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Research Update:

Eureko Group Outlook To Stable On Improved View Of Management And Corporate Strategy; Ratings Affirmed

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Overview

- Eureko Group is building up a good track record of delivering its targets on time, improving our view of its management and corporate strategy.
- Consequently, we are revising the outlook on the core operating entities and holding companies of Eureko Group to stable from negative.
- We are also affirming the 'A+' long-term counterparty credit and financial strength ratings on the core operating entities, and the 'A-' issuer credit ratings on the holding companies.

Rating Action

On Dec. 23, 2010, Standard & Poor's Ratings Services revised to stable from negative its outlook on the core operating entities and the holding companies of Netherlands-based multiline insurer Eureko Group (Eureko or the group). At the same time, we affirmed the 'A+' long-term counterparty credit and financial strength ratings on the core operating entities, and the 'A-' issuer credit ratings on the holding companies.

Rationale

The ratings reflect our improved view of the management and corporate strategy of the group as it builds up a good track record of delivering its targets on time. They also reflect Standard & Poor's view that the group benefits from very strong capitalization, a strong competitive position, and strong investments, tempered by an operating performance that, although strong, is not in line with the rating.

We view Eureko's capitalization as being very strong. Its capital adequacy, as measured by Standard & Poor's risk-based capital model, was extremely strong at year-end 2009 and is expected to remain so. Its capital position was bolstered in 2009 by the injection of share capital from its main shareholders (€1.0 billion) and the first payment from the PZU settlement (a dividend of €1.9 billion). In 2010, the capital position will benefit from the sale of most of the group's shares in PZU Group. Quality of capital is also strong, with over 60% of total adjusted capital derived from core shareholders' funds.

Eureko is the market leader in the Netherlands, and has strong positions in each of its three main lines of business. Moreover, its market shares have mostly been stable in the face of increasing competition, reflecting particularly the strength of its brands and of its distribution channels. The group's banking and international operations are, in aggregate, very small and of very limited significance in our assessment of the group's competitive position.

We consider Eureko's investment profile to be strong, well diversified, and appropriate for its liabilities. Credit quality is high, and market risk has been reduced to moderately low levels as the group took actions to reduce risk at the end of 2008 and in 2009. Asset-liability management (ALM) is good in the Netherlands and ALM testing and procedures have now been implemented across the group. This should stabilize contributions to the bottom line in future.

In our opinion, Eureko's operating performance is strong, but a weakness for the rating. This reflects continued strong health and non-life underwriting performance, an adequate life underwriting performance, and an improved noninsurance contribution. 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 improved results within the rating horizon.

Outlook

The stable outlook reflects our view that management will remain focused on executing its strategy, particularly its cost-cutting and complexity reduction programs. We believe this will help Eureko to maintain its leading position in the Dutch health and non-life markets without sacrificing profitability. We expect non-life insurance to produce a net combined ratio under 97%; basic health insurance a ratio under 100%; and supplementary health insurance a ratio under 95%.

We also expect the life business to benefit from the above programs and maintain its new business margins in the Netherlands at 1% or higher. We anticipate that capitalization will remain very strong, with capital adequacy likely to be at least very strong. We expect growth to be mainly organic, although small acquisitions and increases in shareholdings are possible. The investment portfolio is likely to remain largely unchanged.

We consider it unlikely that the ratings will be raised over the rating horizon. The ratings may be lowered, though, if operating performance weakens materially, especially if health or non-life underwriting performance comes under sustained margin pressure.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Group Methodology, April 22, 2009
- Holding Company Analysis, June 11, 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
- Principles Of Corporate And Government Ratings, June 26, 2007
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Eureko B.V.		
Counterparty Credit Rating	A-/Stable/--	A-/Negative/--
Senior Unsecured	A-	
Subordinated	BBB+	
Junior Subordinated	BBB	
Achmea Holding N.V.		
Counterparty Credit Rating	A-/Stable/A-2	A-/Negative/A-2
Achmea Pensioen- & Levensverzekeringen N.V.		
N.V. Interpolis Schade		
Interpolis BTL N.V.		
Achmea Zorgverzekeringen N.V.		
Achmea Schadeverzekeringen N.V.		
Counterparty Credit Rating	A+/Stable/--	A+/Negative/--
Financial Strength Rating	A+/Stable/--	A+/Negative/--

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Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's 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) 495-783-4011.