VIVAT NV

Insurance Entities

Full Rating Report

Ratings

Insurer Financial Strength Ratings

REAAL Schadeverzekeringen NV	BBB
SRLEV N.V.	BBB

Outlooks

REAAL Schadeverzekeringen NV Insurer Financial Strength Rating	Positive
SRLEV N.V. Insurer Financial Strength Rating	Positive

Financial Data

VIVAT

(EURm)	2014
Total equity	2,015
Total assets	60,525
Net income	-612
Return on equity (%)	-26.7
Regulatory capital ratio (%)	136

Note: As of 31 Dec

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Key Rating Drivers

Regulatory Framework: Fitch Ratings understands from VIVAT that the regulatory framework in which it operates protects the company's capital position through restrictions on the minimum capital position and dividend payments. In Fitch's view these regulatory restrictions are intended to preserve VIVAT's capitalisation and protect policyholders.

Capital Injection Strengthens Balance Sheet: VIVAT had an adequate solvency position and high leverage before the capital injection in October 2015. At end-December 2014, VIVAT's regulatory solvency weakened to 136% from 172% (2013), mainly as a result of reported losses.

Following the conclusion of the capital injection of EUR1.35bn by Anbang in 2015, VIVAT's Solvency I coverage increased to 233% and the Solvency II ratio to above 150%. The financial leverage ratio (FLR) improved to below 26% from 38% based on pro-forma end-2014 financials, a level Fitch views as manageable.

Normalisation of Operations Under Way: VIVAT's new ownership has facilitated a normalisation of the business, which includes the resumption of coupon payments by the life entity SRLEV N.V. on its subordinated bonds, a new commercial strategy of cancelling non-profitable distribution agreements for the VIVAT group, and planned simplification of balances between VIVAT and its former parent company SNS REAAL NV.

Earnings Set to Improve: Fitch expects that VIVAT will improve its earnings and debt servicing capabilities through operational efficiencies, insurance portfolio adjustments, re branding and streamlining distribution channels.

Weak Profitability, Interest Coverage: Fitch views VIVAT's profitability and the related interest coverage as weak. VIVAT posted a EUR612m loss in 2014 (2013: EUR625m) in connection with the IFRS liability adequacy test shortfall. Fitch expects reported underlying profitability to improve in the coming years despite difficult market conditions within the Dutch insurance market, characterised by low interest rates and fierce competition.

Strong Dutch Business Position: Acquisitions in 2007 helped VIVAT to build up a strong presence in the Dutch insurance market, notably in life and pensions. SRLEV N.V. now ranks third among Dutch life insurers, with a market share of 15%. REAAL Schadeverzekeringen is a significant non-life company, with 5% market share.

Rating Sensitivities

Improved Profitability: The ratings could be upgraded if VIVAT Insurance returns to profitability in line with the 'BBB' rating category (for example, if return on equity improves to 3%), while maintaining overall capital strength.

Weaker Financial Fundamentals: VIVAT Insurance's ratings may be downgraded if there are material losses in 2015 or 2016, or if the group regulatory solvency ratio (on a Solvency II basis) falls below 150%.

Market Position and Size/Scale

Strong Presence in Dutch Insurance Market

- Third largest life insurance group in Dutch market
- Diversified insurance portfolio

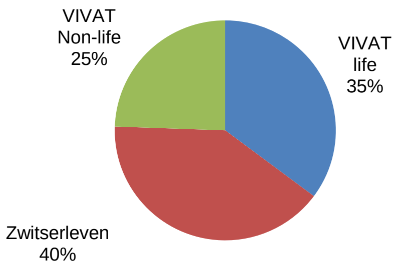
Third Largest Life Insurance Group in Dutch Market

VIVAT is significant in the Dutch insurance market, notably in life and pensions where it ranked third with 15% total market share in 2014. It is a market leader in term life business with a new business market share of more than 20%. In non-life insurance, the group ranks sixth with 5% market share.

The Zwitserleven (group pension) business acquired by VIVAT is a leader in the defined contribution market and benefits from strong brand recognition. At end-2014, it had a single premium market share of 18%.

Figure 1

VIVAT NV Insurance Premiums Breakdown (2014)



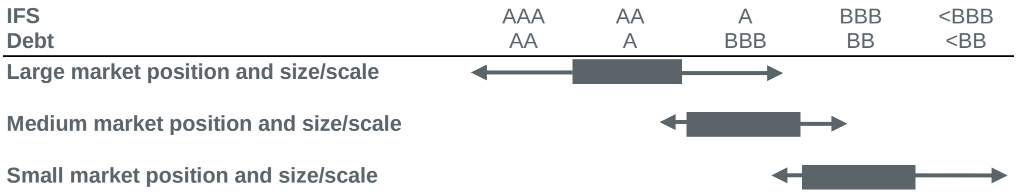
Source: VIVAT NV

Diversified Insurance Portfolio

VIVAT underwrites business in life insurance, pensions insurance and non-life insurance. Since 2008, the mix of the insurance portfolio has changed significantly with an increased share of non-life and pension products and a declining proportion of life products (see Appendix A). This trend is in line with market demand for non-life products and the difficulties faced in the life insurance market with low interest rates. The diversification of the portfolio is helpful for VIVAT as it mitigates the difficulties facing certain business lines.

Figure 2

Ratings Range Based on Market Position and Size/Scale



Source: Fitch

Related Criteria

Insurance Rating Methodology (September 2015)

Corporate Governance and Management

Corporate governance and management are effective and neutral for the rating.

Ownership Is Neutral

VIVAT is fully owned by the Anbang Insurance Group Co. Ltd. (Anbang), and Fitch views VIVAT as strategically ‘Important’ to its parent.

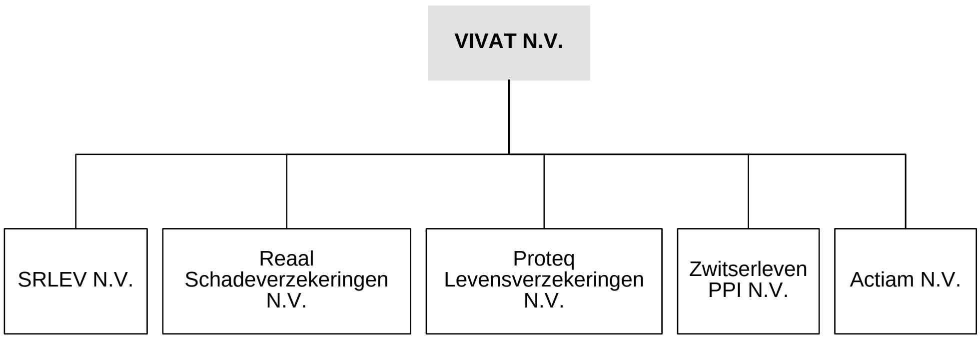
On 16 February 2015, SNS REAAL, a nationalised Dutch financial services group, announced the sale of VIVAT to Anbang Insurance Group Co. Ltd. (Anbang). As part of the restructuring plan at the time of nationalisation, the Dutch state committed to, among other measures, the sale of SNS REAAL's insurance operations.

The transaction was completed on 26 July 2015. As part of the transaction, Anbang later provided an equity capital injection to VIVAT of EUR1.35bn.

As a result of the transaction, the coupon ban imposed by the European Commission on externally placed outstanding subordinated bonds issued by SRLEV was lifted. This enabled SRLEV N.V. to resume coupon payments following the conclusion of the transaction.

Figure 3

Structure Diagram



Source: VIVAT

Sovereign and Country Related Constraints

Fitch rates the sovereign obligations of the Netherlands at ‘AAA’ with a Stable Outlook, and the Country Ceiling is similarly ‘AAA’. Therefore, the ratings of Dutch insurance organisations and other corporate issuers are not directly constrained by sovereign or macroeconomic risks.

Industry Profile and Operating Environment

Cost Management Critical in Saturated Market

With EUR75bn of written premiums (2013), the Dutch insurance market is the fourth-largest in the European Union. The market is mature and has one of the highest insurance penetration rates in the world and in 2013, the Netherlands had one of the highest penetration levels in Europe with 12.5% of premiums to GDP, the same as the UK. The market is concentrated, particularly in the life and health segments, with the six largest groups accounting for almost 70% of total market share. There is little opportunity for organic growth.

Given the limited growth opportunities, cost efficiency is a key driver for profitability. Dutch insurers have been successful in achieving their cost-cutting targets, and Fitch expects that further streamlining and optimisation of cost structures will be achieved in 2015.

Life Insurance: Shrinking and Barely Profitable Market

The life insurance market has declined sharply since 2007 as a consequence of tax changes allowing banks to compete on equal terms with insurers in the savings market. In addition, demand for unit-linked and single premium business dropped in the wake of the financial crisis.

Premium income declined as the housing market stagnated and demand for mortgage-related term life insurance products declined. Household consumption in the Netherlands was exceptionally weak in 2011-2013, as high levels of mortgage debt coupled with high loan-to-value ratios made Dutch households particularly sensitive to swings in house prices. The negative wealth effect is now easing. House prices bottomed out in 2H13, earlier than Fitch’s previous baseline expectation (mid-2014). Nonetheless, the market for term life products remains highly competitive.

Group life – a smaller part of the life insurance sector – has been stable since 2008. While pensions business could represent an opportunity for growth (especially if the second pillar of occupational pensions is made mandatory), it is dependent on political developments and competition is tough.

Overall, Fitch expects the life market to continue contracting in 2015 and views this as negative from a rating perspective, although it is counterbalanced by the benefits of cost cutting.

Stable Operating Environment in Non-Life

The Dutch non-life market has been stable and profitable since the financial crisis began in 2008, with profitable underwriting amid sluggish growth. This stability is likely to continue in 2015, in Fitch’s view, despite the increasing shift to price aggregators that could add further downward pressure on pricing. There were signs of softening rates in 2014 due to stiff competition.

The degree of stability and profitability of the Dutch non-life market is positive from a credit perspective.

Peer Analysis

Significant Operator in Domestic Market; Weaker Profitability

VIVAT's peers are most of the largest Dutch composite insurers. In the peer group, NN Group and Aegon have substantial non-Dutch insurance operations, making them less comparable with VIVAT, which operates only in the Netherlands.

Achmea has a larger balance sheet and a stronger and more diversified profile in the Dutch market than VIVAT. It also has stronger capital and better profitability. NN Group is bigger than VIVAT and has stronger capital. Aegon is also larger and more profitable, but VIVAT has lower financial leverage.

ASR is similar in size to VIVAT, but is more profitable, has stronger capital and lower financial leverage. Friends Life operates predominantly in the UK and it is a larger company but the product mix is similar to VIVAT's.

Figure 4

Peer Comparison – 2014

Company	IFS rating of primary operating entities	Assets (EURm)	Shareholders' equity (EURm)	IFRS profit (EURm)	Return on assets[a] (%)	Combined ratio (%)	Return on equity[b] (%)	EU solvency I ratio (%)	Financial leverage ratio (%)
Achmea	NR	93,205	9,818	16	0.1	102.5	0.2	215	21
AG Insurance	A+/Stable	74,260	6,488	530	0.9	101.2	9.2	210	32
VIVAT	**BBB/Positive**	**60,525**	**2,015**	**-605**	**-1.4**	**110.9**	**-26.3**	**136**	**44**
KBC Insurance	A−/Stable	37,921	3,296	391	1.5	94.3	11.9	323	0
Ethias[c]	BBB/Stable	19,771	1,130	-135	-0.7	89.2	-11	179	23

[a] Group pre-tax income/2013-2014 average total assets
[b] Group net income/2013-2014 average group shareholders' equity
[c] Unconsolidated accounts, Belgian GAAP
Source: Companies, Fitch

Figure 5

Capitalisation and Leverage

(EURm)	2010	2011	2012	2013	2014	Fitch's expectation
Total equity	3,630	4,020	2,932	2,589	2,015	Fitch expects VIVAT to maintain a satisfactory level of capitalisation, and for the group to maintain financial leverage at the current level.
Financial leverage ratio (%)	61	41	48	36	38	
Regulatory solvency ratio (%)	195	203	176	172	136	
TFC ratio (x)	3.5	1.7	1.9	1.3	1	

Source: Fitch

Strong Capital Adequacy After Capital Injection, Reduced Leverage

- Strong solvency, supported by capital injection
- Manageable financial leverage

Strong Solvency, Supported by Capital Injection

VIVAT had an adequate solvency position and high leverage at end-2014, as VIVAT's regulatory solvency weakened to 136% from 172% (2013), a level commensurate with a 'BBB' rating category. This was mainly a result of an earnings loss in 2014, which saw a decrease in VIVAT's total equity to EUR2bn from EUR2.6bn 2013.

Figure 6

Median Solvency Ratio Guidelines

IFS rating	AAA	AA	A	BBB
Solvency I ratio (EU, Life) (%)	220	175	150	125

Source: Fitch

As a result of the EUR1.35bn capital injection received on 23 October 2015, on a pro-forma basis based on 30 June 2015 figures, VIVAT estimates its Solvency I capital ratio has improved to 233% and the Solvency II ratio to above 150%.

Manageable Financial Leverage

As a result of the capital injection, VIVAT's FLR, as calculated by Fitch, has improved to below 26% based on a pro-forma calculation using end-2014 financials, a level Fitch views as manageable.

VIVAT's financial leverage was 38% at end-2014 (2013: 36%). The increase is explained by a decrease in shareholder funds, following the reported loss for 2014.

Figure 7

Debt Service Capabilities and Financial Flexibility

(x)	2010	2011	2012	2013	2014	Fitch's expectation
Fixed-charge coverage ratio (excluding realised and unrealised gains)	3.1	4.3	0.2	-5.3	-4.1	Fitch expects the fixed-charge coverage ratio to remain low but to improve as management implements remedial actions.
Fixed-charge coverage ratio (including realised and unrealised gains)	2.4	2.7	-2.6	-7.7	-5.9	

Source: Fitch

Weak Coverage and Financial Flexibility

- Resumption of coupon payments favourable
- Low and volatile coverage ratio

Resumption of Coupon Payments Favourable

On 23 October 2015 SRLEV announced that it would resume coupon payments on its subordinated bonds on 6 November 2015. Fitch views the resumption of coupon payments as favourable, and an important step towards improving overall financial flexibility.

In 2013 the European Commission decided to disallow SRLEV from paying the coupons of its existing subordinated bonds, as the group received state support. At the announcement of the completion of the sale of VIVAT, SRLEV announced that it would continue to make use of its right to defer of coupon payments.

Low and Volatile Coverage Ratio

Fitch assesses VIVAT's coverage ratio in 2014 as low for its current rating level. The agency expects coverage to remain under pressure, as SRLEV's resumes coupon payments on its subordinated debt, but earnings should improve as a result of management actions (see "Financial Performance and Earnings" section).

VIVAT's fixed-charge coverage deteriorated in 2014 following a second consecutive year of weak net and underlying profits. Realised and unrealised investment gains have been negative for each of the past five years, also weakening coverage.

Figure 8

Financial Performance and Earnings

(EURm)	2010	2011	2012	2013	2014	Fitch's expectation
Net income	242	192	-149	-625	-612	Fitch expects ongoing negative pressure on the life segment profitability because of low investment yields and increased competition in the domestic market. REAAL Insurance competes in a competitive Dutch non-life market and this will remain the case. However, management is implementing remedial actions to restore underlying profitability, and Fitch expects profitability will be restored as a result.
Net Income return on equity (%)	6.7	6.9	-4.3	-22.9	-26.7	
Pre-tax operating return on assets (%)	0.9	1.1	0.04	-1.1	-1.0	
Pre-tax operating return on assets – excl. unrealised gains and losses (%)	0.7	0.7	-0.5	-1.6	-1.4	
Combined ratio (%)	98.5	96.2	97.3	107.7	110.9	

Source: Fitch

Weak Operating Performance

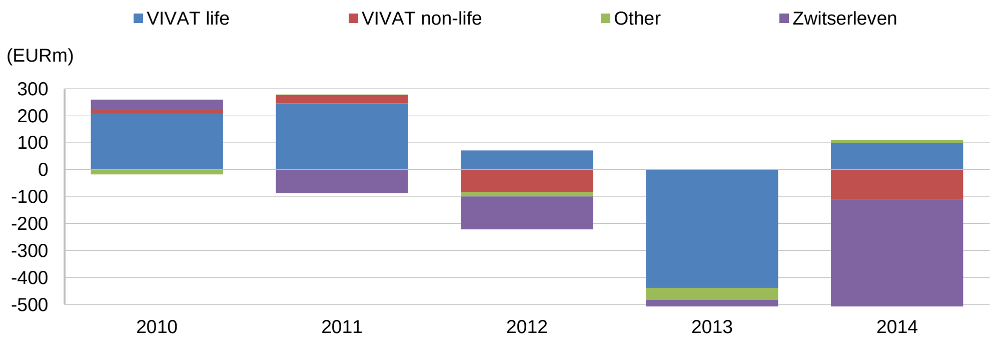
- One-offs hurt profits
- Weak underlying profitability, but expected to improve
- Cost savings main driver of profitability

One-Offs Hurt Profits

As in 2013 and 2012, VIVAT's 2014 net results suffered from impairments and one-off charges. The main one-off item was a EUR648m expense in connection with the IFRS liability adequacy test shortfall.

Figure 9

Net Result by Operations



Source: VIVAT NV

Weak Underlying Profitability, but Expected to Improve

Fitch believes that VIVAT's underlying profitability in its life and pensions business is likely to remain under pressure in 2015, due to low interest rates and fierce competition. However, the agency expects that VIVAT will improve its low level of earnings and debt servicing capabilities through operational efficiencies, portfolio adjustments, re-branding and streamlining distribution channels.

Underlying earnings of insurance activities, excluding one-off items, declined to EUR7m in 2014 from EUR84m in 2013, below expectations for a company rated in the 'BBB' category. The three major business units, REAAL Life, Zwitserleven and REAAL Non-Life, all contributed to the decline.

The loss was largely driven by REAAL Non-Life's EUR63m loss, as a result of a combined ratio of 110.9%, which Fitch considers high for the rating level. The agency expects the combined ratio to remain above 100% in 2015, due to stiff competition in the Dutch insurance market.

Cost Savings Main Driver of Profitability

In the saturated Dutch market, cost savings are critical to maintain profitability. VIVAT's operating expenses were 3% lower in 2014 than in 2013.

Figure 10

Investment and Asset Risk

(%)	2010	2011	2012	2013	2014	Fitch's expectation
Risky assets/equity	50.5	55.1	75.1	61.2	76	Fitch expects the investment portfolio to remain prudent and of a strong quality, with any potential losses on the mortgage books being manageable.
Unaffiliated shares/equity	37	30.3	42.4	44.8	66	
Non-investment-grade bonds/equity	12	23.9	31.1	16.1	9.7	
Investments in affiliates/equity	1.5	0.9	1.5	0.2	0.3	

Source: Fitch

Prudent Investment Management

- Conservative fixed-income portfolio
- Manageable level of mortgages
- Re-risking the investment portfolio

Conservative Fixed-Income Portfolio

VIVAT's investment portfolio is conservative, which Fitch views positively. The vast majority of its own assets is invested in good quality fixed-income instruments and mortgages.

The credit quality of the fixed income portfolio is strong, with 70% invested in 'AAA' bonds (2013: 60%). 17% of the fixed-income portfolio is not rated, as it consists mainly of investments related to savings mortgages.

Manageable Level of Mortgages

By European standards, the share of mortgages in VIVAT's portfolio looks high, reflecting a unique Dutch market practice in which life insurance policies and residential property mortgage loans are sold to individual customers as packaged financial products. This portfolio (2014: EUR2.0bn; 2013: 2.9bn) relates only to residential property in the Netherlands.

Around 55% of this pure mortgage portfolio has a national mortgage guarantee and 23% has a loan-to-foreclosure value lower than 75%. However, 22% has a loan-to-foreclosure value higher than 75%. Fitch believes that, given the size of VIVAT's total equity (EUR2.0bn at end-2014), there is a sufficient cushion to absorb potential losses on the more risky mortgages.

Excluding mortgage-related assets, the credit quality of the bond portfolio is good, with only 3% of bonds rated 'BBB' or below.

Re-risking the Investment Portfolio

Due to the decrease of its Solvency position in 2014 VIVAT was forced to de-risk its investment portfolio, which limited its earnings potential. Following the capital injection, VIVAT aims to conservatively re-risk its investment portfolio. While Fitch acknowledges the positive contribution to long-term earnings from higher expected returns, there is incremental investment risk arising from this strategy.

Figure 11
Asset/Liability and Liquidity Management

(%)	2010	2011	2012	2013	2014	Fitch's expectation
Liquid assets/total technical reserves, excl. unit linked	124.3	135.2	130.3	131.7	120	REAAL Insurance maintains a strong liquidity position. Fitch expects no material changes in asset/liability management.
Duration mismatch (years)	-1.9	-3.1	-3.6	-4.4	n.a.	
Proportion of technical provisions with an expected term of more than five years	n.a.	79.8	77.7	78.3	79.4	

Source: Fitch

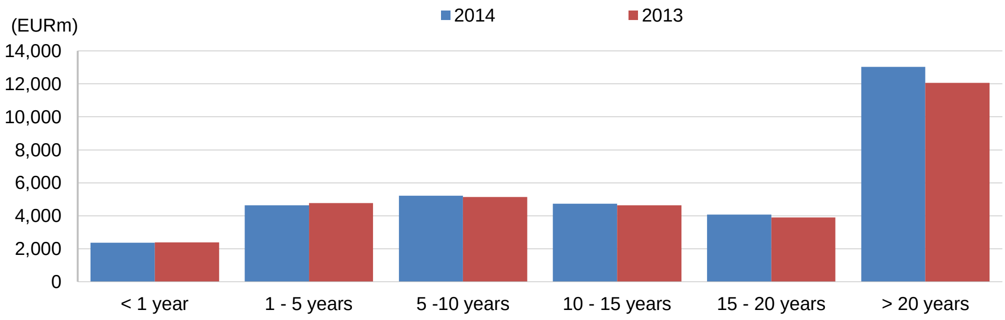
Adequate Liquidity Management

- Low liquidity risk
- Managing duration mismatch
- High guaranteed return carried by some policies

Low Liquidity Risk

Due to its cash flow structure, VIVAT is not significantly exposed to liquidity risk (see Figure 11). However, its insurance operations maintain substantial liquidity to cover any unexpected developments. Overall, Fitch considers VIVAT's investment strategy appropriate given the profile of policyholder liabilities.

Figure 12
Liability Cash Flow Profile



Source: VIVAT NV

Managing Duration Mismatch

VIVAT is exposed to interest-rate risk as its life products contain profit-sharing features and carry guaranteed returns, while there is significant duration mismatch between assets and liabilities.

To address duration mismatches between its fixed-income assets and life insurance liabilities, VIVAT uses hedging instruments such as swaps. Since 2006, VIVAT has used a value-at-risk (VaR) approach to manage the duration mismatch, although in 2013 the focus shifted to a solvency-at-risk (Solar) approach as there was the need to protect solvency.

Following modelling and methodology changes, the sensitivity of liabilities to interest-rate movements (recognised in the solvency calculation) reduced and asset duration was shortened further. The IFRS results remain more sensitive to changes in interest rates than the solvency calculation.

High Guaranteed Return Carried by Some Policies

Fitch estimates that 79% of life non-linked insurance policies carry guaranteed returns of between 3% and 5%. As this is difficult to achieve in current financial markets, expected profit margins have subsequently been affected. Like all life insurers writing long-tail business (typically pension products), VIVAT is exposed to the persistence of low interest rates for new money investments and reinvestments, although this is partly offset by the significance of its mortgage loans portfolio, which is typically longer term than its fixed-income investments.

Figure 13

Reserve Adequacy

(Non-life, %)	2010	2011	2012	2013	2014	Fitch's expectation
Loss reserves/CY incurred losses	2.1	2.0	2.1	1.9	1.8	Fitch considers reserving to be adequate. No major future releases or increases are expected.
Loss reserves/equity	0.3	0.2	0.3	0.4	0.5	
CY paid losses/incurred losses	1.0	1.1	1.1	1.0	0.9	
Change in ratio of loss reserves/ earned premiums	n.a.	-11.7	3.5	6.4	14.5	
One year reserve development/prior year equity	n.a.	-1.2	-1.3	-0.2	-0.7	
One year reserve development/PY loss reserves	n.a.	-4.4	-5.2	-0.7	-1.8	
Net technical reserves/net earned premium (non-life)	157.5	142.9	145	149.9	163.4	

Notes: Negative numbers denote positive reserve developments
CY: current year
PHS: policyholders' surplus
PY: prior years
Source: Fitch

Adequate Reserving Practices

- Adequate approach to reserving in non-life
- Reserve releases reducing
- Adverse experience in life
- Exposure to longevity risk

Adequate Approach to Reserving in Non-Life

Fitch considers that VIVAT follows an adequate approach to reserving. The group uses generally accepted actuarial methods for projecting ultimate losses and calculating reserves for claims incurred but not yet reported. Given the short-tail nature of VIVAT's portfolio, material reserve deficiencies are unlikely. Neither reserve strengthening nor unfavourable claims development has been reported in the recent past. VIVAT occasionally requests that external actuaries perform a review of its non-life reserves.

Reserve Releases Reducing

Outstanding claims reserves show positive development in aggregate, with a positive 0.7% of equity in 2014. This development compares favourably with 2013 but it is below 2011 and 2012 levels. Fitch believes that reserve releases will be contained in 2015 and considers VIVAT's reserving policies as adequate for the rating level.

Adverse Experience in Life

The adequacy of life insurance technical provisions is tested every reporting period by means of the IFRS liability adequacy test (LAT). A LAT shortfall triggers a reserve strengthening process, which was required in 2013 and 2014. Fitch believes that further reserve strengthening is possible given the high guarantees and asset-liability mismatch in VIVAT's in-force business.

Exposure to Longevity Risk

Like many Dutch insurers, VIVAT is exposed to longevity risk, particularly in its pension portfolio. A 20% increase in longevity risk (stress test) would result in 49% deterioration in the solvency ratio at end-2014. Under that scenario, capital would nonetheless remain sufficient for a rating in the 'BBB' category.

Reinsurance, Risk Management and Catastrophe Risk

Limited Use of Reinsurance

- Moderate use of reinsurance
- Low catastrophe exposure

Moderate Use of Reinsurance

VIVAT is a modest buyer of reinsurance protection, with a retention ratio of 85.5% in the life business and 93.9% in the non-life business.

Low Catastrophe Exposure

Catastrophe treaties leave VIVAT with EUR25m retention in non-life insurance and EUR15m retention in life insurance. The catastrophe programme capacity was established to protect the group against any event with an expected recurring period of 200 years. Retentions for other life and non-life risks are small.

The reinsurance policy is established centrally. Ceded reinsurance is placed with a diversified number of well-rated (at least ‘A−’) reinsurance companies, of which Munich Re (IFS ‘AA’/Stable) and Swiss Re (IFS ‘AA-’/Stable) have the largest shares, although neither exceeds 25%.

Appendix A: Other Ratings Considerations

Below is a summary of additional ratings considerations of a technical nature, which are also part of Fitch's ratings criteria.

Group IFS Rating Approach

Both REAAL Schadeverzekeringen NV and SRLEV NV are viewed as Core subsidiaries of the VIVAT group. Therefore, Fitch applies a group rating methodology, rating each entity based on a combined VIVAT 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.

Figure 14
Hybrids Treatment

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.
Operating Company Debt
Not applicable (no rated issues).
Holding Company IDR
Not applicable.
Holding Company Debt
Not applicable (no rated issues).
Hybrids
Not applicable (no rated issues).

Source: Fitch

Hybrids – Equity/Debt Treatment

Figure 15
Hybrids Treatment

Hybrid	Amount (EURm)	CAR Fitch (%)	CAR reg. override (%)	FLR debt (%)
Subordinated debt	887[a]	0	100[b]	100

CAR – Capitalisation ratio
FLR – Financial leverage ratio
For CAR % represents portion of hybrid value included as Available Capital, both before (Fitch %) and the Regulatory Override
For FLR % represents portion of hybrid value included as debt in numerator of leverage ratio
[a] Total amount of subordinated debt as of end-2014
[b] EUR734m is eligible as regulatory available capital
Source: Fitch

Exceptions to Criteria/Ratings Limitations

None.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.