

Rating Action: Moody's upgrades SRLEV's hybrid debt ratings to Ba2(hyb) with positive outlook

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London, 28 October 2015 -- Moody's Investors Service has today upgraded the backed subordinated and junior subordinate debt ratings of SRLEV NV to Ba2(hyb) from Ba3(hyb). SRLEV is one of the main insurance operating companies of VIVAT NV (previously called REAAL N.V., unrated). All the debt ratings carry a positive outlook.

The Insurance Financial Strength Rating (IFSR) of SRLEV and REAAL Schadeverzekeringen NV are unaffected by this rating action. Moody's considers the combined operations of all the insurance companies of VIVAT as one analytical unit.

RATINGS RATIONALE

The upgrade on the hybrid debt ratings follows VIVAT's announcement last Friday on the resumption of coupon payments on the subordinated bonds issued by SRLEV NV following the EUR1.35 billion capital injection to VIVAT by its parent, Anbang Insurance Group Co., Ltd. (Anbang, unrated). As a result, the Ba2(hyb) hybrid debt ratings on the subordinated debt issued by an operating company currently reflect a standard two notches from the previous wider three notches in relation to the IFSR.

SRLEV has deferred coupon payments on its outstanding hybrid debt since 2013. First, the European Commission had imposed a coupon ban on SRLEV's hybrids following the nationalization of the SNS REAAL Group in 2013. Subsequently, following the announcement of the sale agreement with Anbang in February 2015, the European Commission coupon ban was lifted. However, SRLEV exercised its optional coupon deferral until both the sale and the capital injection from Anbang materialized.

Following the capital injection, SRLEV will resume coupon payments on its outstanding external hybrids - EUR400 million junior subordinated debt and CHF105million undated callable subordinated bonds. VIVAT's Solvency II ratio will increase to above 150% without transitional measures and based on a standard formula pro-forma figures as at H1 2015 (YE2014: estimated at 100%).

Moody's Baa3 IFSR of VIVAT insurance companies reflect their market position on retail and SMEs businesses and low asset risk. These strengths are offset by (i) VIVAT's weak economic operating profitability due to spread deficiency challenges --with an investment yield being insufficient to meet highly guaranteed rates in existing policies-- together with a moderate economic duration mismatch, (ii) high levels of volatility in economic capitalisation historically, although we note that management actions have been taking to address this more recently; and (iii) continuing high financial leverage, notwithstanding the reduction in leverage metrics following the capital injection.

OUTLOOK

The positive outlook on the subordinated debt ratings is aligned with the positive outlook of SRLEV's Baa3 IFSR. The positive outlook continues to reflect the potential improvement in the consolidated VIVAT's financial profile following the recent capital injection. As part of the positive outlook, Moody's will also assess the strategy that Anbang intends to pursue for VIVAT as well as Moody's view on Anbang's credit quality.

Moody's expects that the IFSR and debt ratings of VIVAT will continue to reflect the standalone fundamentals of the company, the benefits of the regulatory protection from the Dutch regulator and Moody's view of the credit quality of Anbang.

WHAT COULD MOVE THE RATING UP/DOWN

The following factors could exert upward pressure on the IFSR: (1) substantial improvement in VIVAT's financial profile by reducing the volatility in economic capitalisation to interest rate movements and remediating the large duration mismatch and spread deficiency problem, (2) meaningful improvement in VIVAT's operating profitability; and (3) improvement in market position in life and non-life, both of which have been under pressure as a result of the problems faced by the insurer.

The rating is on positive outlook and it is unlikely the ratings will be downgraded in the next 12-18 months. However, the rating could be stabilized if: (1) substantial deterioration in VIVAT's long-term economic capitalisation either from a sustained material reduction in Solvency II position, increased volatility or material reduction in the quality of capital, (2) financial or total leverage exceeding 50% ; and (4) continuing pressures on market position in the Dutch market insurance market.

LIST OF AFFECTED RATINGS

The following ratings have been upgraded with positive outlook

- SRLEV NV's backed subordinated debt rating upgraded to Ba2(hyb) from Ba3(hyb);
- SRLEV NV's backed junior subordinated debt rating upgraded to Ba2(hyb) from Ba3(hyb);

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Global Life Insurers published in August 2014, and Global Property and Casualty Insurers published in August 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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Laura Perez Martinez
Asst Vice President - Analyst
Financial Institutions Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Antonello Aquino
Associate Managing Director
Financial Institutions Group

JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454



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