MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms the Baa2 financial strength rating on VIVAT NV's operating subsidiaries. Outlook remains stable

Global Credit Research - 06 Nov 2017

London, 06 November 2017 -- Moody's Investors Service has today affirmed the Baa2 insurance financial strength rating (IFSR) of 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 Ba1(hyb) backed subordinated and backed junior subordinate debt ratings of SRLEV, reflecting standard notching for hybrid debt issued by operating companies. The outlook on all entities remains stable.

Moody's considers the combined operations of VIVAT (primarily SRLEV and Reaal Schade) as one analytical unit.

RATINGS RATIONALE

The Baa2 IFS rating affirmation reflects the improving business profile and stable solvency position of the Group, partially offset by the weak operating profitability and high guarantees on its life back-book.

More specifically, a stabilisation of its franchise has allowed VIVAT to record rising premiums by 27% to EUR1,704 million in 1H17, helped by a EUR375 million single premium transaction from the acquisition of a pension fund scheme. The regulatory capital position has been steady, with a reported Solvency II coverage ratio for the Group of 171% as at 1H17 (year-end 2016: 175%). Stabilising VIVAT's capital position and reducing volatility are an important part of VIVAT's financial strategy, and a relative credit strength for the Group.

Profitability remains weak with the Groups reporting a loss of EUR60 million in 1H2017, affected by additions to technical provisions reflecting a EUR161 million liability adequacy test shortfall. When excluding fair value adjustments, net underlying result increased by 37% to EUR73 million. We expect profitability to improve in the next 12 to 18 months as VIVAT's management has embarked on a significant cost reduction program. Recurring operating expenses reduced by 20% in 1H17 to EUR183 million compared to the same period in 2016. In addition, in the non-life business, improvements in terms of better risk selection have been supported by a more benign weather and allowed the Group to report a half-year 2017 net combined ratio of 99.1%, versus 111.8% at half-year 2016.

More negatively, adjusted financial leverage has increased to a pro-forma 36.4%, partly as a result of a 7-year EUR650 million senior debt issuance in May 2017, which reduces the capacity to issue debt in addition to the existing ones. We also note that the life back-book includes traditional savings products carrying average guaranteed rates between 3% and 4% which, although hedged, need to managed prudently and carry longevity risk.

A further challenge for the Group derives from the latest developments of its shareholder Anbang Life Insurance Co., Ltd. ("Anbang"), which may constrain future parental support for VIVAT. The Group is currently taking steps to reduce its reliance on the parent, including an ongoing refinancing exercise aimed at replacing the EUR0.5bn of Tier II private subordinate loans from the parent with the possible issuance of similar securities in the capital markets. Additionally we do not expect capital repatriation to Anbang at least for the initial few years following the acquisition, with Vivat's excess capital used mainly to grow and refocus the Dutch business as opposed to upstream dividends.

OUTLOOK

The outlook on SRLEV and Reaal Schade is stable, reflecting the expectation that their standalone credit profiles will not change materially over the next 12 months.

WHAT COULD MOVE THE RATING UP/DOWN

The following factors could exert upward pressure on the IFS rating at VIVAT's operating subsidiaries: (1) growing operating profitability to levels comparable with VIVAT's Dutch peers (i.e. avg. 5Yr ROC in excess of

2%); and (2) further 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 or significant uncertainty for VIVAT's domestic position and strategic direction; and/or (2) deterioration in the financial flexibility, with financial leverage rising above 40%, and reduced access to capital markets and/or (3) further weak profitability with 5Yr ROC and 5Yr earnings coverage consistently negative; and/or (4) 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 remains stable

- REAAL Schadeverzekeringen NV's insurance financial strength rating affirmed at Baa2; the outlook on Reaal Schade remains 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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