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Fitch Upgrades Athora's IFS Rating to 'A-'; Outlook Positive

Fitch Ratings - Frankfurt am Main - 21 May 2021: Fitch Ratings has upgraded Athora Life Re Ltd.'s (Athora Re), Athora Ireland plc's and SRLEV N.V.'s Insurer Financial Strength Ratings (IFS) to 'A-' (Strong) from 'BBB+' (Good) and Athora Holding Ltd.'s and Athora Netherlands N.V.'s Issuer Default Ratings (IDR) to 'BBB+' (Good) from 'BBB' (Good). The Outlooks are Positive.

Key Rating Drivers

The upgrade reflects the improvement in Athora's business profile following the acquisition of VIVAT (now Athora Netherlands) in 2020, lower financial leverage ratio (FLR) and a sustained strengthening of the group's capitalisation. The upgrades are taken in the context of Fitch's assessment of reduced uncertainty about the impact of the coronavirus pandemic on Athora's financial profile.

The Positive Outlook reflects our expectation that Athora's earnings will stabilise at a level commensurate with the 'A' rating category over the next one to two years.

The ratings reflect Athora's strong business profile, very strong capitalisation and leverage as well as strong asset/liability management (ALM) and liquidity and good profitability. These strengths are partly offset by the group's fairly high investment risk.

Fitch's assessment of Athora's business profile improved following the 2020 acquisition of Athora Netherlands, formerly VIVAT, and the group's first external reinsurance transaction in Ireland. Athora Netherlands added operating scale, with total assets of around EUR86 billion at end-2020. We also view the group's geographical diversification as favourable to our assessment of the business profile. However, our assessment of the business profile also considers Athora's moderate business risk profile and specialist focus. Business risk profile arises from the group's focus on traditional life insurance products with high guarantees, relatively high investment risk and risks arising from the integration of acquired businesses.

We expect profitability to benefit from the implementation of Athora's strategic asset allocation favouring investments with higher expected returns. In 2020, Athora reported a strong Fitch-calculated ROE of 28%, which was supported by one-off gains from the below-book value purchase of VIVAT as well as investment gains stemming from tactical changes to asset allocation. The ROE formula for 2020 also benefits from the base effect of a significantly lower group equity position at end-2019 than at end-2020. Athora's own long-term return on equity (ROE) target is in the mid-teens.

Athora's Prism Factor-Based Capital Model (FBM) score was 'Extremely Strong' at end-2020. Fitch expects capitalisation to decline somewhat as the group grows, but for the FBM score to remain at least 'Very Strong'. The group's FLR improved to 26% at end-2020 from 30% at end-2019, including Athora Netherlands on a pro-forma basis. This improvement was largely driven by a capital injection and debt reduction in 2020.

Athora's investment risk is high but manageable, in Fitch's view. The majority of Athora's investments are holdings of investment-grade corporate and sovereign bonds, but the group also invests in private credit assets, alternative investments and commercial mortgage loans.

Fitch regards Athora Re, Athora Ireland and SRLEV as 'core' to Athora. Athora focuses on acquiring or reinsuring traditional life insurance portfolios in various European markets, with Athora Re and Athora Ireland providing intra-group reinsurance to these acquired portfolios as well as external reinsurance coverage. Athora Re and Athora Ireland play an integral role in Athora's capital-management strategy. SRLEV is a market leader in corporate pensions in the Netherlands and currently represents approximately 80% of the group's total assets.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Consolidation of financial performance reflected in a ROE in excess of 8% on a sustained basis
- An upgrade would be subject to a minimum FBM score of 'Very Strong'

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- ROE falling to below 6% on a sustained basis would lead to a revision of the Outlook to Stable
- FLR weakening to above 35% could lead to a downgrade

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

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 the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
SRLEV N.V.	Ins Fin Str	A- 	Upgrade	BBB+ 
Athora Ireland plc	Ins Fin Str	A- 	Upgrade	BBB+ 
Athora Holding Ltd.	LT IDR	BBB+ 	Upgrade	BBB 
Athora Life Re Ltd.	Ins Fin Str	A- 	Upgrade	BBB+ 
Athora Netherlands N.V.	LT IDR	BBB+ 	Upgrade	BBB 
• senior unsecured	LT	BBB	Upgrade	BBB-
• subordinated		BB+	Upgrade	BB
• junior subordinated	LT	BB	Upgrade	BB-

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Insurance Rating Criteria (pub.15 Apr 2021) (including rating assumption sensitivity)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.7.2 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Athora Holding Ltd.	EU Issued, UK Endorsed
Athora Ireland plc	EU Issued, UK Endorsed
Athora Life Re Ltd.	EU Issued, UK Endorsed
Athora Netherlands N.V.	EU Issued, UK Endorsed
SRLEV N.V.	EU Issued, UK Endorsed

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