distributed individual business. Supplementary health premiums increased by about 5% year on year, and non-life insurance showed 6% growth. This includes 2% from the first-time consolidation of the Russia-based insurers acquired by Eureko (LLC Insurance Company Oranta and CJSC Insurance Company Oranta-M; collectively Oranta).

Outside The Netherlands, the results for 2009 were mixed, with increased sales in non-life, increased sales in health and decreased sales in life.

In The Netherlands, Eureko operates under the Achmea banner. Within that, Achmea operates a multibrand strategy, split by product (for example, Zilveren Kruis and Agis for health) and distribution channel (for example, Centraal Beheer for direct distribution, Interpolis for bank distribution, and Avero for intermediaries). Standard & Poor's regards this multibrand approach in The Netherlands as sound and appropriate to the business.

Achmea companies are frequently placed well in customer satisfaction surveys, across life and non-life business. The main area of relative weakness for distribution remains the intermediary channel, where the Avero brand does not have a strong position. About 15% of GPW in The Netherlands are distributed through Rabobank, under the Interpolis brand. The broker channel recently came under pressure in The Netherlands, but this affects Eureko less than some peers, due to its lesser reliance on intermediaries. In 2008, a new threat arose from the Dutch banking sector in the form of the "banksparen" products (similar to insurance savings contracts, without any insurance element), which began to make an impact in 2009.

Eureko lacks geographic diversity, but retains reasonable diversity by business line in its main markets. In 2009, about 93% of GPW arose in The Netherlands (2008: 93%). Within The Netherlands, about 57% of GPW in 2009 were from health insurance, about 25% were from life insurance (including the merger of own pension schemes) and the remainder was from non-life insurance. As the businesses develop in other markets, particularly Turkey, the geographic profile of the group will change, but this is expected to be a medium- to long-term shift, supplemented by several other small acquisitions.

Prospectively, Eureko is expected to grow in line with the Dutch market in terms of GPW and maintain its leading positions in life, non-life, and health markets, while improving its new business margins (life) and combined ratios (non-life and health) relative to its peers. Outside the Dutch market, Eureko will need to stabilize market positions and contributions to the group in its main markets, and continue to develop its operations in its other markets.

## Management And Corporate Strategy: Building A Good Track Record, But With Some Challenges Ahead

Eureko's management and corporate strategy are viewed as appropriate to the ratings. Standard & Poor's gave credit for the previous management team's re-shaping of the business since 2002 and the speed with which the Interpolis businesses has been integrated. But this was offset by the delayed improvement in profitability of the

Dutch life business and the challenges that faced the nondomestic operations. We believe that Willem van Duin, appointed CEO early in 2009, has brought a mix of continuity and new life to the organization. Early indications are that the organization is starting to become more efficient, but we wait to see if this will result in Eureko fully exploiting its strong market positions in the short-to-medium term.

### **Strategy**

Management appears to be focusing more on improving the profitability of the group's core businesses, but its strategy and performance outside The Netherlands will require attention going forward.

Now that it has finalized a deal with the Polish treasury over the future of the market-leading insurer PZU and Powszechny Zakład Ubezpieczeń na Życie S.A. (both are rated A/Stable/--), Eureko finds itself in a position where its management is no longer distracted by this market and can focus on a new non-Dutch strategy.

If managed well, the current portfolio of nondomestic operations (collectively known as Division Europe) could provide meaningful diversification for the Eureko group in the medium term, but in the near term, Division Europe will continue to face a number of management challenges and will require strong leadership to realize its potential.

### **Financial management**

Economic/risk-based capital modeling is progressing well and is starting to be used throughout the group for financial decision making, for example, in hedging investment exposures or structuring the reinsurance program. Further progress on enterprise risk management (ERM) may be important to the ratings going forward, especially if the group expands meaningfully outside The Netherlands, but this is not expected in the near term.

### **Operational management**

The main challenges facing the operational management of the group are the delivery of the remaining planned expense and efficiency savings in 2010 and 2011, and improving profitability in the Dutch life business. Profitability will need to be maintained in the non-life and health businesses while these improvements are driven through. Division Europe has further operational challenges, each of which seems to be somewhat country-specific.

## **Enterprise Risk Management: Adequate, But Improving**

We consider the quality of Eureko's enterprise risk management (ERM) framework to be adequate, but note the progress being made to establish and improve control processes throughout the group. The Value Management program and the Key Risks and Key Controls programs are delivering improved information to management. It will take time for strategic decisions for the group to be truly based on the ERM framework, but the capital modeling is already being used for certain financial decisions and the culture of risk management is growing throughout the organization. Risk appetite is still being determined by the board, using its economic capital model and "profit at risk," but these concepts are still being developed.

A new asset-liability management (ALM) framework was introduced in 2008, using replicating portfolios and decision matrices to optimize asset allocations. There is increased focus on value-based management, but it is not yet fully embedded in the planning processes of the group. Preparations toward Solvency II appear to be progressing well, including participation in the fourth Quantitative Impact Study (QIS4). Eureko has also taken part in De Nederlandsche Bank's (DNB) recent risk study and run stress tests set by the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and DNB. Eureko's admission to full membership of the CRO Forum underlines its progress and commitment to ERM going forward.

Three executive board members participate in the financial and risk committee, which covers all group risks. In addition, in 2009, Eureko established a group risk management department. The scope of the reinsurance committee has been extended to look at all insurance risks. Standard & Poor's views these as positive developments in Eureko's ERM framework.

Eureko allocates capital to each risk using its economic capital model and other sources, and identifies its risks as: strategic (based on its portfolio of companies and investments), market, insurance, credit, liquidity, and operational. Management of each of these risks then falls to a committee at the holding and/or division level. Outside The Netherlands, each operating company within the group has its own risk department, which reports through the local board to the group executive board. Achmea Bank operates its own risk management system.

All risks are monitored and reported on throughout the year. External audits of the control processes are carried out biannually (by KPMG). Internally, a broad array of monitoring and reporting schedules are in place, including: "in control" statements that are required from each division and holding department once a year; quarterly solvency statements for each legal entity showing their exposure to the risk of immediate interest rate and equity shocks; and the economic capital model, which is run fully once a year, with approximate updates in between.

## Accounting: Standard Analytical Adjustments To IFRS Financials To Compute Total Adjusted Capital

Eureko adopted International Financial Reporting Standards (IFRS) in 2005. This had a relatively limited impact on our analysis.

Standard & Poor's makes the following material adjustments to reported shareholders' equity to calculate total available capital (TAC):

- 50% credit given for the value in force of the life operation, which includes provision for the cost of options and guarantees and the cost of capital;
- Deduction of the non-life deferred acquisition costs from TAC;
- Deduction of the accrued dividend on] reported earnings;
- The discount of non-life loss and unearned premium reserves added to TAC;
- Credit given for reserve redundancies in the Dutch non-life business; and
- A net charge made for a one-in-250-year property aggregate catastrophe loss.

## Operating Performance: Strength Derived From Diversity Within The Dutch Market, But Overall Profitability Still Below Expectations

Table 2

Eureko Group/Operating Statistics					
--Year ended Dec. 31--					
(Mil. €)	2008	2007	2006	2005	2004
<b>Consolidated</b>					
Total revenue	16,926.0	17,953.0	18,696.0	11,620.2	8,583.6
Net income	(2,118.0)	979.0	984.8	705.9	1,022.5

Table 2

Eureko Group/Operating Statistics (cont.)					
<b>Non-life*</b>					
Non-life revenue	14,747.0	10,278.0	9,986.5	4,545.5	3,889.6
Profit before tax	(123.0)	437.0	521.1	423.7	322.6
<b>Life</b>					
Life revenue	1,515.0	6,056.0	7,330.3	5,841.0	3,658.3
Profit before tax	(1,360.0)	470.0	532.8	201.5	184.9

\*Non-life ratios are distorted by the combination of non-life and health business.

Eureko's operating performance is strong overall, but has not been improving in line with our expectations. Improvement of back-office systems is continuing, and results are starting to show on the bottom line, but this has not yet been sufficient to offset other pressures in the life and non-life markets. In health insurance, by contrast, Eureko is a market leader, producing a growing profit. Although the current performance is below that which Standard & Poor's expects at this rating level, we believe that the quality of earnings, arising primarily from the three distinct segments in The Netherlands, is something that can be built on and can deliver the required results within the rating horizon.

### Life insurance

The Netherlands struggled again in 2009, with a fall in value of new business to €22 million, from €33 in 2008. However, the overall new business margin for the group increased to 1.6%, from 1.3% in 2008, assisted by Division Europe. We still expect operating performance in The Netherlands to improve in the coming years as expense and process efficiencies begin to feed through.

### Non-life insurance

Non-life results in 2009 benefitted from fewer-than-average catastrophe events, but suffered from higher-than-average normal claims. Eureko aims to maintain its market leadership in the non-life segment, but pressure on pricing means that greater operating efficiency and lower costs of acquisition will be needed to maintain profit here. In 2009, the expense ratio for the group improved, offsetting some of the deterioration seen in recent years. However, this was outweighed by the increased claims ratio, resulting in a combined ratio of 96.8% (2008: 95.6%).

### Health--basic

The basic health market in the Netherlands is a volume business, where profitability is driven by cost management. From a higher-than-expected level in 2007, the cost ratio improved in 2008 and further in 2009 to produce a combined ratio of 99% for the full year, after allowing for the one-off impact of the release of prior-year provisions. We expect basic health insurance to continue to produce low, but stable revenue for the group going forward.

### Health--supplementary

Supplementary health also produced an improved technical result in 2009, with the combined ratio falling to 88.9% from 90.3% in 2008. We expect it to remain profitable in the coming years, with the income stream growing as the market evolves. This line should provide another stable source of earnings for the group going forward.

### Other

Standard & Poor's notes that delivery on information technology projects has been a relative weakness for the group in the past, but Eureko appears now to be delivering on its latest efficiency programs, with operational expenses

down about 10% in 2009. Structural cost reductions of €183 million exceeded Eureko's target for the year (€100 million) and gives us confidence that the group will deliver on its medium-term targets for expense and operating efficiencies.

## Europe

Eureko's plans to expand outside The Netherlands will, to a large degree, depend on its ability to turn its home market into a strong profit and cash contributor to the group. That said, the group's relatively recent acquisition in Turkey is already contributing well to the group's non-life performance. Division Europe remains a minor contributor to the group's bottom line.

Settling the decade-long dispute with the Polish state over PZU had a major one-off impact on operating performance for 2009. PZU paid a special dividend in November 2009, and Eureko's share was supplemented by a compensation payment from the Polish state. The pre-tax benefit to Eureko was about €1.2 billion in 2009, with further material benefit expected in 2010, following the probable partial IPO of PZU.

Standard & Poor's expects Eureko to improve its overall operating performance over the short-to-medium term. It is important that Eureko improves its relative performance in Dutch life and non-life markets, to demonstrate that it is able to capitalize on its large market presence. Continued improvement in the level of profit coming through health insurance will also be important to the rating in the near term.

## Investments: Well Diversified, With Limited Exposure To Subprime Assets

**Table 3**

<b>Eureko Group/Investment Statistics</b>					
	<b>--Year ended Dec. 31--</b>				
<b>(Mil. €)</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Total investments	62,412	71,487	59,809	59,144	32,091
Investment in affiliates (%)	5.6	6.6	6.8	6.3	6.1
Bonds and other fixed-interest securities (%)	53.2	45.7	57.7	59.5	66.1
Mortgages (%)	0.0	--	0.6	1.8	0.2
Equities and other variable-interest securities (%)	7.6	11.8	14.6	11.5	11.5
Property (%)	3.4	3.2	4.2	3.6	4.7
Cash and bank deposits (%)	6.0	4.7	2.7	3.3	2.9
Loans and private placements (%)	8.2	7.6	10.7	11.8	5.2
Derivatives (%)	4.3	1.6	2.1	2.1	3
Other investments (%)	11.7	18.7	0.6	0.1	0.2
Total nonlinked investments (%)	72.1	70.5	65.9	67.5	74.9
Assets held to cover linked liabilities (%)	27.9	29.5	34.1	32.5	25.1

Eureko's investment profile is considered to be strong, well diversified, and appropriate for its liabilities, although a number of concentrations exist. Credit quality is high, and market risk has been reduced to moderately low levels, with further actions being taken to reduce risk at the end of 2008 and in 2009. ALM is good in The Netherlands and ALM testing and procedures have now been implemented across the group. This should stabilize the contribution to the bottom line in future. Eureko continues to develop its economic capital model and will use it to optimize the allocation of capital among the different business lines in due course.



**Investment strategy**

Eureko uses replicating portfolios to help it to optimize its investment portfolio. On Dec. 31, 2009, the consolidated Eureko group held about 78% of its assets in fixed income, 3% in equities, 4% in real estate, and the remainder in other assets, cash, and derivatives.

**Credit risk**

Credit risk is low for Eureko. On Dec. 31, 2009, about 91% of the bond portfolio was rated 'A' or higher, with a shift toward a greater proportion of 'AAA' sovereign debt. Eureko strengthened its impairment policies over 2008 and is more actively managing its exposures in light of market events of the past couple of years.

**Liquidity: Strong, Based On Substantial Marketable And Near-Cash Instruments**

Liquidity is viewed as strong, being supported by the substantial portfolio of marketable securities and near-cash instruments. Cash inflows exceed cash outflows in both the life and non-life businesses, lending further support to the robust balance sheet liquidity. Additional liquidity comes from committed credit facilities of about €750 million at Eureko B.V. (A-/Negative/--).

**Capitalization: Very Strong In Amount And Quality**

Eureko's capitalization is viewed as very strong. Capital adequacy, as measured by Standard & Poor's risk-based capital model, is very strong and expected to remain so. Quality of capital is also strong, with about 25% of required capital covered by hybrid and about the same by future profits, and the balance from shareholders' equity. On a statutory basis, solvency coverage was about 216% for the group, up from about 150% as at end-2008.

Capital in the group is no less fungible than for most other insurance groups, with the exception of certain of the Dutch and Slovakian health subsidiaries, which have legal or tax constraints on the transfer of capital or dividends to other group entities.

Eureko's capital position was bolstered in 2009 by the injection of share capital from its main shareholders and the first payment from the PZU settlement.

**Reserves**

Standard & Poor's considers the life reserves to be adequate and makes no additional haircuts to credit given for value in force in the capital model.

Non-life reserves are adequate, and material adverse reserve development on previous years is not expected to emerge. This conclusion is based on a review by Standard & Poor's of about 80% of Eureko's Dutch non-life and health reserves as at year-end 2007. In addition, as a result of this review, we consider that some redundancy exists in these reserves and, consequently, give them partial capital credit in our analysis. Eureko tests its reserves deterministically on a quarterly basis and, for non-life, stochastically on an annual basis. The actual level of reserves is actively managed to within a band around target levels.

**Reinsurance**

Eureko benefits from a comprehensive reinsurance program, which provides very good coverage against claims frequency and severity. This program is provided mainly by leading reinsurers, all of which are rated 'A-' or higher for short-tail contracts and 'A+' or higher for long-tail contracts. Eureko's catastrophe program provides cover for a

one-in-200-year event.

The reinsurance programs for all operating entities within Eureko are controlled by central guidelines (for example, security, cost, risk-based capital). Currently, Eureko maintains a two-track policy for reinsurance buying:

- For the divisions of Achmea in The Netherlands, the reinsurance buying is fully centralized through Eureko Re N.V. (Netherlands). Eureko Re N.V. optimizes net retentions from a group perspective and retrocedes to its reinsurance subsidiary Eureko Re Ltd. (Ireland) and to the external reinsurance market.
- The reinsurance buying model for the (non-Dutch) operating companies is decentralized, reflecting a more-autonomous position for these operating companies within Eureko's central reinsurance policy framework. Eureko Re N.V. (Netherlands) participates in a number of non-life programs and Eureko Re Ltd. (Ireland) participates in a number of life programs for the non-Dutch entities.

In both cases, all operating entities retain the bottom-line responsibility for the type of reinsurance and retention levels they request.

### Leverage and coverage

It is Eureko's policy to finance its insurance activities at the holding level, so no debt is issued by the insurance operating entities. Eureko B.V. is the ultimate holding company for the group and has the following leverage profile, as calculated by Standard & Poor's.

**Table 4**

	--Year ended Dec. 31--				
	2008	2007	2006	2005	2004
Ordinary debt/capital (%)	29.4	25.7	15.0	18.4	24.6
Hybrid debt/capital (%)	13.7	16.4	17.1	12.5	8.3
Interest coverage (x)	(12.8)	11.8	21.3	14.8	9.8
Fixed-charge coverage (x)	(6.7)	6.2	9.0	8.2	7.4

## Financial Flexibility: Taking Advantage Of Its Private Ownership

**Table 5**

(Mil. €)	--Year ended Dec. 31--				
	2008	2007	2006	2005	2004
<b>Non-life*</b>					
Net technical reserves/gross technical reserves (%)	95.4	93.5	94.8	94.7	94.3
<b>Life</b>					
Life deferred acquisition costs/gross life reserves (%)	0.0	0.9	0.8	0.9	1.3

\*Non-life ratios are distorted by the combination of non-life and health business.

Eureko's financial flexibility is strong. In 2005, Eureko entered the capital markets through the issue of hybrid securities. Subsequent issues have also been well received by the market. In the stress events of 2008, Eureko has exercised some of the financial flexibility inherent in its ownership structure, with additional capital being provided

by its two major shareholders. Eureko did not approach the Dutch government to request additional funding.

<b>Ratings Detail</b> (As Of March 31, 2010)*	
<b>Holding Company: Eureko B.V.</b>	
Issuer Credit Rating	
<i>Local Currency</i>	A-/Negative/--
Junior Subordinated (4 Issues)	BBB
Senior Unsecured (2 Issues)	A-
Subordinated (1 Issue)	BBB+
<b>Operating Companies Covered By This Report</b>	
<b>Achmea Pensioen- &amp; Levensverzekeringen N.V.</b>	
Financial Strength Rating	
<i>Local Currency</i>	A+/Negative/--
Counterparty Credit Rating	
<i>Local Currency</i>	A+/Negative/--
<b>Achmea Schadeverzekeringen N.V.</b>	
Financial Strength Rating	
<i>Local Currency</i>	A+/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Negative/--
<b>Achmea Zorgverzekeringen N.V.</b>	
Financial Strength Rating	
<i>Local Currency</i>	A+/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Negative/--
<b>Interpolis BTL N.V.</b>	
Financial Strength Rating	
<i>Local Currency</i>	A+/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Negative/--
<b>N.V. Interpolis Schade</b>	
Financial Strength Rating	
<i>Local Currency</i>	A+/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Negative/--
<b>Related Entities</b>	
<b>Achmea Holding N.V.</b>	
Issuer Credit Rating	
<i>Local Currency</i>	A-/Negative/A-2
<b>Domicile</b>	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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