MOODY'S
INVESTORS SERVICE

Rating Action: Moody's changes outlook to negative from stable on VIVAT N.V.'s subsidiaries

Global Credit Research - 14 Mar 2018

London, 14 March 2018 -- Moody's Investors Service has today changed to negative from stable the outlook on SRLEV NV (SRLEV) and REAAL Schadeverzekeringen NV (Reaal Schade), the two main operating subsidiaries of VIVAT N.V. (VIVAT or the Group). Moody's has also affirmed the Baa2 insurance financial strength rating (IFSR) on SRLEV and Reaal Schade and the Ba1(hyb) backed subordinated and backed junior subordinate debt ratings of SRLEV, reflecting standard notching for hybrid debts issued by operating companies. Moody's considers the combined operations of VIVAT (primarily SRLEV and Reaal Schade) as one analytical unit.

RATINGS RATIONALE

The change of outlook to negative follows the receivership of Anbang Insurance Group Co. Ltd. (Anbang), VIVAT's ultimate parent, by China's Insurance Regulatory Commission (CIRC). The negative outlook reflects the uncertainty regarding the ultimate ownership of VIVAT which, in turn, could affect VIVAT's market position in the Netherlands and its financial flexibility.

On 23 February CIRC took over the control of VIVAT's parent Anbang in accordance with the Insurance Law, in order to protect the legitimate rights and interests of its insurance customers. According to the CIRC announcement, the takeover working group will, among other things, (i) exercise the management rights over Anbang; (ii) ensure the normal operations of Anbang's business; and (iii) check the assets and liabilities of Anbang, and preserve, manage and dispose Anbang's assets in accordance with law.

Moody's believes that, under the ongoing regulatory action which include a potential sale of Anbang's assets, there is considerable uncertainty around VIVAT's ultimate ownership which, if protracted for a long time, could affect the credit profile of the company, particularly its market position in the Netherlands as well as its financial flexibility and access to capital markets.

More positively, the Group had taken steps to reduce its financial linkages with the parent: in November 2017, VIVAT issued USD575 million subordinated notes whose proceeds have been fully used to repay the private loans previously provided by the parent company.

The affirmation of the ratings takes into account VIVAT's good solvency position and diversified business profile, partially offset by its weak operating profitability, high guarantees on its life back-book and expectation of constrained market access. More specifically, in 2017 VIVAT reported rising premiums to EUR2.9 billion (+16% on prior year), helped by a EUR375 million single premium transaction from the acquisition of a pension fund scheme. The regulatory capital position has been good at 162%, although lower than prior year reflecting the volatility adjustment decreasing to 4 basis points (bps) from 13 bps.

Profitability remains weak with the Group reporting a loss of EUR98 million in 2017, affected by a EUR304 million liability adequacy test shortfall. When excluding fair value adjustments, net underlying result increased by 4% to EUR168 million. Underlying profitability has been improving as VIVAT's management has embarked on a significant cost reduction program. Recurring operating expenses reduced by 8% in 2017 to EUR386 million compared to prior year. In addition, the non-life business benefitted from a better risk selection and more benign weather and reported a 2017 net combined ratio of 99%, versus 104.9% in 2016.

More negatively, the life back-book includes traditional savings products carrying average guaranteed rates between 3% and 4% which, although hedged, carry longevity risk. In addition to that, adjusted financial leverage has increased to a pro-forma 37.0%, partly as a result of a 7-year EUR650 million senior debt issuance in May 2017, which reduces the capacity to issue additional debt. Moody's however notes that, when excluding discretionary call options, the Group will not have refinancing needs until 2024.

WHAT COULD MOVE THE RATING UP/DOWN

Upward pressure is unlikely given the negative outlook. However, we could stabilise the outlook in case of: (1)

resolution of uncertainty around VIVAT's ownership and improvement in its financial flexibility; and (2) growing operating profitability to levels comparable with Dutch peers (i.e. return-on-capital (ROC) sustainably in excess of 2%); and (3) strengthening economic capitalisation to levels consistently in excess of 180% (standard formula basis) in combination with a reduction on the risk arising from the high guarantees on its life back-book.

Conversely, the following factors could exert downward pressure on the IFS rating on VIVAT's operating subsidiaries: (1) prolonged uncertainty around VIVAT's ownership negatively affecting its domestic position and access to capital markets; and/or (2) sale to a company which weakens the business and financial profiles of the Group; and/or (3) deterioration in financial flexibility, with financial leverage rising above 40%; and/or (4) further weak profitability with 5Yr ROC and 5Yr earnings coverage consistently negative; and/or (5) reduction in the economic capital position resulting in a Solvency II coverage ratio below 130%.

LIST OF AFFECTED RATINGS

The following ratings have been affirmed:

- SRLEV NV's insurance financial strength rating affirmed at Baa2; the outlook on SRLEV changes to negative from stable

- REAAL Schadeverzekeringen NV's insurance financial strength rating affirmed at Baa2; the outlook on Reaal Schade changes to negative from stable

- SRLEV NV's backed subordinated debt rating affirmed at Ba1(hyb)

- SRLEV NV's backed junior subordinated debt rating affirmed at Ba1(hyb)

PRINCIPAL METHODOLOGIES

The principal methodology used in rating SRLEV NV was Global Life Insurers published in April 2016. The principal methodology used in rating REAAL Schadeverzekeringen NV was Global Property and Casualty Insurers published in May 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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