MOODY'S
INVESTORS SERVICE

CREDIT OPINION
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Update

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VIVAT N.V.

Update following one notch upgrade; stable outlook

Summary Rating Rationale

The following credit opinion presents the rating rationale of the insurance financial strength ratings (IFSR) of SRLEV NV and REAAL Schadeverzekeringen NV. Moody's currently considers the combined operations of VIVAT NV (mainly SRLEV NV, REAAL Schadeverzekeringen NV and Proteq Levensverzekeringen NV) as one analytical unit. Therefore, the following credit opinion refers to the financial strength of the combination of these companies (now called VIVAT NV).

On 11 November, Moody's upgraded the IFSR assigned to VIVAT's main operating subsidiaries (SRLEV NV and REAAL Schadeverzekeringen NV) to Baa2 from Baa3, reflecting the improvement on the balance sheet profile of the group following the EUR1.35bn capital injection from its parent, Anbang Life Insurance Co., Ltd ("Anbang", unrated). Moody's also notes that the new management has embarked on a cost reduction program aimed at reducing the high cost level of the group. In addition, the Baa2 ratings benefit from a focus on retail and SMEs businesses and from a conservative investment portfolio, despite the recent selective asset re-risking. The aforementioned are mitigated by (i) weak economic operating profitability reflecting spread deficiency challenges -with an investment yield being insufficient to meet highly guaranteed rates in existing policies- together with a moderate economic duration mismatch, (ii) weakened market position in the context of the highly competitive Dutch market and (iii) constrained financial flexibility, notwithstanding the material reduction in leverage metrics following the capital injection received in October 2015.

The stable outlook reflects our expectation that VIVAT's business and financial profile will not change materially over the next 12 months.

As part of the same rating action, Moody's also upgraded the backed subordinated and junior subordinate debt ratings of SRLEV NV to Ba1(hyb) from Ba2(hyb).

The business mix of VIVAT consists of life insurance (76% of gross premiums written in 2015) and non-life insurance, including disability (24%).

Credit Strengths

The main credit strengths of VIVAT are:

» Conservative investment policy

» Moderate risk profile reflecting a focus on retail and SMEs businesses

Credit Challenges

The key credit challenges of VIVAT are:

» Pressure on market position due to challenges faced by the insurer and difficult conditions in the highly penetrated Dutch market

» Managing spread deficiency and economic duration mismatch in a sustained low interest rate environment

» Improving weak operating profitability in a context of low interest rates, bearing in mind the relatively high level of guarantees of the traditional savings products, and adapting the Group to the contraction of the individual life insurance market

» Manage volatility in economic capitalisation given moderate ALM mismatches

Rating Outlook

The outlook on the rated entities is stable.

What to watch for:

» Evolution of insurance operations' market shares and profitability

» Volatility of economic capitalisation

» Duration mismatch and spread deficiency

Factors that Could Lead to an Upgrade

The following factors could result in upward pressure on the ratings:

» Strengthening the market positions of the group in life and non-life and re-establishing its position with its clients and distributors

» Growing operating profitability to levels comparable with Vivat's Dutch peers (i.e., avg. 5yr ROC in excess of 2%)

» 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

Factors that Could Lead to a Downgrade

Downward pressure on the ratings may derive from the following:

» Reduction in the economic capital position resulting in a Solvency II coverage ratio below 130%

» Financial leverage rising above 40%

» Prolonged pressures on Vivat's domestic market position

» Further weakened profitability with 5yr ROC consistently negative

» Significant deterioration on the financial profile of the parent company, Anbang

Key Indicators

Exhibit 1

VIVAT N.V.[1][2]	2015	2014	2013	2012	2011
As Reported					
Total Assets	60,328	60,525	55,475	56,464	53,990
Total Shareholders' Equity	3,451	2,015	2,589	2,932	4,020
Net income (loss) attributable to common shareholders'	109	(612)	(625)	(149)	192
Gross Premiums Written	2,622	3,105	3,190	3,455	3,696
Life Insurance Gross Premiums Written	1,936	2,346	2,406	2,636	2,848
Property & Casualty Insurance Gross Premiums Written	686	759	784	819	848
Net Premiums Written	2,418	2,898	2,967	3,232	3,450
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	109.4%	153.8%	126.0%	128.4%	91.3%
Reinsurance Recoverable % Shareholders' Equity	95.7%	173.9%	147.6%	100.4%	83.4%
Goodwill & Intangibles % Shareholders' Equity	1.1%	3.5%	2.4%	27.9%	37.9%
Shareholders' Equity % Total Assets	5.4%	3.1%	4.3%	5.0%	7.0%
Return on avg. Capital (1 yr. avg ROC)	2.0%	-14.6%	-12.0%	-2.6%	2.8%
Sharpe Ratio of ROC (5 yr. avg)	NM	NM	NM	NM	16.9%
Adv./(Fav.) Loss Dev. % Beg. Reserves (1 yr. avg)	-0.5%	-1.8%	-0.7%	-5.2%	-4.4%
Financial Leverage	26.6%	44.0%	44.5%	45.5%	33.8%
Total Leverage	29.1%	47.2%	46.9%	49.7%	42.6%
Earnings Coverage (1 yr.)	1.8x	-4.1x	-5.1x	-0.2x	2.5x

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

Notching Considerations

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

Detailed Rating Considerations

Moody's rates VIVAT's main legal entities Baa2 for insurance financial strength, which is in line with the rating indicated by Moody's insurance financial strength rating scorecard.

Insurance Financial Strength Rating

The key factors currently influencing the rating and outlook are:

MARKET POSITION AND BRAND: Baa - MARKET SHARE UNDER PRESSURE IN A DIFFICULT DUTCH INSURANCE MARKET

VIVAT is amongst the top six players in the highly concentrated Dutch market with a market share of 13.5% in individual life and 3.6% in non-life in 2015. The Group has maintained a top rank in the individual life segment (with a 16.5% market share in new production of term Life) but has lost market share in the group life business and in non-life partly due to re-pricing some loss-making products. Competition is high in the Dutch insurance market as the group is competing with larger players such as NN Group and AEGON and also with banks, as Dutch banking and insurance savings products are subject to the same tax regime since 2008.

We believe the period preceding the nationalisation had a negative impact on VIVAT's franchise and raised uncertainty regarding its ability to maintain historically strong market positions, especially in the rapidly evolving Dutch life insurance market where insurance savings are falling and competition in the pensions segment is growing.

DISTRIBUTION: Baa - PREDOMINANTLY THROUGH INDEPENDENT CHANNELS

VIVAT's insurance premiums predominantly come from the brokerage channel. Nonetheless, VIVAT has maintained a stable and diversified intermediary base including authorized agents and actuarial consultants and Zwitserleven (which targets corporate and more affluent clients) has enjoyed a good position with IFAs. As part of its new strategy, VIVAT is looking to strengthen its relationships with intermediaries. The network of SNS Bank has also been used to sell insurance products, but this channel recently contributed to less than 10% of the insurance revenues. 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. Moody's views distribution control and diversification of VIVAT as consistent with a Baa-rating.

PRODUCT FOCUS AND DIVERSIFICATION: Baa - LIFE PRODUCT RISK IS ELEVATED GIVEN THE HIGH GUARANTEES AND UL MIS-SELLING ISSUES

VIVAT is adequately diversified between life and non-life, although acquisitions in late 2000s have more significantly focused on the life segment (representing 76% of the 2015 premiums). Most of the Group's products, especially in individual Life, are targeting the retail and SME segments. In the non-life segment, Motor accounted for 32% of the 2015 gross premiums, Fire for 28% and A&H for 17%, which confers a moderate business risk profile in P&C, although Moody's considers Disability (which accounts for the majority of A&H gross premiums) as a long-tailed line given its relatively longer settlement time when compared to other non-life lines of business.

In the life segment, 13% of the 2015 technical provisions were related to traditional individual savings contracts, which carry longevity and high guarantees on average between 3%-4%, while 14% of liabilities were savings mortgages products. The annuities' liabilities were also significant (8%). This is offset by a large portfolio of unit-linked (UL) contracts (about 36% of the 2015 liabilities), although about a third of these products also offer guarantees at maturity. Furthermore, the mis-selling issues that the Dutch market faced in the UL segment have caused a sharp decline in the production and sale of UL products, which negatively contribute to the risk profile of the insurance industry in the Netherlands.

Moreover, unlike most of its competitors VIVAT has no geographic diversification.

ASSET QUALITY: A - CONSERVATIVE INVESTMENT PORTFOLIO

VIVAT's investment risk is low with a conservative fixed income portfolio. Fixed-income securities and cash are predominant in the investment portfolio, and most of the credit exposures are in the investment grade category. High risk assets as a percentage of equity have decreased materially (largely reflecting the increase in shareholder's equity) and are mostly comprised of equities, loans or unrated debt. Nevertheless, VIVAT intends to gradually re-risk its investment portfolio to higher-yielding assets to address the weakness in operating profitability following the capital injection from Anbang.

While in recent years VIVAT has used a historically strong pool of reinsurers for his quota share-based contracts, in January 2016 EUR3.3bn of life reinsurance contracts have been cancelled because they had been developed under Solvency I and did not provide capital relief under Solvency II.

The Group used to carry a significant amount of goodwill, yielded by the acquisitions of the Dutch businesses of AXA, Winterthur and DBV in 2007. Goodwill and intangibles as a percentage of shareholder's equity sharply declined from higher historical levels following an impairment incurred in 2012 and have remained at low levels since 2013.

CAPITAL ADEQUACY: Baa - CAPITALISATION IMPROVED AFTER CAPITAL INJECTION AND MANAGEMENT ACTIONS TO REDUCE DURATION MISMATCHES, BUT CHALLENGES REMAIN DUE TO LOW INTEREST RATE ENVIRONMENT

Capital adequacy at VIVAT has improved significantly following a capital injection from the parent and further management actions taken in order to improve on the high sensitivity to rate movements and high volatility observed in the recent past as the result of limited internal capital generation and high duration mismatches.

Capitalisation rose materially following the EUR1.35 bn capital injection from Anbang, which led VIVAT's Solvency II coverage ratio to about 160% based on a standard formula (with volatility adjustment) without transitional measures. While this ratio further improved

to a good 182% as at HY2016, the increase predominantly reflected market movements therefore Moody's believes the coverage ratio reported at YE2015 to be more consistent with Vivat's economic capitalisation.

In addition to that, management actions have been taken to hedge VIVAT's Solvency II position with respect to interest rate volatility and to reduce the historically large duration mismatch to more moderate levels. Nevertheless, Moody's expects VIVAT's solvency to remain relatively sensitive to spread movements given the basis risk inherent in the volatility adjuster and to potential changes in the ultimate forward rate given the material amount of insurance liabilities coming due at the longer end of the curve.

Further, we believe that execution risks to strengthen VIVAT's credit fundamentals will likely remain given the headwinds the group faces in a context of a persistently low interest rate environment and the challenging outlook for the Dutch insurance market.

PROFITABILITY: Baa- BENEFITS FROM COST SAVING PROGRAMME BUT REMAINS UNDER PRESSURE AS A RESULT OF LOW INTEREST ENVIRONMENT AND A HIGHLY COMPETITIVE DOMESTIC MARKET

In 2015 VIVAT reported a net income of EUR109 million (YE2014: loss of EUR612 million), with the improvement year-on-year largely driven by lower expenses and higher operating profitability, especially within the Life business. Furthermore, the year-on-year performance benefited from a relatively flat trend in 10yr Dutch government bond yields (0.79% at the end of 2015 vs. 0.62% in December 2014), as opposed to the strong decline in long term interest rates seen in 2014. The latter had in fact exacerbated the spread deficiency given the duration mismatch between investments and insurance liabilities.

During the first half of 2016, VIVAT reported profit of EUR578million, significantly improved compared to the same period last year (EUR53 million), however this increase largely reflected exceptional market developments.

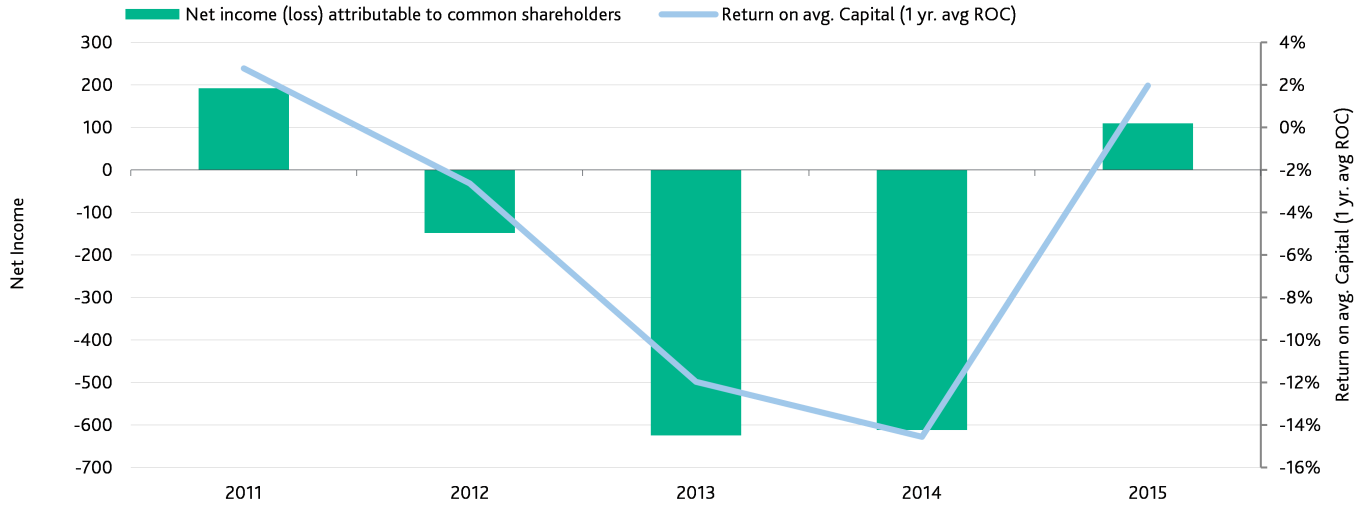
Following the capital injection, VIVAT may be able to alleviate some of the pressures on the group's operating performance, in particular if its strategy focused on cost savings and organisational simplification proves successful. As a part of this strategy, the management of the group will reduce its entire workforce by about one-third by year-end 2016, which will reduce significantly VIVAT's cost base.

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 and the material organisational changes.

Additionally, the sustained low interest rate environment and an extremely competitive Dutch insurance market will likely challenge the operating performance in the short to medium term.

Exhibit 2

Net Income and Return on Capital (1 yr. ROC)



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

LIQUIDITY AND ALM: A - REINVESTMENT RISK IS MEANINGFUL

At SRLEV NV, liquid assets adequately cover net policyholder reserves, and Moody's calculated ratio of liquid assets / liquid liabilities is good. Asset/liability risks are managed by using derivatives to reduce interest rate or equity risks. Nonetheless, the economic duration gap (between the assets and the liabilities of the insurance activities) remains meaningful, leaving the insurance company with a significant reinvestment risk, especially given the relatively high guarantees embedded in the life products. We note that VIVAT has taken management actions to reduce its duration mismatch more recently.

RESERVE ADEQUACY: A - RISK IN THE DISABILITY PORTFOLIO

The company's disclosure of prior year non-life reserve shows favourable development. However, Disability liabilities have an average duration of more than five years, and Moody's considers that this segment carries a higher risk of reserve underestimation than short-tailed liabilities. Therefore, we view the Group's reserve adequacy as consistent with a A-rating.

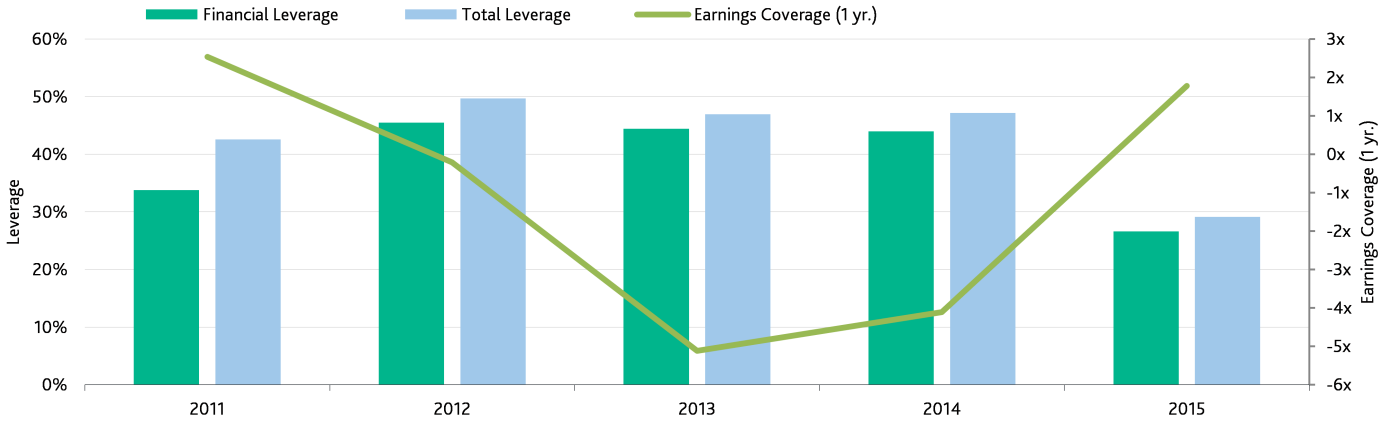
FINANCIAL FLEXIBILITY: Ba - LEVERAGE MATERIALLY REDUCED FOLLOWING CAPITAL INJECTION, BUT EARNINGS COVERAGE LIKELY TO REMAIN CONSTRAINED OVER THE MEDIUM TERM

The financial flexibility of VIVAT has significantly improved as a result of the capital injection from Anbang, however it remains under pressure given the low interest coverage determined by historically weak operating profitability.

Fixed charge coverage has been negative between 2012 and 2014 because of the constrained profitability and one-off items such as impairments and provisions related to LAT shortfall. We expect earnings coverage to remain under significant pressure and to constrain financial flexibility, in line with our expectations of profitability at the insurance operations remaining tight in the context of the mature and fiercely competitive Dutch insurance market.

Following Anbang's capital injection, VIVAT's financial leverage has declined to 26.6%, down from 44% at year-end 2014. EUR884 million of financial debts mainly include subordinated debts issued by SRLEV in 2011 and private loans granted by the parent Anbang, whereas Moody's estimates exclude EUR1.38 bn of cash collateral due to banks, repo agreements and borrowings related to securitised mortgages, which we do not view as financial debt.

Exhibit 3
Financial Flexibility



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

Rating Methodology and Scorecard Factors

Exhibit 4

Financial Strength Rating Scorecard	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adjusted 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%)								A	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				109.4%					
- Reinsurance Recoverable % Shareholders' Equity			95.7%						
- Goodwill & Intangibles % Shareholders' Equity	1.1%								
Capital Adequacy (15%)								Baa	Baa
- Shareholders' Equity % Total Assets				5.4%					
Profitability (15%)								B	Baa
- Return on Capital (5 yr. avg)						-4.7%			
- Sharpe Ratio of ROC (5 yr. avg)							NM		
Liquidity and Asset/Liability Management (5%)								Aa	A
- Liquid Assets % Liquid Liabilities		X							
Reserve Adequacy (5%)								A	A
- Adv./(Fav.) Loss Dev. % Beg. Reserves (5 yr. wtd avg)			-1.8%						
Financial Flexibility (15%)								Ba	Ba
- Financial Leverage		26.6%							
- Total Leverage		29.1%							
- Earnings Coverage (5 yr. avg)						-1.0x			
Operating Environment									
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: VIVAT NV's reports, Moody's Investors Service

Ratings

Exhibit 5

Category	Moody's Rating
SRLEV NV	
Rating Outlook	STA
Insurance Financial Strength	Baa2
BACKED Subordinate	Ba1 (hyb)
BACKED junior Subordinate	Ba1 (hyb)
REAAL Schadeverzekeringen NV	
Rating Outlook	STA
Insurance Financial Strength	Baa2

Source: Moody's Investors Service

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