VIVAT NV

Insurance Entities

Full Rating Report

Ratings

Issuer Default Ratings

VIVAT N.V.	BBB

Insurer Financial Strength Ratings

REAAL Schadeverzekeringen NV	BBB+
SRLEV N.V.	BBB+

Outlooks

VIVAT NV	Stable
REAAL Schadeverzekeringen NV	Stable
SRLEV N.V.	Stable

Financial Data

VIVAT

(EURm)	2015	2014
Total equity	3,451	2,015
Total assets	60,328	60,525
Net income	109	-612
Return on equity (%)	4	-27
Regulatory capital ratio (%)	240	136

Note: As of 31 Dec

Related Research

Dutch Insurance Dashboard – 2016 Update (July 2016)

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Key Rating Drivers

Upgrade Reflects Improving Profitability: On 19 October Fitch Ratings upgraded VIVAT NV's ratings by one notch, reflecting Fitch's expectation that the insurer will return to sustainable underlying profitability, and taking account of its improved solvency position. The ratings also benefit from a sharpened strategic focus under the new ownership of China-based Anbang Group Holdings Co. Ltd.

Strong Capitalisation: VIVAT's capital position supports the group's ratings, with a Prism factor-based capital model (FBM) score of "Very Strong" at end-2015. VIVAT reported its Solvency II ratio (calculated based on the standard formula) at 182% at end-June 2016 (end-2015: around 160%). VIVAT's Solvency II position has limited sensitivity to interest rate shocks, due to effective interest rate risk management.

The group's capitalisation and leverage metrics improved following a significant capital injection by Anbang in 2015. Its financial leverage ratio (FLR) was 21% at end-2015 (38% at end-2014) and is likely to remain at around this level.

Underlying Profitability Recovering: VIVAT reported a strong increase in net income in 1H16 (EUR578m), but this was due to market movements rather than operational improvements. Fitch expects VIVAT's underlying profitability to improve from the current low base but it will remain under pressure in the coming years from low interest rates and fierce competition in the Dutch insurance market.

Strategic Focus Supports Recovery: VIVAT's new management team has begun a strategic review, aimed at establishing a more customer-focused culture and cutting costs. Fitch believes this operational focus is an essential component in improving profitability due to the challenges facing the Dutch market.

Stable Dutch Market Position: VIVAT's ratings are underpinned by its subsidiaries' stable presence in the Dutch insurance market, notably in life and pensions. SRLEV N.V. is third among Dutch life insurers, with a market share of around 15%. REAAL Schadeverzekeringen NV is a significant, albeit smaller, non-life company, with a 5% market share.

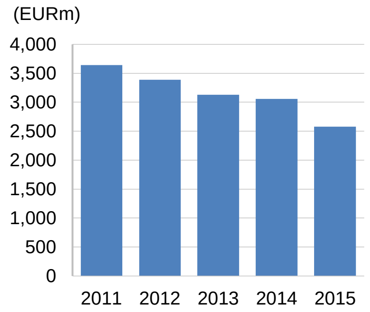
Investment Risk to Remain Contained: VIVAT has a conservative investment portfolio with significant exposure to German and Dutch government bonds. VIVAT has begun taking more investment risk following its capital injection, but only incrementally. Fitch therefore expects the increase in risk to remain contained.

Rating Sensitivities

Weaker Financial Fundamentals: VIVAT's ratings may be downgraded if it fails to maintain profitability, as measured by underlying net income return on equity (ROE) of at least 3%. The ratings may also be downgraded if VIVAT's Prism FBM score falls to the 'Strong' category, or financial leverage increases to more than 35% for a sustained period. A weakening in Fitch's assessment of the credit quality of Anbang could also lead to a downgrade.

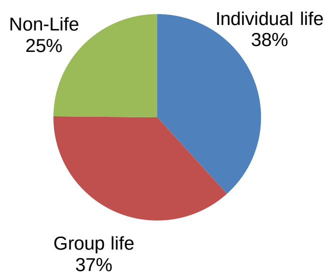
Upgrade Unlikely: An upgrade is unlikely in the medium term, unless Fitch's assessment of Anbang's credit quality improves significantly, combined with a further improvement in VIVAT's profitability, as measured by a sustained net income ROE above 7% (2015: 4%).

VIVAT Gross Premium Income



Source: Company, Fitch

VIVAT Gross Written Premium Split



Source: Company, Fitch

Market Position and Size/Scale

Significant position in Dutch Insurance Market

- Third-largest Dutch life insurer
- Dutch focus

Third-Largest Dutch Life Insurer

VIVAT has a significant share in the Dutch life market where it ranked third through SRLEV with 15% market share in life insurance assets in 2015. However, new business market share fell to 13.5% in regular individual life premiums in 2015, 3.3% below the previous year. REAAL maintained its sixth position with 5% market share in 2015 gross written premiums. Zwitserleven, VIVAT's pension brand, is significant in the group (pension) life business.

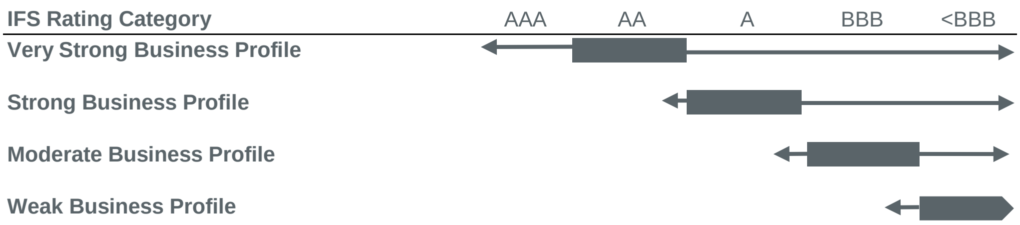
VIVAT's gross premium income was under increased pressure in 2015, driven by strong competition and uncertainties about its capital strength[1]. Gross premiums fell 16%, nearly double the rate of decline of the Dutch market. Zwitserleven in particular faced difficulties in retaining and attracting new customers. In 1H16, VIVAT's premium income stabilised and was in line with 1H15 with a modest increase in both the individual and group life segments.

VIVAT's asset management business, ACTIAM, provides services to VIVAT as well as external clients with assets under management of EUR52bn at end-2015. ACTIAM's business performed well, with net fee and commission income increasing by 25%.

Dutch Focus

VIVAT's operations are entirely focused on the Netherlands where it underwrites business in life, pensions and non-life insurance. Although product diversification is favourable for VIVAT, its geographical profile means that it is predominantly exposed to developments in the Dutch market.

Ratings Range Based on Business Profile



Source: Fitch

Related Criteria

Insurance Rating Methodology (September 2016)

[1] Source: VIVAT Annual Report.

Corporate Governance and Management

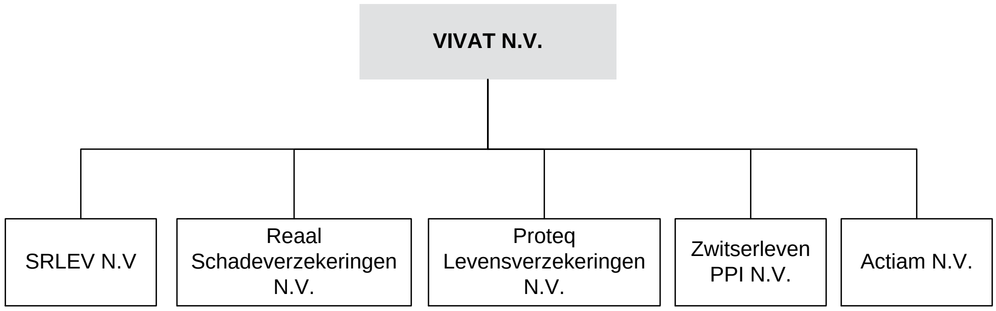
Corporate governance and management are effective and neutral for the rating.

Ownership Is Neutral to Rating

VIVAT is fully owned by Anbang, and Fitch views VIVAT as strategically 'Important' to its parent. Fitch assesses VIVAT on a standalone basis without factoring in Anbang's credit strength. We believe that the regulatory framework in which VIVAT operates ring-fences its capitalisation and protects policyholders through restrictions on the minimum capital position and dividend payments.

SNS REAAL's sale of VIVAT to Anbang was completed on 26 July 2015. Anbang subsequently provided an equity capital injection to VIVAT of EUR1.35bn.

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 a Shrinking Market

The Dutch insurance market is one of the five largest in the European Union. The market is mature with high insurance penetration of 10% (4% excluding health premiums) which is well above both the developed market and the EU average.

We expect Dutch insurers to focus on operational efficiencies and cost savings, driven by sluggish growth, competition on pricing and customer service, and life insurers' efforts to optimise returns from closed-book business. We estimate that the industry is aiming to cut annual costs by at least EUR500m over 2016-2018 following a reduction of more than EUR650m over 2012-2015.

Life Insurance: Decline Driven by Low Rates and Weak Demand

Dutch life insurers are selling more capital-light, fee-based business (unit-linked and asset management products) in preference to spread-based business (products with investment guarantees). This is driven by sustained low interest rates, a shift in customer preferences and onerous capital requirements for spread-based business, particularly since Solvency II took effect on 1 January 2016. These capital requirements may increase if interest rates remain low.

From 1 January 2016, pension providers can offer a general pension fund (Algemeen Pensioenfonds; APF), whereby multiple employers can participate separately in one ring-fenced fund with independent governance. This enables pension providers, such as insurers, to offer cost-effective pension arrangements to small businesses. We expect profit margins to be low, with most large providers opening APFs, fuelling competitive pricing. However, APFs may help insurers to market themselves as holistic wealth management providers.

Overall, Fitch sees an increase in interest rates a prerequisite for improvement in the life segment. With rates forecast to remain lower for longer, Fitch expects profitability to remain weak in coming years.

Competitive Pressure in Non-Life

The Dutch non-life market is highly competitive as distribution shifts from intermediaries to online, where premium rate comparisons put pressure on pricing. The sector combined ratio increased to 104% in 2015 (2014: 101%), reflecting increased losses from storms and hail.

Severe weather continued in 1H16, with significant storms in June 2016. The Dutch insurance association estimated claims before reinsurance of more than EUR500m for the insurance industry for damage to homes, automobiles and agriculture.

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 presence in the Dutch market than VIVAT. It also has stronger capital on a Solvency II basis and better profitability measured by return on assets. ASR is similar in size to VIVAT, but is more profitable and has stronger capital, as measured by its Solvency I ratio. Delta Lloyd operates with higher leverage and weaker capital.

Peer Comparison – 2015

Company	IFS rating of primary operating entities	Assets (EURbn)	IFRS net profit (EURm)	Return on average assets (%)	Return on average equity (%)	EU Solvency I ratio (%)	EU Solvency II ratio (%)	Financial leverage ratio (%)
Aegon	A+/Stable	417	619	0.2	2.2	220	160	26
NN Group	A+/Stable	162	1,595	1	7.4	320	239	23
VIVAT	**BBB+/Stable**	**60**	**109**	**0.2**	**4**	**240**	**160**	**21**
Achmea	NR	93	386	0.4	3.8	210	201	27
ASR	NR	53	604	1.2	15.2	305	185	25
Delta Lloyd	NR	73	140	0.2	5	177	131	39

Source: Companies, Fitch

Capitalisation and Leverage

(EURbn)	2011	2012	2013	2014	2015	Fitch's expectation
Financial leverage ratio (FLR) (%) total equity	41	48	36	38	21	Fitch expects VIVAT to maintain capitalisation and financial leverage close to current levels.
Regulatory solvency ratio[a] (%)	203	176	172	136	240	
Total financing and commitments ratio (TFC) (x)	1.7	1.9	1.3	1.4	0.7	

[a] Insurance Groups Directive ratio
Source: Fitch

Strong Capital Adequacy, Reduced Leverage

- Improved capitalisation
- Improved financial leverage

Improved Capitalisation

VIVAT scores 'very strong' in Fitch's Prism factor-based capital model (Prism FBM) after the capital injection, which supports the rating. The Prism FBM score is a ratio of total available capital divided by target capital at various stress levels, with the Prism score itself being equal to the highest category where total available capital exceeds target capital.

The risk associated with the assets backing VIVAT's life business is the biggest driver of target capital.

VIVAT's group Solvency II ratio (standard formula, without transitional measures) was 160% at end-2015 and strengthened to 182% in the first half of 2016, driven by favourable market developments. The ratio comfortably exceeds management targets and the regulatory requirement.

Improved Financial Leverage

VIVAT's financial leverage ratio, as calculated by Fitch, improved to 21% in 2015 from 38% in 2014, and its total financing and commitments ratio to 0.7x. This is a result of the capital injection and the repayment of a EUR250m loan to SNS Bank in December 2015.

Financial leverage is commensurate with the 'AA' rating category as per Fitch's insurance criteria medians.

Debt Service Capabilities and Financial Flexibility

(x)	2011	2012	2013	2014	2015	Fitch's expectation
Fixed-charge coverage ratio (including realised and unrealised gains)	3	-3	-8	-6	3	Fitch expects the fixed-charge coverage ratio to remain low, constrained by weak profitability.

Source: Fitch

Holding Company Liquidity

VIVAT's unconsolidated liquidity is adequate. Subordinated debt at the holding company level includes a EUR207m perpetual loan from Anbang. Cash at the holding company was EUR75m and investments in liquid money market funds an additional EUR130m, at end-2015.

Improved Coverage and Financial Flexibility

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

Low and Volatile Coverage Ratio

Fitch assesses VIVAT's coverage ratio as low for its rating. Fixed-charge coverage improved in 2015 mainly because of better profitability, with realised and unrealised investment gains having little impact on the ratio.

Weak profitability remains a major hurdle for VIVAT in further improving its debt servicing capabilities.

Resumption of Coupon Payments Favourable

SRLEV resumed coupon payments on its subordinated bonds on 6 November 2015. Fitch sees the resumption of coupon payments as favourable, and an important step towards improving VIVAT's 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.

Financial Performance and Earnings

(EURm)	2011	2012	2013	2014	2015	Fitch's expectation
Net income	192	-149	-625	-612	109	Fitch expects VIVAT's underlying profitability to improve from the current low base but it will remain under pressure in the coming years from low interest rates and fierce competition in the Dutch insurance market.
Net Income return on equity (%)	7	-4	-23	-27	4	
Pre-tax operating return on assets (%)	1	0.04	-1	-1	0.5	
Combined ratio (%)	96	97	108	111	109	

Source: Fitch

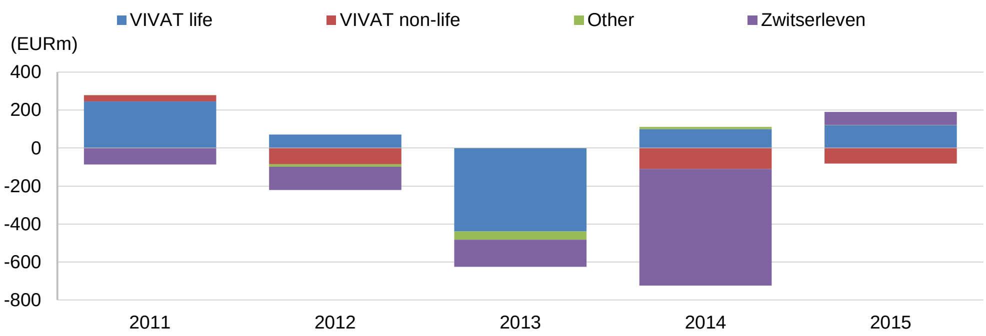
Weak and Volatile Operating Performance

- Net income improved
- Cost saving key to protect profitability

Net Income Improved

VIVAT's net income improved to EUR109m mainly driven by favourable IFRS liability adequacy test (LAT) results in 2015. With the stabilisation of interest rates, a partial release of previously created provisions in the life and pension segment was possible. However, underlying earnings excluding one-offs, investment portfolio impacts and hedges, were modest at EUR33m (2014: nil).

Net Result by Operation



Source: Company, Fitch

In 2015 the non-life business posted underwriting losses (combined ratio above 100%) for the third consecutive year. The underwriting result was affected by significant hailstorm-related losses but the investment result was not significantly hampered by unattractive bond yields in 2015. VIVAT's Fitch-calculated operating ratio was two percentage points (pp) below the combined ratio in 2015 (2014: 2.6pp). This reflects the declining contribution of investment returns to non-life profitability in the low-interest-rate environment.

Fitch expects VIVAT's combined and operating ratios to remain high due to stiff competition, high loss experience in the Dutch property and casualty market, and persistently low investment yields.

Cost Saving Key to Protect Profitability

Fitch believes that cost savings are crucial for VIVAT to protect its profitability in the shrinking Dutch market. VIVAT plans to cut 1,200 jobs, more than one-third of its workforce, by the end of 2016. Fitch estimates that VIVAT could save up to EUR100m annually as a result of this reorganisation plan.

Investment and Asset Risk

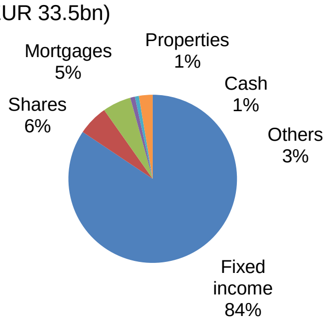
(%)	2011	2012	2013	2014	2015	Fitch's expectation
Risky assets/equity	55	75	61	76	65	Fitch expects VIVAT's investment policy to remain prudent and incremental investment risk arising from the re-risking of the investment portfolio to be limited.
Unaffiliated shares/equity	30	42	45	66	57	
Non-investment-grade bonds/equity	24	31	16	10	8	
Investments in affiliates/equity	0.9	1.5	0.2	0.3	0.2	

Source: Fitch

Low Risky Assets Supports Rating

- Prudent investment management
- Conservative fixed-income investments
- Low-risk mortgage portfolio

VIVAT Investment Portfolio Breakdown
(EUR 33.5bn)



Source: Company, Fitch

Prudent Investment Management

The improvement in the capital position enabled VIVAT to conservatively re-risk its investment portfolio beginning in the last quarter of 2015. VIVAT plans to further re-risk its investment portfolio, mainly by replacing low yielding sovereign bonds with higher yielding assets. While the re-risking strategy can positively contribute to long term earnings and also improves portfolio diversification, it adds incremental investment risk.

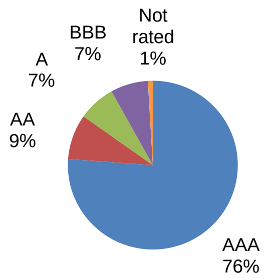
Fitch expects that VIVAT will contain the increase in asset risk and maintain a prudent investment policy that will be supportive to the ratings.

Conservative Fixed-Income Investments

The majority of VIVAT's own assets are invested in high quality fixed-income instruments of predominantly European issuers. Fitch sees VIVAT's fixed-income portfolio as concentrated, with 80% comprising German and Dutch bonds. However, this concentration is offset by the low credit risk of these countries. Exposure to weaker issuers such as Italy and Spain stood at a low 3.8%.

Overall, credit quality is strong with 76% of fixed-income assets rated 'AAA' (2014: 84%) and negligible non-investment-grade assets. Unrated assets mainly consist of investments related to savings mortgages but these are entirely at the policyholder's risk.

VIVAT Fixed Income Portfolio by Rating
(EUR 28.3bn)



Source: Company, Fitch

Low Risk Mortgage Portfolio

VIVAT holds a good quality residential mortgage loan portfolio with an estimated non-performing loan ratio below 1%. 57% of the mortgage portfolio is guaranteed by the National Mortgage Guarantee fund (NHG).

The average loan-to-value (LTV) ratio improved due to amortisation of the outstanding mortgage balance and an increase in Dutch housing prices in 2014 and 2015. High LTV mortgages (above 75%) represented 20% of the portfolio at end-2015. VIVAT does not originate new mortgages.

Asset/Liability and Liquidity Management

(%)	2011	2012	2013	2014	2015	Fitch's expectation
Liquid assets/total technical reserves, incl. unit linked	106	98	96	99	100	VIVAT maintains a strong liquidity position. Fitch expects no material changes in asset/liability management.
Duration mismatch (years)	-3.1	-3.6	-4.4	n.a.	n.a.	
Proportion of technical provisions with an expected term of more than five years	80	78	78	79	80	

Source: Fitch

Duration Mismatch, Good Liquidity

- Reinvestment risk on some policies
- Interest rate risk closely managed
- Low liquidity risk

Reinvestment Risk on Some Policies

Of VIVAT's non-linked life and pension portfolio, 47% carries profit-sharing features and guaranteed returns. As guaranteed returns on in-force business are difficult to achieve in current markets, expected profit margins are under pressure. Like all life insurers writing long-tail business, VIVAT is exposed to the persistence of low interest rates for new money investments and reinvestments. VIVAT aims to mitigate this risk by active cash-flow hedging.

Interest Rate Risk Closely Managed

VIVAT historically reported a high duration mismatch between its assets and liabilities, which has contributed to material interest rate risk. To mitigate the sensitivity of its Solvency II ratio to interest rate risk, VIVAT actively hedges its interest rate exposure. However, the group's Solvency II ratio remains exposed to credit spread movements arising from its fixed-income portfolio.

Low Liquidity Risk

VIVAT's insurance operations maintain substantial liquid assets of EUR22bn after haircuts to cover VIVAT's own liquidity requirement estimate of EUR7.7bn. Overall, Fitch considers VIVAT's investment strategy appropriate given the profile of policyholder liabilities, and liquid asset valuations to be reliable.

Reserve Adequacy

(Non-life, %)	2011	2012	2013	2014	2015	Fitch's expectation
Loss reserves/CY incurred losses	2.1	2.1	1.9	1.8	2.4	Fitch considers non-life reserving to be adequate. No major future releases or increases are expected.
Loss reserves/equity	1.4	1.6	3.3	4.5	2.9	
CY paid losses/incurred losses	1.1	1.1	1	0.9	1.1	
Change in ratio of loss reserves/ earned premiums	-12	4	6	11	5	
One-year reserve development/PY equity	-1.2	-1.3	-0.2	-0.7	-0.3	
One-year reserve development/PY loss reserves	-4.4	-5.2	-0.7	-1.8	-0.5	
Net technical reserves/net written premium (non-life)	143	145	150	163	177	

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

Adequate Reserve Practices

- Adequate approach to non-life reserving
- Decreasing reserve releases
- Adverse experience in life

Adequate Approach to Non-Life Reserving

Fitch considers that VIVAT follows a prudent 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 non-life 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.

Decreasing Reserve Releases

Outstanding claims reserves show positive long-term development in aggregate, with a positive 0.3% of equity in 2015. The result is below the five-year average reserve release of 0.7% and confirms the declining trend.

Fitch believes that reserve releases will be contained for 2016 as Dutch insurers reported increased losses from severe weather events.

Adverse Experience in Life

The annual IFRS liability adequacy test (LAT) triggered a reserve strengthening process for VIVAT in 2013 and 2014, driven by model parameter changes and lower interest rates. Fitch believes that the need for further reserve strengthening cannot be ruled out given the estimated asset-liability mismatch in VIVAT's life business and the possibility of lower interest rates.

Reinsurance, Risk Management and Catastrophe Risk

Limited Use of Reinsurance, Effective Catastrophe Cover

- Low catastrophe exposure
- Low reinsurance counterparty credit risk

Low Catastrophe Exposure

VIVAT's reinsurance policy is established centrally, and reinsurance cover is in place for both life and non-life lines. All reinsurance treaties are on an excess-of-loss basis with low retentions.

Fitch believes that VIVAT is effectively protected for large loss events with a per event retention of EUR25m (2014: EUR35m) in non-life and EUR15m in life insurance. The catastrophe programme capacity was established to protect the group against any event with an expected recurring period of 200 years.

Low Reinsurance Counterparty Credit Risk

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

Group IFS Rating Approach

Fitch views both REAAL Schadeverzekeringen NV and SRLEV NV 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.

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

Hybrids Treatment

Hybrid	Amount (EURm)	FBM Fitch (%)	FBM reg. override (%)	FLR debt (%)
Subordinated debt	786[a]	0	100	100

FBM – Prism factor-based capital model
FLR – Financial leverage ratio
For FBM % 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-2015
Source: Fitch

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 insurance operating company and holding company IDRs for a group solvency regulatory environment.	

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.