

Rating Action: Moody's affirms SRLEV NV's Baa2 IFSR, outlook changed to stable from developing

9 April 2020

Frankfurt am Main, April 9, 2020 – Moody's Investors Service, ("Moody's") has today affirmed the Baa2 insurance financial strength rating (IFSR) of SRLEV NV (SRLEV), the main life operating subsidiary of VIVAT N.V. (VIVAT), and changed the outlook to stable from developing. Moody's has also affirmed the Ba1(hyb) backed subordinate and backed junior subordinate debt ratings of SRLEV.

The rating action follows the announcement [1] by VIVAT that Athora Holding Ltd. (Athora) has completed its acquisition of VIVAT from Anbang Group Holdings Co Ltd, after having received all required regulatory approvals. VIVAT also announced that Athora (1) had sold on 100% of the shares of VIVAT Schadeverzekeringen N.V. (VIVAT Schade), the non-life operation, to NN Group N.V. (NN, Baa1 Long-term Issuer Rating, stable outlook), (2) injected €400 million of capital into VIVAT, and (3) proposed a tender offer for VIVAT's outstanding €650 million senior notes.

A list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

The affirmation of SRLEV's ratings and the stable outlook mostly reflect the completion of the sale to Athora and thus the end of uncertainties around VIVAT's ownership. Following the acquisition by Athora, and the sale of its non-life operations, VIVAT will mainly focus on its life insurance operations, where SRLEV is the main operating entity. With its brands Zwitserleven and Reaal, SRLEV holds a market share of 18% (based on 2018 figures) and is the second largest life insurer in the Netherlands. Athora, which so far has been operating mainly as a back-book consolidator in Europe, has stated its intention to further grow the business [2] in the Netherlands.

SRLEV's Baa2 IFSR reflects the standalone credit profile of the Dutch insurer and does not incorporate any support from the parent company Athora. The rating reflects the company's high product risk, as evidenced by the high share of guaranteed products with relatively high guaranteed rates. VIVAT has also recently gradually increased asset risk through increased credit, equity and property risk, partially offset by continuously strong asset-liability management, reducing the negative impact of further falling interest rates. VIVAT's Solvency II ratio is moderately strong. At YE 2019, VIVAT reported a consolidated solvency ratio of 170% (YE 2018: 192%), which has increased (on a pro-forma level) to approximately 215% following the acquisition by Athora and the sale of VIVAT Schade to NN. About 10 percentage points of the increase were driven by the capital injection of €400 million from Athora and the reduction both in own funds and solvency capital requirement resulting from the sale of VIVAT Schade. Nonetheless, both VIVAT's and SRLEV's Solvency II ratios have shown heightened degrees of volatility in the past, mainly driven by the sensitivity to movements in the volatility adjustment and interest rates, and Moody's expects that this will likely continue. The rating agency will also closely monitor any potential changes in risk appetite and the implications for VIVAT's product risk, asset risk, and capitalisation following the acquisition by Athora.

SRLEV's profitability has been weak and very volatile over recent years, partly reflecting the interest rate sensitivity of its earnings. The company's main source of profitability is the investment result,

which Moody's believes will continue to be under pressure in view of the prevailing low interest rate environment, despite the recent increase in asset risk.

As far as the Coronavirus-outbreak is concerned, Moody's expects that SRLEV'S investment result will likely be negatively influenced by heightened levels of financial market volatility. The rating agency also expects some pressure on SRLEV's mortality margins, although longevity risk is the main driver for SRLEV's life underwriting risk.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward pressure on SRLEV's ratings could develop in case of: (1) material improvements in SRLEV's profitability and capital generation ability, reflected in a return on capital sustainably in excess of 3%, (2) reduction in the volatility of SRLEV's Solvency II ratio, and (3) significant improvement in SRLEV's financial flexibility, reflected in improved financial leverage and earnings coverage ratios or as evidenced by support from its new ultimate parent, Athora.

Downward pressure on SRLEV's ratings could result from (1) a material increase in SRLEV's risk appetite in terms of its product or asset risk, or (2) further deterioration of its profitability, or (3) a weakening in its Solvency II ratio to below 150%.

LIST OF AFFECTED RATINGS

The following ratings have been affected:

- SRLEV NV's insurance financial strength rating affirmed at Baa2
- SRLEV NV's backed subordinate debt rating affirmed at Ba1(hyb)
- SRLEV NV's backed junior subordinate debt rating affirmed at Ba1(hyb)
- Outlook on SRLEV NV changed to stable from developing

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Life Insurers Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1187348. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

REFERENCES/CITATIONS

[1] <https://www.vivat.nl/en/news/press-releases/2020/athora-completes-the-acquisition-of-vivat/>

[2] <https://www.athora.com/Athora-Completes-Acquisition-of-VIVAT-and-Provides-a-capital-Injection-of-%E2%82%AC400-million>

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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