FitchRatings

Insurance
Composite Insurance
Netherlands

VIVAT N.V.

And Main Operating Subsidiaries

Key Rating Drivers

Ratings to Be Aligned with New Owner: Fitch Ratings expects VIVAT N.V.'s and SRLEV N.V.'s ratings to be aligned to those of Athora Holding Ltd (IFS of operating subsidiaries: BBB+/Stable) once the sale by Daija Insurance (formerly known as Anbang Insurance Company Limited) concludes. This reflects their strategic importance to the Athora group and alignment to its business model.

SRLEV's and VIVAT's Stable Outlooks reflect our expectation that the acquisition will be broadly ratings neutral. The Outlooks will be driven by our assessment of the Athora group.

Sale to NN to Benefit VIVAT Schade: Fitch anticipates the sale of VIVAT Schadeverzekeringen N.V. to NN Group N.V. (NN; IFS of operating subsidiaries: A+/Stable) to be positive to VIVAT Schade's rating due to NN's strong credit profile, expected 'Core' strategic status, and synergies between VIVAT Schade's and NN's existing non-life businesses.

Capitalisation Falls to 'Very Strong': VIVAT's end-2018 capitalisation as measured by Fitch's Prism Factor-Based Model (Prism FBM) fell to 'Very Strong' from 'Extremely Strong' at end-2017 mainly due to higher capital charge on investments caused by re-risking, as well as lower total capital due to an annual net loss. VIVAT's Solvency 2 (S2) ratio has been highly volatile in recent periods. Solvency coverage had improved to 192% at end-2018 but declined to 151% at end-1H19 mainly due to the decrease of the S2 volatility adjuster (S2VA).

Financial Leverage Stabilising: Fitch estimates VIVAT's financial leverage decreased to 29% at end-1H19 from 32% at end-2017, due to EUR300 million restricted Tier 1 (RT1) notes issued in June 2018 and the early redemption of EUR150 million of EUR400 million subordinated notes due in 2041. However, the improvement was partly offset by lower shareholders' equity.

'Moderate' Business Profile: Fitch ranks VIVAT's business profile as 'Moderate' compared with other insurers in the Netherlands and, given this ranking, we score its business profile at 'BBB+' under our credit factor scoring guidelines. VIVAT is a top five insurer in the Netherlands and is active in non-life insurance (VIVAT Schade), life and pensions (SRLEV), and asset management. At end-2018, it had an 18% market share in life and pensions, and a 5% market share in non-life insurance by premiums.

Volatile Financial Performance: VIVAT's financial performance has been weaker (2018 net income return on equity: -8%) and more volatile than Dutch peers', mainly due to periodic re-valuations of VIVAT's insurance liabilities, which are held at fair value. However, Fitch views the improving trend in underlying earnings favourably and expects cost savings and re-risking of investments to support VIVAT's profitability.

Underlying earnings improved to EUR161 million (1H18: EUR115 million) in 1H19, reflecting stronger and higher interest income on hedging derivatives due to market movements.

Earnings Pressure Debt Service Capability: VIVAT's fixed-charge coverage ratio (2018:-1x; 2017:-0.4x) has been weak due to inadequate and volatile profitability and more expensive debt funding relative to other large Dutch competitors.

Rating Sensitivities

VIVAT Schade's Sale to NN: The sale of VIVAT Schade to NN would lead to an upgrade of VIVAT Schade's rating.

Change in Athora's Rating: Following the sale, a change in Athora Life Re's rating is likely to lead to a corresponding change of SRLEV's and VIVAT's ratings.

Ratings

VIVAT N.V.	
Issuer Default Rating	BBB
SRLEV N.V.	
Insurer Financial Strength Rating	BBB+
VIVAT Schadeverzekeringen N.V.	
Insurer Financial Strength Rating	BBB+
Long-Term Debt Ratings	
Senior	BBB-
Subordinated	BB
Junior subordinated	BB-

Outlook

VIVAT N.V. and SRLEV N.V.	Stable

Watch

VIVAT Schadeverzekeringen	Positive

Financial Data

VIVAT N.V.

(EURm)	2017	2018
Shareholders' equity	3,547	3,241
Total assets	56,747	55,674
Net income	-116	-284
Return on equity (%)	-3	-8
Solvency 2 ratio (%)	162	192

Note: Reported on an IFRS basis
Source: Fitch Ratings; VIVAT

Applicable Criteria

Insurance Rating Criteria (November 2019)

Related Research

Dutch Insurance: Peer Review (January 2020)

Fitch Ratings 2020 Outlook: Dutch Insurance (December 2019)

Netherlands (November 2019)

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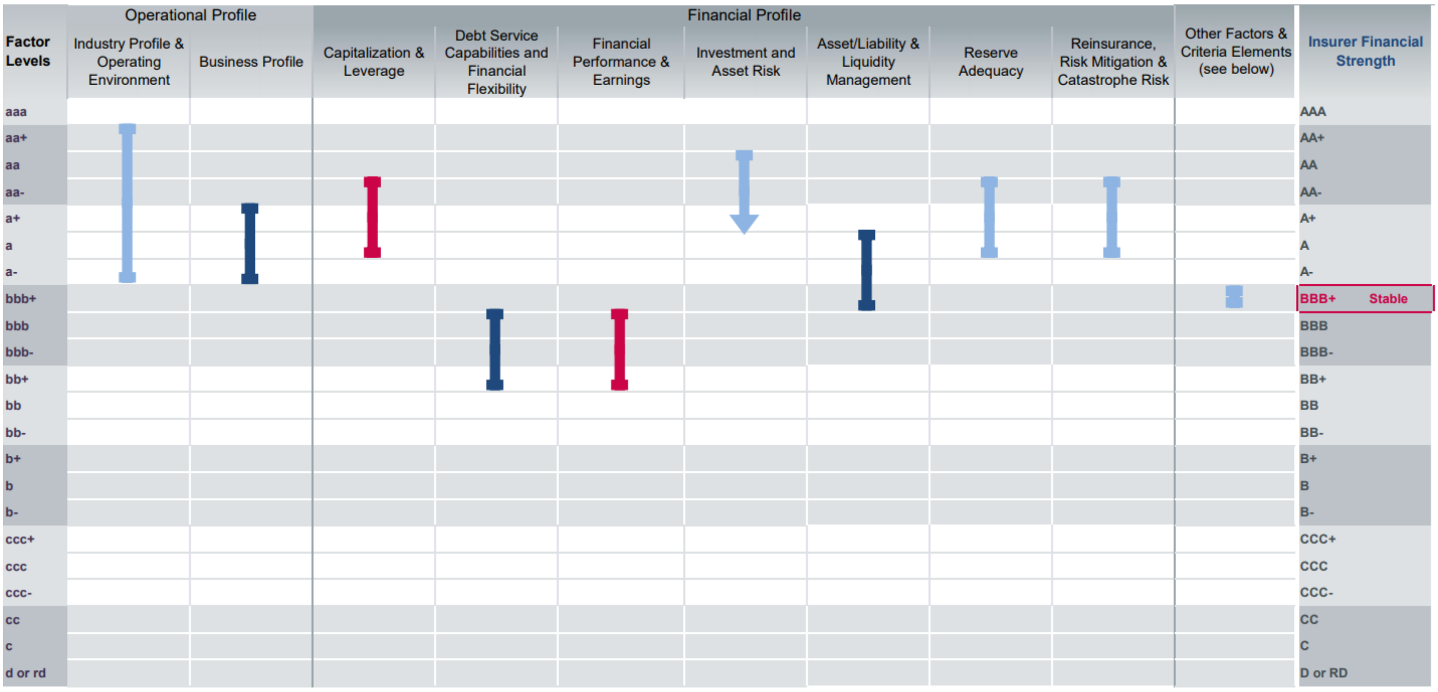
FitchRatings

Key Credit Factors – Scoring Summary

VIVAT N.V.

ESG Relevance:

Insurance Ratings Navigator
European Composite



Other Factors & Criteria Elements				
Provisional Insurer Financial Strength				**BBB+**
Non-Insurance Attributes	Positive	**Neutral**	Negative	+0
Corporate Governance & Management	**Effective**	Some Weakness	Ineffective	+0
Ownership / Group Support	Positive	**Neutral**	Negative	+0
Transfer & Convertibility / Country Ceiling	Yes	**No**	AAA	+0
Insurer Financial Strength (IFS)			Final:	**BBB+**
IFS Recovery Assumption	**Good**			-1
Issuer Default Rating (IDR)			Final:	**BBB**

Bar Chart Legend

Vertical Bars = Range of Rating Factor
Bar Colors = Relative Importance
Higher Influence
Moderate Influence
Lower Influence
Bar Arrows = Rating Factor Outlook
⇧ Positive ⇩ Negative
⇳ Evolving ▫ Stable

Business Profile

Fitch ranks VIVAT's business profile as 'Moderate' compared to other insurance companies in the Netherlands (see Appendix A), driven by its 'Moderate' competitive positioning, 'Favourable' business risk profile and 'Moderate' diversification.

VIVAT is a top five insurer in the Netherlands with activities in life and pensions insurance (SRLEV), non-life insurance (VIVAT Schade) and asset management.

Top Five Dutch Insurer

VIVAT's 'Moderate' competitive positioning score reflects its strong positions in its key Dutch market segments. At end-2018 it was the fourth-largest insurer in the Netherlands with gross written premiums of EUR2.8 billion.

VIVAT had an 18% market share in Dutch life insurance, and a 5% market share in non-life at end-2018 based on premiums. VIVAT's non-life market share is well below leading domestic competitors. VIVAT's asset manager, ACTIAM, is a top 10 Dutch and top 200 global asset manager with EUR60.5 billion in total assets under management at end-1H19. ACTIAM's strengths are in the environmental, social and governance (ESG) niche, which could drive further business growth, complemented by expanding international distribution.

Substantial Run-Off Portfolio

Fitch views VIVAT's business risk profile as 'Favourable' compared to other large Dutch insurers based on its predominantly life focus. Fitch views VIVAT's business risk in the life segment as similar to other large Dutch insurers' with a large individual life portfolio in run-off, and selective growth strategy in the group life (pensions) segment through smaller-scale acquisitions. Recent acquisitions include a portfolio of EUR375 million temporary annuities (no longevity risk) in 2017, and a EUR220 million liquidating pension fund in 2018.

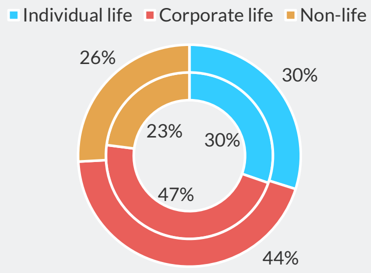
VIVAT is active in a number of non-life segments such as property, motor, and disability and therefore the risk profile of its non-life portfolio is similar to Dutch peers'. VIVAT is mainly reliant on distributing its products through intermediaries, including authorised agents. Control over the risk selection and risk management of agent portfolios is typically more limited; however, we do not see such risks materialising excessively for VIVAT.

Domestic Focus

VIVAT's 'Moderate' diversification score reflects a combination of its composite profile with activities in multiple insurance segments in the Netherlands but the lack of geographic diversification. Unlike larger Dutch competitors, VIVAT has no international activities and is therefore more sensitive to developments in the domestic operating environment.

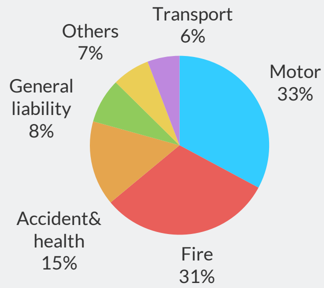
Gross Written Premiums

(Outer: 2018; Inner: 2017)



Source: Fitch Ratings, VIVAT

Non-Life Net Premiums



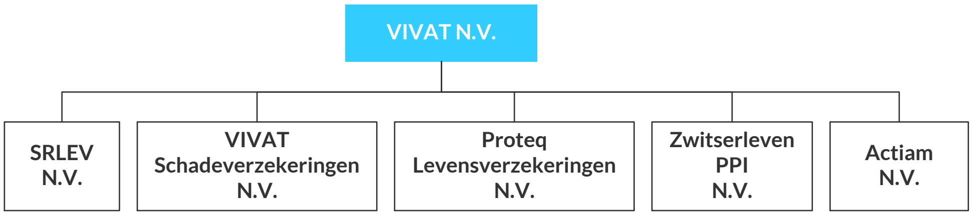
Source: Fitch Ratings, VIVAT

Ownership

VIVAT is a wholly owned subsidiary of Chinese insurance conglomerate Daija Insurance. Since the takeover of Daija by the China Insurance Regulatory Commission in 1Q18, it has been gradually divesting its overseas assets. Athora and NN reached a conditional agreement with Daija in June 2019 to acquire 100% of VIVAT's shares. Following the initial acquisition of the shares by Athora, VIVAT's non-life activities will then be sold to NN. The transaction is expected to close in 1Q20.

Fitch continues to rate VIVAT on a stand-alone basis until the sale process is closed. VIVAT's ownership history at end-2019 therefore remains neutral to its rating.

Structure Diagram



Source: Fitch Ratings, VIVAT

Capitalisation and Leverage

'Very Strong' Fitch Capitalisation Offset by Leverage, S2 Volatility

Financial Highlights

31 December	2014	2015	2016	2017	2018	Fitch's expectation
Shareholders' equity (EURbn)	2	3.5	3.7	3.5	3.2	Fitch expects VIVAT's capitalisation and leverage metrics to remain broadly stable.
Financial leverage (%)	38	21	21	32	30	
Total financing and commitments (x)	1.4	0.7	0.6	0.7	0.8	
Regulatory solvency ratio[a] (%)	136	160	175	162	192	
Asset leverage (life; %)	24	14	14	14	16	

[a] 2014 Insurance Group Directive ratio, 2015-2018 Solvency 2 ratio
Source: Fitch Ratings, VIVAT

'Very Strong' Fitch Capitalisation

VIVAT's Prism FBM score fell to 'Very Strong' based on end-2018 financial data from 'Extremely Strong' at end-2017. The lower Prism FBM score was mainly due to higher capital charge on investments as a result of ongoing re-risking, as well as slightly lower total capital (including hybrids) due to the annual net loss. Fitch calculated that capital requirements for life and non-life underwriting risks have been broadly unchanged.

S2 Has Been Volatile

VIVAT's S2 ratio has been highly volatile in recent periods. Although solvency coverage improved to 192% at end-2018 it declined again to 151% at end-1H19. The strong decline in 1H19 was mainly a result of the decrease of the S2VA and modest operating capital generation. Development of the S2VA has been favourable in 2H18 but this has reversed in 1H19 in line with the significant general decrease of interest rates and tightening of credit spreads.

The S2VA sensitivity results from the conservative positioning of VIVAT's fixed-income portfolio relative to the reference portfolio used by the European Insurance and Occupational Pensions Authority (EIOPA) for the purpose of the S2VA calculation. The level of S2VA has no commercial significance to VIVAT and only has relevance for the S2 calculation. Therefore S2VA-related movements do not drive our overall capital assessment.

Re-Risking Puts Pressure on Capital

The ongoing re-risking of the investment portfolio puts pressure on the S2 ratio through an increase in market risk solvency capital requirement (SCR). The increase in market risk SCR had a negative 16pp impact on the S2 ratio in 2018. However, lower investment concentrations to top-rated government bonds could also reduce the S2VA sensitivity of the S2 ratio through closer matching with the EIOPA reference portfolio.

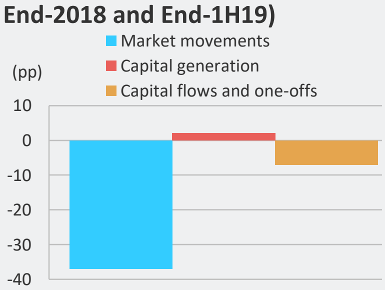
Financial Leverage Stabilising

VIVAT's Fitch-calculated financial leverage ratio decreased to 29% at 1H19 from 32% at end-2017. It benefited from the issue of EUR300 million RT1 notes in June 2018 and the partial early redemption (EUR150 million) of EUR400 million subordinated notes due in 2041, partly offset by lower shareholder's equity. RT1 notes receive 100% equity credit in Fitch's financial leverage calculation.

No Dividend Payment

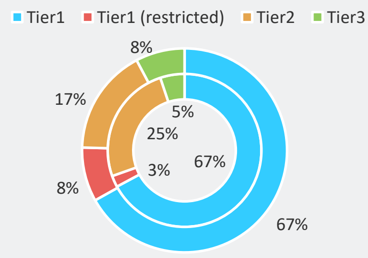
VIVAT pays no dividends to its parent and deploys capital to enable further re-risking of the investment portfolio. For the same reason, VIVAT's subsidiaries also do not upstream dividends to the holding company.

S2 Variances (Between End-2018 and End-1H19)



Source: Fitch Ratings, VIVAT

S2 Capital Structure
(Outer: 2018; Inner: 2017)



Source: Fitch Ratings, VIVAT

Debt Service Capabilities and Financial Flexibility

Strong Financial Flexibility Offset by Weak Fixed Charge Cover

Financial Highlights

31 December	2014	2015	2016	2017	2018	Fitch's expectation
Fixed-charge coverage ratio (x)	-6	3	4	-0	-1	Fitch expects VIVAT's fixed-charge coverage to improve in 2019 supported by expectedly positive earnings and stable interest expenses.
Fixed-charge coverage ratio excluding LAT[a] result (x)	1	2	1	4	3	

[a]IFRS Liability Adequacy Test
Source: Fitch Ratings, VIVAT

Low Earnings Pressure Debt Service Capability

VIVAT's weak fixed-charge coverage ratio is pressured by weaker and more volatile profitability and more expensive debt funding relative to other large Dutch competitors. VIVAT's recent RT1 debt issue attracted a yield of 7%, which is well above similar securities issued by large Dutch peers. Interest expenses slightly increased as a result of the new RT1 debt but we expect them to remain relatively stable as most outstanding debt securities at end-2018 paid a fixed coupon.

Adequate HoldCo Liquidity

Fitch assesses that VIVAT maintained ample liquidity at end-1H19, ensuring smooth servicing of holding company debt and potential capital support to operating subsidiaries. In addition VIVAT entered into a EUR200 million revolving credit facility (undrawn at end-2019) with a group of leading European banks, further supporting financial flexibility. However, HoldCo cash generation is constrained by no upstream dividend payments from subsidiaries.

Stable Market Access

Fitch believes VIVAT's financing and refinancing risk is low. This view is supported by VIVAT's overall stable credit profile and successful recent debt issuances. VIVAT has had no reliance on its parent for funding in recent years.

Debt Maturities

As of 31 December 2019[a]	(EURm)
2020	93
2021	250
2022	502
Total	**845**

[a] Indicating first call dates
Source: Fitch Ratings; VIVAT

Financial Performance and Earnings

Net Result Volatile due to Fair-Value Changes, One-Time Items

Financial Highlights

31 December	2014	2015	2016	2017	2018	Fitch's expectation
Net income (EURm)	-612	109	168	-116	-284	Fitch expects VIVAT's net result to remain volatile due to revaluations of life insurance reserves. However, we also expect cost savings and the re-risking of investments to support earnings in the longer term.
Net underlying income (EURm)	0	33	161	172	239	
Net income return on equity (%)	-27	4	5	-3	-8	
Net underlying income[a] return on equity (%)	0	1	5	5	7	
Combined ratio (published; %)	111	109	105	99	97	

[a] Underlying income excludes fair value changes in fair value of assets and liabilities and one-time items.
Source: Fitch Ratings, VIVAT

Life Key Earnings Driver

The corporate life result has been volatile, although VIVAT's individual life book is technically in run-off with relatively stable results driven by cost savings. The volatility is due to the outcome of the IFRS liability adequacy test (LAT), which is entirely booked under the corporate segment. Due to a LAT deficit[1] (end-2018: EUR1.6 billion; end-2017: EUR1.1 billion) VIVAT's life insurance liabilities are valued at best estimate. This causes earnings volatility due to periodic re-valuations of liabilities as well as occasional one-time items.

VIVAT added EUR542 million to life reserves due to the increase in the 2018 LAT deficit. The increase in the deficit included, among other items, market movements, model updates, and a one-off charge related to longevity reinsurance. The increase in the LAT deficit partly reversed in 1H19 due to lower interest rates, resulting in a EUR376 million release. This was a key contributor to the improved 1H19 net result of EUR279 million (1H18: EUR173 million).

Non-Life Improving but Small Contributor

VIVAT's combined ratio (COR) improved to 96% from 101% in 1H18 in the absence of catastrophe-related losses in 1H19. Excluding 1H18 storm losses, the COR was unchanged. VIVAT's non-life earnings are improving supported by favourable pricing conditions, portfolio rationalisations and cost savings. Fitch expects that, apart from the improvements in the underlying portfolio, re-risking of investments will also support the non-life result. However, non-life contribution to group results is not material (2018: 3% of underlying earnings).

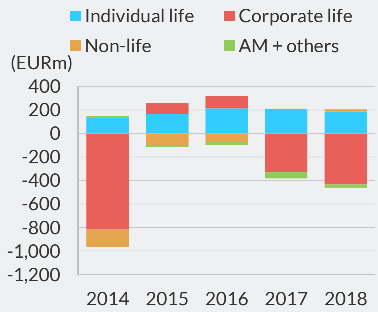
Significant One-Time Items

VIVAT's result has been affected by a number of one-off items in 2018 including a EUR130 million charge related to the longevity reinsurance transaction, a EUR97 million charge related to the adjustment of deferred tax assets end, and EUR23 million related to the tender offer on SRLEV's Tier 2 notes. VIVAT's net income ROE adjusted for one-off items would have been -1%.

Cost Savings, Re-Risking to Support Earnings

Excluding fair-value volatility, Fitch views the improving trend in underlying earnings favourably and expects cost savings, together with the re-risking of investments, to support VIVAT's profitability. 1H19 underlying earnings improved to EUR161 million (1H18: EUR115 million), reflecting stronger interest income and positive hedging result. Fitch believes that VIVAT will continue focusing on reducing operating expenses through office closures, staff reduction, process automation and rationalising of distribution channels. Operating expenses decreased by 4% in 2018 but were affected by increased storm-related claims handling expenses in 1H18.

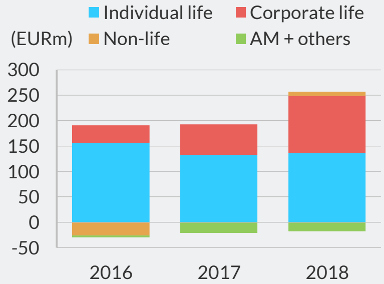
Segment Results (Pre-tax)



Source: Fitch Ratings, VIVAT

Segment Results

(Net underlying)



Source: Fitch Ratings, VIVAT

[1] A LAT deficit exists if the best estimate of insurance liabilities is higher than the book value of liabilities and the shadow accounting reserve (fair value reserves).

Investment and Asset Risk

High Quality of Investment Portfolio Maintained

Financial Highlights

31 December	2014	2015	2016	2017	2018	Fitch's expectation
Risky assets to equity	76	65	37	43	70	Fitch expects continued cautious re-risking of the investment portfolio, but this is unlikely to materially impact our asessement of investment and asset risk.
Unaffiliated shares to equity	66	57	25	26	36	
Non-investment-grade bonds to equity	10	8	12	17	34	

Source: Fitch Ratings, VIVAT

Cautious Re-Risking

VIVAT continues to optimise returns on the investment portfolio mainly through divestments of low-yielding 'AAA' government bonds and additions of higher-yielding 'AA' and 'A' credits (including corporate bonds), mortgages, investment funds, and real estate.

The share of bonds in general account investments decreased to 78% at end-2018 (end-2017: 80%). Geographic diversification of fixed-income assets also improved through divestments of top-rated German and Dutch government bonds, although these continue to represent 55% of interest-bearing investments (2017: 59%).

Low Exposure to Risky Assets

The re-risking of the investment portfolio is conservative and VIVAT maintains an overall high credit quality of general account investments. As a result, the Fitch-calculated risky-assets-to-equity ratio increased only moderately year on year, also affected by lower equity. On a pro forma equity basis, the risky-asset ratio would have increased to 64%. Fitch expects, based on its current investment policy, VIVAT will not take excessive investment risk and will maintain moderate exposure to non-investment-grade bonds and equity and equity-like investments.

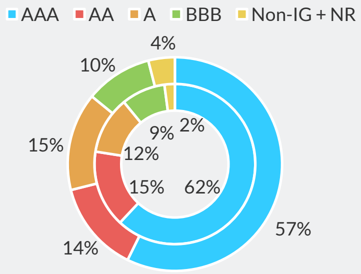
Relatively Small Mortgage Portfolio

VIVAT's exposure to Dutch residential mortgages is small compared to other large Dutch insurers, at about 6% of general account investments (EUR2.1 billion) at end-2018. Dutch insurers' mortgage exposure is typically above 20% of general account investments. In Fitch's view VIVAT has substantial room to increase its mortgage investments either through self-origination or portfolio acquisitions. However, as VIVAT does not have a banking subsidiary, its mortgage origination capacity is limited and niche focused.

Overall, the Dutch residential mortgage market has historically low credit losses and a creditor-friendly legal system. We assess VIVAT's mortgage portfolio as conservative with average loan-to-value ratios of 70%–80% and a substantial part of the portfolio guaranteed by the Nationale Hypotheek Garantie (NHG) scheme offered by Stichting Waarborgfonds Eigen Woningen (Homeownership Guarantee Fund; IDR: AAA). Fitch excludes mortgages from the risky-asset ratio calculation.

Bond Ratings

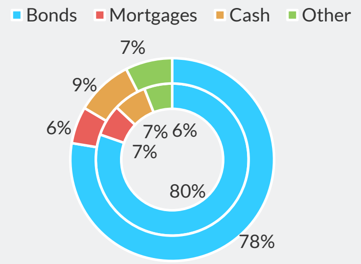
(Outer: 2018; Inner: 2017)



Source: Fitch Ratings, VIVAT

General Account Investments

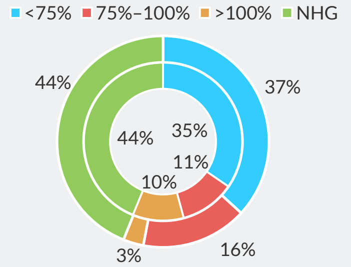
(Outer: 2018; Inner: 2017)



Source: Fitch Ratings, VIVAT

Mortgage Loan-to-Values

(Outer: 2018; Inner: 2017)



Source: Fitch Ratings, VIVAT

Asset/Liability and Liquidity Management

Interest Rate Risk Effectively Managed

Financial Highlights

31 December	2014	2015	2016	2017	2018	Fitch's expectation
Liquid assets to net technical reserves (excluding unit linked)	97	99	92	93	91	Fitch expects VIVAT will continue to closely manage interest rate risk and its liquidity profile to remain stable.
Technical reserves with an expected term to maturity over 20 years as % of life reserves (excluding unit linked)	38	40	41	41	40	
S2 interest rate sensitivity +50bp (pp)	n.a.	n.a.	-1	6	6	
S2 interest rate sensitivity −50bp (pp)	n.a.	n.a.	1	-9	-6	

Source: Fitch Ratings, VIVAT

Interest Rate Risk Managed Through Derivatives

Fitch estimates duration matching of VIVAT's insurance liabilities and corresponding investments is weaker than that of other Dutch life insurers. VIVAT closely manages interest rate risk arising from this duration mismatch as well from return guarantees to policyholders through interest rate derivatives. The interest rate sensitivity of VIVAT's S2 ratio, after hedging, is similar to other Dutch competitors. However, Fitch believes VIVAT is therefore also more reliant on hedging counterparties that could give rise to additional liquidity and credit risks.

The phased reduction of the ultimate forward rate introduces additional unhedged risk and puts downward pressure on both IFRS equity and the S2 ratio in the medium term.

'Very Strong' Liquidity

VIVAT's consolidated liquidity position was stable at end-2018 as measured by liquid assets to net technical reserves. Fitch estimates VIVAT maintains a significant liquidity buffer above liquidity needs in stress events such as mass lapses in life and catastrophic weather events in non-life.

Unfavourable market movements (increases in interest rates) could also lead to additional liquidity needs through collateral posting requirements for hedging derivatives.

Reserve Adequacy

Prudent Reserving Practices

Financial Highlights

31 December	2014	2015	2016	2017	2018	Fitch's expectation
Loss reserves to incurred losses (x)	1.8	2.4	2.4	2.6	2.3	Fitch expects VIVAT's non-life reserve development to remain stable.
Loss reserves to equity (non-life; x)	4.5	2.9	2.8	2.8	2.9	
Change in ratio of loss reserves to earned premiums (%)	11	5	3	-5	-9	
One-year reserve development to prior year equity (%)	-0.7	-0.3	-0.2	-1.3	-1	
One-year reserve development to prior year loss reserves (%)	-1.8	-0.5	-0.5	-4.8	-3.5	

Source: Fitch Ratings, VIVAT

Non-Life Small

Overall, the size of VIVAT's non-life business is small relative to the rest of the group. The development of non-life reserves therefore has only limited impact on VIVAT's financial profile.

Neutral Reserve Growth

Fitch believes growth of VIVAT's non-life reserves well below premium growth for 2018 does not indicate a deterioration of VIVAT's reserve adequacy. Premium growth was a broad trend in the Dutch non-life market in 2018, mainly driven by product re-pricing and not by an increase in sales volumes. Therefore we see low reserve growth relative to premiums as broadly neutral.

Positive Long-Term Reserve Experience

The development of non-life loss reserves has been negative (release) in the past five years with annual reserves releases averaging -2.22% of prior-year equity and -0.7% to prior-year loss reserves. Consistent favourable run-off results reflect appropriate and accurate estimation of non-life loss reserves.

VIVAT has also released EUR10 million from unearned premiums reserves in 2018 resulting from the improvement of portfolio data in the authorised agent portfolio.

Reserves Exceed Best Estimate

VIVAT regularly performs IFRS LAT on non-life premium and claims reserves and supplements reserves in case any deficiency is identified. Carried non-life reserves exceeded the LAT best estimate by 15% and the S2 best estimate by 10% at end-2018 (end-2017: 18% and 10%, respectively). Fitch has not identified significant adverse reserve development for VIVAT, despite an increasing trend in bodily injury and disability claims in the Netherlands.

Reinsurance, Risk Mitigation and Catastrophe Risk

VIVAT's reinsurance, risk mitigation and catastrophe risk profile has a low influence on the rating due to the small size of non-life insurance relative to the organisation.

Conservative Risk Retention Levels

Fitch believes VIVAT's reinsurance programme provides adequate protection against non-life losses and retention levels are set at a conservative level relative to equity. Retention levels in the 2018 reinsurance programme were mostly unchanged compared to 2017 but VIVAT bought additional reinsurance cover through an annual aggregate excess-of-loss treaty for 2019 on expected climate change developments. The new excess-of-loss treaty protects the EUR20 million per event retention of the catastrophe programme and retentions of the regular property programme against an increase in frequency. The catastrophe retention level equals to around a one-in-nine event. Geographically, catastrophe risk in the non-life portfolio is almost entirely concentrated to the Netherlands.

Development of Reinsurance Retentions

(EURm)		2019	2018	2017
Property catastrophe	Per event	20	20	20
Property fire	Per risk	2	2	2
Property annual aggregate	Per risk	5	-	-
Property annual aggregate	Per risk/per event	10	-	-
Motor third-party liability	Per risk	2.5	2.5	2.5
General third-party liability	Per risk	1.5	1.5	1.5
Personal accident	Per risk	1	1	0.75
Transport	Per risk	1	1	1

Source: Fitch Ratings, VIVAT

Longevity Reinsurance Reduce Life SCR

VIVAT is significantly exposed to longevity risk through its corporate life business. In December 2018 SRLEV entered into a full indemnity quota share longevity reinsurance transaction with Canada Life Re, covering 70% of EUR8 billion in-force liabilities. The covered portfolio accounts for about 40% of SRLEV's longevity risk. Counterparty risk is mitigated through collateral arrangements. The transaction is fully effective under S2 and reduced SRLEV's life SCR by about EUR301 million and therefore had a beneficial effect on the S2 ratio.

Reinsurance Panel

VIVAT maintains long-term relationships with a diverse panel of reinsurers. All reinsurers on the panel have a minimum credit rating of 'A-' and no single reinsurer accounted for more than 25% of ceded business. The lead reinsurer on the panel is Munich Reinsurance Company (IFS: AA/Stable).

Appendix A: Industry Profile and Operating Environment

This section discusses the 'AA+' to 'A-' Industry Profile and Operating Environment score range applicable to Dutch Insurance.

Regulatory Oversight

Fitch considers regulatory oversight in the Netherlands as very strong. The Dutch insurance market is highly regulated, with well-developed regulatory practices and supervision processes. As member of the European Union, the Netherlands adopted the risk-adjusted solvency framework (S2), which came into force on 1 January 2016. The Dutch insurance regulator is focused on ensuring that insurance organisations are viable and their conduct of business is appropriate. Fitch considers the regulator's enforcement as effective.

Technical Sophistication of Insurance Market; Diversity and Breadth

The Dutch insurance market is the fifth largest in Europe (EUR74 billion of gross written premiums in 2018), although its size is largely explained by the importance of the mandatory health insurance segment. The market is technically highly sophisticated, underpinned by the use of strong and generally accepted actuarial practices for underwriting analysis, calculating claims reserves, and products pricing. In addition, the adoption of S2 improved the level of sophistication of enterprise risk management in the market.

The Dutch insurance market is concentrated in health insurance, which is mandatory for every person living or working in the Netherlands. The health insurance business represented 64% of gross written premiums, followed by life (21%) and non-life (15%), at end-2018. As the market is highly mature, premium growth is low, albeit higher in the property and casualty segment than in life and health.

Competitive Profile

The Dutch insurance market is highly competitive in all segments and relatively concentrated, with the five largest insurance groups representing about 80% of total gross written premiums. The rest of the market is fragmented and market share is distributed among a larger number of small companies, especially in the non-life segment. At end-2018, there were 160 insurers under the supervision of the Dutch National Bank (117 non-life, 30 life, nine re-insurers, and four funeral in-kind insurers)

Life insurers have been repositioning their business to cope with persistently low interest rates in Europe, favouring the distribution of retirement solutions, often in the form of capital-light and unit-linked savings products. Apart from pension products, there are also pockets of growth in term life; however, we expect growth to level-off in this segment. In non-life, strong competition creates pressure on prices which is currently mitigated by an ongoing phase of "harder" pricing.

Financial Markets Development

The Dutch financial market is sophisticated and has considerable width and depth both in its insurance and non-insurance segments. The Dutch stock and bond markets are among the largest globally, providing sufficient liquidity in most traded products. Companies' and financial institutions' access to capital markets is strong.

Country Risk

The Netherlands' Long-Term Issuer Default Rating is 'AAA' with a Stable Outlook. The Netherlands' ratings are underpinned by a large, wealthy and diversified economy, strong and effective civil and social institutions and a track record of macro-financial stability. The Netherlands also benefits from strong financial flexibility, helped by the ultra-loose financing conditions prevailing in the eurozone, and the access to deep and liquid capital markets as a core eurozone member.

Appendix B: Peer Analysis

Volatile Financial Performance, Capital, Pressures Rating

VIVAT is a composite insurer similar to other Dutch peers with strong market position in life insurance. However, its non-life business is comparatively smaller than leading non-life insurers such as Achmea B.V. and NN. VIVAT compares less favourably to peers in terms of geographic diversification as it does not have international diversification.

VIVAT's financial performance has been weaker and more volatile than peers'. This is mainly due to the fair value accounting and periodic revaluation of its life insurance liabilities, which resulted in significant earnings volatility due to market movements. VIVAT's earnings are also pressured by its highly conservative investment portfolio relative to peers and therefore low investment yields.

VIVAT's S2 capitalisation is weaker than most peers' and also more volatile due to the high sensitivity of the S2 ratio to the VA (i.e. credit spreads). VIVAT's S2 is more sensitive to changes in the VA compared to peers due to is conservative investment portfolio. Although Fitch estimates that VIVAT's underlying duration mismatch between insurance liabilities and investment assets backing these liabilities is larger than peers', it believes interest rate risk is effectively hedged and residual interest rate sensitivity is on par with peers.

VIVAT's financial leverage remained the highest among peers, also explained by its relatively smaller equity base and therefore the higher proportion of debt financing.

Peer Comparison

(EURm, as of 31 December 2018)	IFS Rating[a]	Total assets	Shareholders' equity	Gross written premiums	Net income attributable to shareholders	Return on equity (%)	Reported combined ratio (%)	Solvency 2 ratio (%)	Financial leverage (%)
VIVAT	BBB+	55.6	3.2	2.8	-0.3	-8	96.8	192	30
NN Group	A+	224	23	13	1.1	5	99.4	230	28
Aegon	A+	393	20	19	0.7	4	-	211	27
Achmea	A+	82	8	20	0.3	4	95.5[b]	198	24
Ageas	A+	102	9	9	0.8	9	94.3	215	21

[a] IFS rating of primary operating entities
[b] Non-life only
Source: Fitch Ratings, company financials

Appendix C: Other Rating Considerations

Below is a summary of additional ratings considerations that are part of Fitch's ratings criteria.

Group IFS Rating Approach

Fitch rates VIVAT on a stand-alone basis independent of the financial strength of its current owner, Daija Insurance. This is due to the regulatory ring-fencing of VIVAT from the parent. Fitch continues to rate VIVAT on a stand-alone basis until the sale process is closed.

Fitch views VIVAT Schade and SRLEV as core subsidiaries of VIVAT and applies a group rating approach, rating each entity based on a consolidated group assessment.

Notching

For notching purposes, the regulatory environment of the Netherlands is assessed by Fitch as being 'Effective', and classified as following a Group Solvency approach.

Notching Summary

IFS Ratings
A baseline recovery assumption of 'Good' applies to the IFS rating, and standard notching was used from the IFS "anchor" rating to the implied operating company IDR.
Holding Company IDR
Standard notching was applied between the implied insurance operating company and holding company IDRs for a group solvency regulatory environment.
Holding Company Debt
A baseline recovery assumption of 'Below Average' was applied to VIVAT's senior notes. Standard notching relative to the IDR was used.
Hybrids
For Tier 2 subordinated debt issued by VIVAT, a baseline recovery assumption of 'Poor' and a non-performance risk assessment of 'Moderate' were used. Three notches were applied relative to the IDR, which was based on two notches for recovery and one notch for non-performance risk. For restricted Tier 1 subordinated debt issued by VIVAT, a baseline recovery assumption of 'Poor' and a non-performance risk assessment of 'Moderate' were used. Four notches were applied relative to the IDR, which was based on two notches for recovery and two notches for non-performance risk.

IFS – Insurer Financial Strength. IDR – Issuer Default Rating.

Source: Fitch Ratings

Hybrid – Equity/Debt Treatment

Hybrids Treatment

Hybrid	Amount	CAR Fitch (%)	CAR reg. override (%)	FLR debt (%)
VIVAT				
Restricted Tier 1 perpetual callable subordinated	EUR300m	100	0	0
Tier 2 perpetual callable subordinated	USD575m	0	100	100
SRLEV N.V.				
Restricted Tier 1 perpetual callable subordinated	CHF105m	0	100	100
Tier 2 callable subordinated	EUR250m	0	100	100

CAR – Capitalisation ratio: FLR – Financial leverage ratio. N.A. – Not applicable.
For CAR, % shows portion of hybrid value included as available capital, both before (Fitch %) and the regulatory override.
For FLR, % shows portion of hybrid value included as debt in numerator of leverage ratio
Source: Fitch Ratings

Corporate Governance and Management

Corporate governance and management are adequate and neutral to the rating.

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None.

Appendix E: Environmental, Social and Governance Considerations

FitchRatings **VIVAT N.V.**

Insurance Ratings Navigator
European Composite

Credit-Relevant ESG Derivation

VIVAT N.V. has 7 ESG potential rating drivers

- VIVAT N.V. has exposure to underwriting/reserving exposed to environmental and natural catastrophe risks; impact of catastrophes on own operations or asset quality; credit concentrations but this has very low impact on the rating.
- VIVAT N.V. has exposure to compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to insured and own cyber risk but this has very low impact on the rating.
- VIVAT N.V. has exposure to social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	7	issues	3
not a rating driver	2	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	2	Underwriting/reserving exposed to asbestos/hazardous materials risks	Capitalization & Leverage; Financial Performance & Earnings; Reserve Adequacy; Reinsurance, Risk Mitigation & Catastrophe Risk	2
Exposure to Environmental Impacts	3	Underwriting/reserving exposed to environmental and natural catastrophe risks; impact of catastrophes on own operations or asset quality; credit concentrations	Capitalization & Leverage; Financial Performance & Earnings; Reserve Adequacy; Reinsurance, Risk Mitigation & Catastrophe Risk; Investment & Asset Risk	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risk; treating customers fairly; pricing transparency; privacy/data security; legal/regulatory fines; exposure to insured and own cyber risk	Industry Profile & Operating Environment; Business Profile; Reserve Adequacy	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Corporate Governance & Management	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Social responsibility and its effect on brand strength; increased vulnerability due to credit concentrations	Business Profile; Investment & Asset Risk; Financial Performance & Earnings; Reinsurance, Risk Mitigation & Catastrophe Risk	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Corporate Governance & Management; Business Profile	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Corporate Governance & Management	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Corporate Governance & Management; Ownership	3
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Corporate Governance & Management	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE
How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.