MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades to Baa2 the financial strength rating on Vivat NV's operating subsidiaries with a stable outlook

Global Credit Research - 11 Nov 2016

London, 11 November 2016 -- Moody's Investors Service has today upgraded the insurance financial strength rating (IFSR) to Baa2 from Baa3 of SRLEV NV ("SRLEV") and REAAL Schadeverzekeringen NV ("Reaal Schade"), the two main operating subsidiaries of VIVAT N.V. ("Vivat", unrated). Moody's has also upgraded the backed subordinated and backed junior subordinate debt ratings of SRLEV to Ba1(hyb) from Ba2(hyb), reflecting standard notching for hybrid debt issued by operating companies. The outlook on all entities changed to stable from positive.

Moody's considers the combined operations of VIVAT (primarily SRLEV and Reaal Schade) as one analytical unit.

RATINGS RATIONALE

The upgrade reflects Moody's view that the balance sheet profile of the group has significantly improved following the EUR1.35bn capital injection from its parent, Anbang Life Insurance Co., Ltd. ("Anbang", unrated). In addition the new management has addressed some of the key balance issues of Vivat and has embarked on a cost reduction program aimed at reducing the high cost level of the group.

More specifically, following the capital injection in 2015 and the retained earnings in the first half of 2016, Solvency II coverage ratio stood at a good 182% (on a standard formula basis as at HY2016), which is broadly in line with most of the Dutch peers. The coverage ratio rose from c.160% as at YE2015, mainly driven by a decrease of credit spreads on German and Dutch government bonds. However, these market movements might reverse in the future, and Moody's believes the coverage ratio reported at YE2015 to be more consistent with Vivat's economic capitalisation. Like other Dutch insurers, Vivat also benefits from the tight regulatory oversight from the Dutch Central Bank on capitalisation.

In addition financial leverage decreased substantially to c.27% as at YE2015 from 44% as at YE2014 as a result of the recapitalisation from the parent. The group has also focused on reducing a historically large duration mismatch to more moderate levels and on hedging Vivat's Solvency II position with respect to rate volatility. These hedges are likely to lower sensitivity to interest rate movements, which in the recent past has been a significant credit weakness for the issuer.

The new management has also taken actions aimed at simplifying the business and reducing operational expenses in order to improve profitability and efficiency. Workforce will be reduced by c.1,200 units by year-end 2016, about one-third of the entire workforce, which will reduce significantly Vivat's cost base.

As concerns investments, the group has increased its risk exposure on a selective basis albeit it was starting from a relatively conservative investment portfolio. Moody's continues to see asset quality as a relative credits strength for the group.

Nevertheless, Vivat's improving credit profile remains challenged in light of the high guarantees on its life back-book and weak operating profitability, notwithstanding HY2016 net income of EUR578 million which largely reflected exceptional market developments. The above mentioned reduction in cost base and selective re-risking of the investment portfolio will likely increase Vivat's net income potential, however we expect technical profitability to remain subdued in 2017 reflecting the execution risks inherent in the new strategic course, the material organisational changes and the time required to fully re-establish the relationships with distributors, especially with intermediaries. Additionally the market position of the group has been weakened by the many years of strategic uncertainty and one of the group's main future challenge is to re-establish the company position in the Netherlands, which remains an extremely competitive market.

OUTLOOK

The outlook on SRLEV and Reaal Schade is stable, reflecting the expectation that their business and financial profiles will not change materially over the next 12 months.

WHAT COULD MOVE THE RATING UP/DOWN

The following factors could exert upward pressure on Vivat operating subsidiaries' IFSR: (1) Strengthening the market positions of the group in life and non-life by re-establishing its position with its clients and distributors; and/or (2) growing operating profitability to levels comparable with Vivat's Dutch peers (i.e. avg. 5Yr ROC in excess of 2%); and/or (3) further strengthening economic capitalisation to levels consistently in excess of 180% (standard formula basis) in combination with a reduction on the risk arising from the high guarantees on its life back-book.

Conversely, the following factors could exert downward pressure on Vivat operating subsidiaries' IFSR: (1) Reduction in the economic capital position resulting in a Solvency II coverage ratio below 130%; and/or (2) financial leverage rising above 40%; and/or (3) prolonged pressures on its domestic market position; and/or (4) further weak profitability with 5Yr ROC consistently negative; and/or (5) significant deterioration on the financial profile of parent company, Anbang.

LIST OF AFFECTED RATINGS

The following ratings have been upgraded:

- SRLEV NV's insurance financial strength rating Baa2 from Baa3; the outlook on SRLEV changed to stable from positive

- Reaal Schadeverzekeringen NV's insurance financial strength rating Baa2 from Baa3; the outlook on Reaal Schade changed to stable from positive

- SRLEV NV's backed subordinated debt rating upgraded to Ba1(hyb) from Ba2(hyb)

- SRLEV NV's backed junior subordinated debt rating upgraded to Ba1(hyb) from Ba2(hyb)

The principal methodology used in rating SRLEV NV was Global Life Insurers published in April 2016. The principal methodology used in rating REAAL Schadeverzekeringen NV was Global Property and Casualty Insurers published in June 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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