MOODY'S INVESTORS SERVICE

CREDIT OPINION
8 July 2019

Update

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RATINGS

VIVAT N.V.

Domicile	Netherlands
Long Term Rating	Not Available
Type	Not Available
Outlook	Not Available

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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VIVAT N.V.

Update to credit analysis

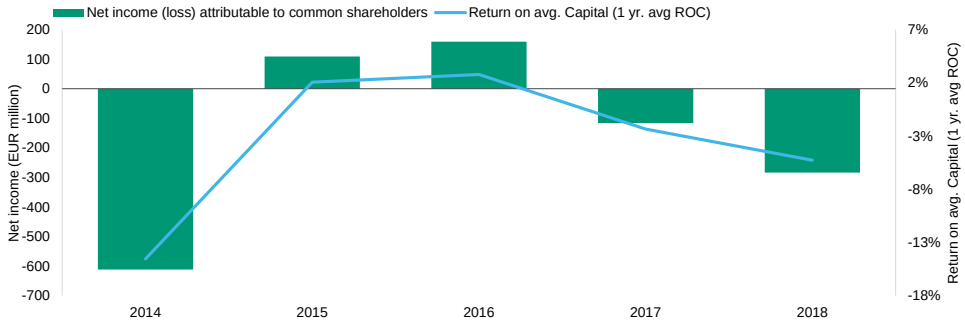
Summary

The Baa2 insurance financial strength rating (IFSR) on VIVAT N.V.'s main operating subsidiaries SRLEV NV (SRLEV) and VIVAT Schadeverzekeringen NV (VIVAT Schade) reflects its good market position in the Dutch life and non-life market as well as strong diversification by business lines. The group's financial profile benefits from the group's good and recently improving regulatory Solvency 2 coverage and strong liquidity/ asset liability management as well as strong reserve adequacy. Offsetting these strengths are increasing asset risk and, more importantly, the continuously weak profitability with negative net results in both 2018 and 2017, although partially stemming from one-offs, as well as weak financial flexibility, mainly based on weak earnings coverage.

In June 2019, Moody's Investors Service affirmed the Baa2 IFSR on SRLEV and changed the outlook to developing from negative. At the same time, Moody's placed VIVAT Schade's IFSR under review for possible upgrade. These rating actions followed VIVAT's announcement that Anbang Insurance Group Co. Ltd (Anbang) would sell VIVAT to Athora Holding Ltd. (Athora) which in turn will sell the non-life operations, namely VIVAT Schade, to NN Group N.V. (NN, Long-term Issuer Rating: Baa1, stable outlook). The transactions are subject to the required regulatory approvals and the parties involved currently expect the transactions to be completed in Q1-2020. Moody's said that it expected to conclude the review on VIVAT Schade as soon as there is sufficient certainty the transactions will be closed (see press release for details)

At this stage, Moody's continues to consider the combined operations as one analytical unit. Therefore, the following credit opinion refers to the combined financial strength of these companies.

Exhibit 1
Profitability



Sources: VIVAT NV's reports, Moody's Investors Service

Credit strengths

The main credit strengths of VIVAT are:

» Good and recently strengthened capital position

» Conservative investment policy relative to the overall rating level

» Moderate business risk profile reflecting a focus on retail and SME business

Credit challenges

The key credit challenges of VIVAT are:

» Weak profitability due mainly to the negative impact of low yields and competitive pressure on margins

» Relatively low earnings coverage and moderately high financial leverage

» Constrained market position with a focus on the concentrated and highly penetrated Dutch life insurance market

Rating outlook

The outlook for VIVAT Schade is Ratings under Review and reflects that the company will become part of the larger and financially stronger NN Group N.V. and will likely be integrated into NN's domestic non-life operations. In addition, Moody's believes that VIVAT Schade following the transaction could benefit from explicit or implicit support from its new parent, likely resulting in a multi-notch upgrade of VIVAT Schade's insurer financial strength rating.

The outlook on SRLEV is developing, reflecting Moody's view that the consequences of the transaction for SRLEV's financial strength are currently unclear, with potential for both positive and negative implications. After the initial transaction of Athora buying VIVAT group and the sale of the non-life operations, Moody's expects SRLEV will continue to operate as a stand-alone insurer in the very competitive Dutch life market, and thus will lose some of the benefits of scale and diversification that it currently enjoys as part of the larger VIVAT group. In addition, there remains some uncertainty around the degree to which Athora will be able to position SRLEV for profitable growth in the Dutch life market. More positively, the sale by Anbang removes considerable uncertainty over SRLEV's ownership, and notably introduces a parent which, although so far has been active mainly in the consolidation of back-books, has stated its intention to further grow SRLEV. Moody's said that in evaluating the developing outlook on SRLEV it will consider Athora's likely risk appetite and the strategy it will employ and the implications it might have for the business and financial profile of SRLEV.

Factors that could lead to an upgrade

An upgrade of VIVAT Schade's ratings could result from the successful completion of the company's acquisition by NN and evidence of strong implicit and/or explicit support by NN.

An upgrade of SRLEV's ratings could occur if it becomes clear that Athora is taking significant steps to strengthen SRLEV's business and financial profile, offsetting the negative effect from reduced scale and diversification. This would likely require significantly improved profitability, regulatory Solvency 2 coverage close to the current levels of around 190%, and strong liquidity and asset liability management with no material deterioration in asset quality.

Factors that could lead to a downgrade

Both VIVAT Schade's and SRLEV's ratings could come under downward pressure if the transactions fail to go through and if uncertainty around future ownership prevails.

Furthermore, downward pressure on SRLEV's ratings could result from the stand-alone credit profile deteriorating, for example driven by continuously weak profitability, further heightened asset risk and weaker regulatory Solvency 2 coverage. It could also result if it becomes apparent that the new parent lacks ability and willingness to provide meaningful support to SRLEV.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

VIVAT N.V.

VIVAT N.V. [1][2]	2018	2017	2016	2015	2014
As Reported (Euro Millions)					
Total Assets	55,674	57,241	57,801	60,328	60,525
Total Shareholders' Equity	3,541	3,547	3,699	3,451	2,015
Net income (loss) attributable to common shareholders	(284)	(116)	168	109	(612)
Gross Premiums Written	2,842	2,923	2,508	2,622	3,105
Life Insurance Gross Premiums Written	2,107	2,252	1,842	1,936	2,346
Property & Casualty Insurance Gross Premiums Written	735	671	666	686	759
Net Premiums Written	2,791	2,872	2,447	2,418	2,898
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	160.0%	111.8%	98.1%	69.8%	84.2%
Reinsurance Recoverable % Shareholders' Equity	4.5%	4.9%	5.9%	95.7%	173.9%
Goodwill & Intangibles % Shareholders' Equity	0.0%	0.0%	0.1%	1.1%	3.5%
Shareholders' Equity % Total Assets	5.4%	5.8%	6.0%	5.6%	3.3%
Return on avg. capital (1 yr. avg ROC)	-5.3%	-2.3%	2.9%	2.0%	-14.6%
Sharpe Ratio of ROC (5 yr. avg)	NM	NM	NM	NM	NM
Adv./(Fav.) Loss Dev. % Beg. Reserves (1 yr. avg)	-3.2%	-5.6%	-0.5%	-0.5%	-1.8%
Financial Leverage	37.0%	37.0%	28.7%	27.2%	44.0%
Total Leverage	42.5%	39.1%	31.0%	29.7%	47.2%
Earnings Coverage (1 yr.)	-0.8x	-0.4x	2.6x	1.8x	-4.1x

[1]Information based on IFRS financial statements as of Fiscal YE December 31. [2]Certain items may have been relabeled and/or reclassified for global consistency.
Source: Moody's Investors Service

Profile

VIVAT is a Dutch-based composite insurance group including primarily SRLEV (life operating entity) and VIVAT Schade (non-life). Other entities include ACTIAM (asset management) and Proteq Levensverzekeringen NV (funeral insurance). The business mix of VIVAT consists of life insurance (c.74% of gross premiums written in 2018) and non-life insurance (26%; this includes disability). The current owner of the group, Chinese insurer Anbang, has agreed to sell VIVAT to Athora Holding Ltd. (Athora) which, upon closing of the transaction, would sell onwards the non-life operations to NN.

At year-end 2018 VIVAT reported €55.7 billion of assets and €3.5 billion of Shareholders' Equity, with a net loss of €284 million.

Detailed credit considerations

Moody's rates VIVAT's main legal entities Baa2 for insurance financial strength, which is in line with the adjusted rating indicated by Moody's insurance scorecard. The current ratings reflect the group's current setup and are based on a consolidated view of the combined life and non-life operations.

Insurance Financial Strength Rating

The key factors currently influencing the rating and outlook are:

Market position and brand: Strong particularly in life

VIVAT is among the top five insurance groups in the Netherlands, based on a market share of 17% in life and 5% in non-life. Despite a relatively high concentration, the highly saturated Dutch insurance sector is very competitive and makes for a very difficult market environment.

In life, VIVAT has been able to maintain top line relatively stable in 2018 in view of market premiums volumes reducing. This is largely thanks to large blocks of pension buyouts in the corporate pensions business, whereas individual life top line has been shrinking. Overall, however, VIVAT life business benefits from relatively strong recognition of its brands.

In non-life, the company reported moderately increasing gross premiums written in 2017 and 2018. In 2018, this resulted from premium increases across all business lines, partially based on a more sophisticated modeling of unearned premiums.

Distribution: High dependence on broker channel

Overall Moody's views distribution control and diversification as consistent with a Baa score. VIVAT's insurance products are predominantly distributed via the brokerage channel which however is diversified in itself given the presence of authorized agents, actuarial consultants and IFAs. The network of SNS Bank has also been used to sell insurance products. The use of the direct channel is also growing rapidly in the Netherlands and VIVAT is aiming at strengthening its digital presence to increase its control over product distribution.

Product focus and diversification: Elevated life product risk

VIVAT is operating solely in the very competitive Dutch insurance markets, with its gross premiums written stemming predominantly from life business (74% of gross premiums written in 2018), although the issuer has recently been growing its non-life business. The group's focus is on retail and SME clients which we consider positive in terms of its risk profile.

In life, the inforce book has significant exposure to interest rate and longevity risk. At year-end 2018, 66% of net IFRS technical reserves related to life annuities and guaranteed savings products, while the portfolio of unit-linked contracts - about a third of which include guarantees at maturity - accounted for 27% of technical reserves. In late 2018, VIVAT entered a reinsurance contract to reduce its exposure to longevity risk considerably. Past mis-selling practices continue to be negative legacy issue for the industry, negatively influencing the sector's risk profile.

In non-life, VIVAT operates with a book of business well diversified by lines of business and a focus on short-tail lines.

Asset quality: Prudent investment policy with some recent re-risking

Investment risk still is relatively low, reflecting a conservative asset allocation and limited credit risk exposure, although since 2016 VIVAT has taken successive steps to re-risk its portfolio to counter the decrease in interest rates. Bonds and cash are material at 74% of the investment portfolio; fixed income securities primarily comprise about €19.2 billion of highly-rated sovereign and sub-sovereign bonds, mostly sourced from the Netherlands, Germany, France and Austria.

At year-end 2018, high risk assets as a percentage of shareholders' equity (HRA%) have risen to 160.0% from 111.8% (year-end 2017). The increasing proportion of HRA% was largely reflecting higher holdings of below investment grade bonds. High risk assets are mostly consisting of shares in collective investment undertakings, structured credit and unrated debt.

Goodwill and intangibles are immaterial at year-end 2018, following impairment incurred in 2012.

Capital adequacy: Good and improving regulatory Solvency

VIVAT's capital adequacy, based on regulatory Solvency 2 coverage, has recovered materially in recent years and is adequate for the rating level. While the group manages its risks and the resulting capital requirements prudently, its ability to generate capital internally so far has been constrained.

As at year-end 2018 VIVAT reported a group Solvency II coverage ratio of 192% (2017: 162%) based on a standard formula with volatility adjustment. The increase was mainly due to market movements and the increase in the volatility adjustment in particular, the reduction in longevity risk via a reinsurance transaction and the issuance of a €300 million subordinated bond, eligible as restricted tier I. These effects were only partially offset by the increase in investment risk stemming the re-risking of the investment portfolio.

With the aforementioned longevity reinsurance transaction, SRLEV's solvency ratios has materially improved, standing at 188% at year-end 2018, compared to 156% for VIVAT Schade. As such, we assume that both entities, absent of capital management actions, will continue to be able to operate with relatively healthy stand-alone regulatory Solvency ratios, should they be separated going forward. The group's as well as the legal entities' solvency ratios will continue to be very sensitive to market movements and mainly to changes in interest rates, in the volatility adjustment and in credit spreads.

Profitability: Constrained by low yields and competitive pressure as well as by one-offs

In 2018 VIVAT reported a net loss of €284 million (2017: net loss of €116 million), with further deterioration from prior year driven by one-off items such as a longevity reinsurance transaction and lower deferred tax asset (resulting from a lower corporate tax rate in the

Netherlands). Excluding one-off items and mark-to-market adjustments, VIVAT reports that its net underlying result was a positive €239 million (year-end 2017: €172 million). Overall we expect VIVAT's operating performance to remain modest going forward.

The life segment has been most influenced by the effect of negative one-offs recently, resulting in a net loss of €273 million for 2018 (2017: net loss of €79 million) whereas the reported underlying result was €249 million (2017: €193 million). The continuously low yields result in lower direct investment income and put pressure on the future profitability of the inforce book, resulting in negative implications for the liability adequacy testing. Technical margins are also under pressure, partially stemming from the intense price competition in the market. More positively, VIVAT continues to manage down expenses.

In non-life, VIVAT reported net profits of €16 million (2017: €2 million) and underlying profits of €8 million (2017: €0 million), with the improvement mainly driven by improving underwriting profitability, reflected in a reported net combined ratio of 96.8% in 2018 (2017: 99.0%). The claims ratio increased slightly, mostly based on lower prior year reserves releases, to 61.6% (2017: 59.5%) and the expense ratios decreased considerably but continues to be relatively high at 35.2% (2017: 39.5%). Going forward, we expect the competitive pressure in the market to remain high, with limited growth potential at adequate pricing levels, but we expect VIVAT to continue to reduce its expense base.

Liquidity and ALM: Strong liquidity and well matched portfolio

At SRLEV NV, liquid assets adequately cover net policyholder reserves, and Moody's calculated ratio of liquid assets/liquid liabilities is relatively good with respect to VIVAT's overall credit profile. Asset/liability risks are managed by using derivatives to hedge positions related to interest rate or equity risks. Nonetheless, there is still a moderate economic duration gap between the assets and the liabilities of the insurance activities, leaving the insurer exposed to some reinvestment risk, especially given the relatively high average rate on guarantees embedded in the life products. We positively note that VIVAT has taken management actions to reduce duration mismatch and spread risk and to hedge guarantees.

Reserve adequacy: Very high reserve releases recently

The disclosure of prior year non-life reserves shows a favourable development. However, we note that reserve releases have been significantly above the longer-term average in both 2018 and 2017.

Financial flexibility: Earnings coverage remains constrained. Leverage rises following senior issuance

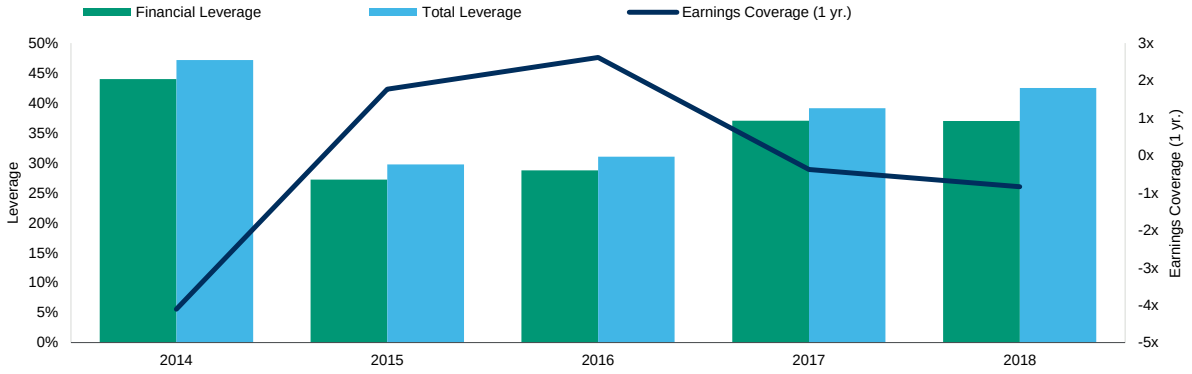
Financial flexibility at VIVAT remains under pressure given the relatively low earnings coverage as a result of weak profitability and a rising leverage. In 2018 adjusted financial leverage was 37% (stable from year-end 2017).

In June 2018 the group has issued €300 million of perpetual subordinated notes eligible as Restricted Tier I capital in order to support the re-risking of its investment portfolio, while at the same time retiring €150 million from a Tier II subordinated debt issued in 2011. Our leverage calculations exclude c. €1.6 billion (as of year-end 2017) of cash collateral due to banks, repo agreements and borrowings related to securitised mortgages, which we do not view as financial debt.

In May 2018 VIVAT entered into a €200 milion revolving facility which was undrawn at half-year 2018.

Exhibit 3

Financial Flexibility



Source: VIVAT NV's reports, Moody's Investors Service

Structural considerations

SRLEV's hybrid debt instruments are rated Ba1(hyb). This is two notches below the IFSR and in line with the standard notching for subordinated debt issued by operating companies.

Rating Methodology and Scorecard Factors

Exhibit 4

VIVAT N.V.

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								A	Baa
Market Position and Brand (20%)								A	Baa
- Relative Market Share Ratio			X						
Distribution (5%)								Ba	Baa
- Distribution Control				X					
- Diversity of Distribution					X				
Product Focus and Diversification (10%)								Baa	Baa
- Product Risk - P&C			X						
- Product Risk - Life				X					
- Product Diversification		X							
- Geographic Diversification					X				
Financial Profile								Baa	Baa
Asset Quality (10%)								A	A
- High Risk Assets % Shareholders' Equity			160.0%						
- Reinsurance Recoverable % Shareholders' Equity	4.5%								
- Goodwill & Intangibles % Shareholders' Equity	0.0%								
Capital Adequacy (15%)								Baa	A
- Shareholders' Equity % Total Assets				5.4%					
Profitability (15%)								Ba	Baa
- Return on Capital (5 yr. avg)					-3.4%				
- Sharpe Ratio of ROC (5 yr. avg)									
Liquidity and Asset/Liability Management (5%)								Aa	A
- Liquid Assets % Liquid Liabilities		X							
Reserve Adequacy (5%)								Aa	A
- Adv./(Fav.) Loss Dev. % Beg. Reserves (5 yr. wtd avg)		-2.8%							
Financial Flexibility (15%)								Ba	B
- Financial Leverage			37.0%						
- Total Leverage				42.5%					
- Earnings Coverage (5 yr. avg)						-0.2x			
Operating Environment								Aaa - A	Aaa - A
Aggregate Profile								Baa1	Baa2

[1]Information based on IFRS financial statements as of Fiscal YE December 31. [2]The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis.

Source: Moody's Investors Service

Ratings

Exhibit 5

Category	Moody's Rating
SRLEV NV	
Rating Outlook	DEV
Insurance Financial Strength	Baa2
BACKED Subordinate	Ba1 (hyb)
BACKED Junior Subordinate	Ba1 (hyb)
VIVAT SCHADEVERZEKERINGEN N.V.	
Rating Outlook	RUR
Insurance Financial Strength	Baa2

Source: Moody's Investors Service

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