MOODY'S
INVESTORS SERVICE

CREDIT OPINION
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Update

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VIVAT N.V.

Semi-annual update

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 owned by the Netherlands-based holding company 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.

On 11 November 2016, 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 comparatively 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 partly 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.

The business mix of VIVAT consists of life insurance (c.73% of gross premiums written in 2016) and non-life insurance (27%), which includes disability.

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 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]	2016	2015	2014	2013	2012
As Reported					
Total Assets	58,789	60,328	60,525	55,475	56,464
Total Shareholders' Equity	3,698	3,451	2,015	2,589	2,932
Net income (loss) attributable to common shareholders'	159	109	(612)	(625)	(149)
Gross Premiums Written	2,508	2,622	3,105	3,190	3,455
Life Insurance Gross Premiums Written	1,842	1,936	2,346	2,406	2,636
Property & Casualty Insurance Gross Premiums Written	666	686	759	784	819
Net Premiums Written	2,447	2,418	2,898	2,967	3,232
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	98.1%	88.0%	153.8%	126.0%	128.4%
Reinsurance Recoverable % Shareholders' Equity	5.8%	95.7%	173.9%	147.6%	100.4%
Goodwill & Intangibles % Shareholders' Equity	0.1%	1.1%	3.5%	2.4%	27.9%
Shareholders' Equity % Total Assets	6.0%	5.5%	3.1%	4.3%	5.0%
Return on avg. Capital (1 yr. avg ROC)	2.8%	2.1%	-14.6%	-12.0%	-2.6%
Sharpe Ratio of ROC (5 yr. avg)	NM	NM	NM	NM	NM
Adv./(Fav.) Loss Dev. % Beg. Reserves (1 yr. avg)	-0.5%	-0.5%	-1.8%	-0.7%	-5.2%
Financial Leverage	28.7%	26.4%	44.0%	44.5%	45.5%
Total Leverage	31.0%	29.0%	47.2%	46.9%	49.7%
Earnings Coverage (1 yr.)	2.5x	1.8x	-4.1x	-5.1x	-0.2x

[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

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 scorecard.

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.

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 focus on 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, the insurance group 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. Overall Moody's views distribution control and diversification as consistent with a Baa-rating.

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

Insurance operations are adequately diversified between life and non-life, although acquisitions in late 2000s have more significantly focused on the life segment (representing c.73% of the 2016 gross premiums). Most of the Group's products, especially in individual Life, are targeting the retail and SME segments. In the non-life segment, Motor and Fire each accounted for 30% of the 2016 gross premiums and A&H for 17%, which confers a moderate business risk profile in P&C, although Moody's considers Disability (which is a material component 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, c.14% of the YE2016 technical provisions (before liability adequacy test) were related to traditional individual savings contracts, which carry longevity risk and high guarantees on average between 3%-4%, while c.13% of liabilities were savings mortgages products. The annuities' liabilities were also significant (8%). This is partly offset by a large portfolio of unit-linked (UL) contracts (about 36% of YE2016 life 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 domestic peers VIVAT has no geographic diversification.

ASSET QUALITY: A - CONSERVATIVE INVESTMENT PORTFOLIO WITH MODEST RE-RISKING

Investment risk is relatively 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 shareholders' equity (YE2016: 98.1%) have decreased materially from YE2014, largely reflecting the increase in own capital, and are mostly comprised of unlisted equities, structured credit or unrated debt. In H2 2016 VIVAT has taken further action to re-risk its portfolio in order to address its modest profitability with a selective migration to higher-yielding assets, moving in particular from AAA-rated government bonds (primarily Germany) towards AA-rated govies (France, UK and Belgium) and to Dutch residential mortgage loans. The latter are however of relatively good quality with c.65% thereof holding either a National Mortgage Guarantee (NHG) or showing a moderate loan-to-value at or below 75%. Moody's expects that the re-risking exercise will continue in 2017 and that the credit quality of the portfolio will not deteriorate beyond our expectations for an A-rated investment portfolio.

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 immaterial 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 €1.35bn capital injection from Anbang in 2015. As at YE2016 VIVAT reported a Solvency II (SII) coverage ratio of 175% based on a standard formula (with volatility adjustment and without transitional measures). The regulatory

capitalisation also benefited from a €180 million subordinated private loan eligible as Tier II capital under SII and granted by the parent Anbang in December 2016. The purchase of a mass lapse reinsurance contract should also marginally contribute to a greater SII coverage via lower capital requirements, however the corresponding effect will only be reflected in VIVAT's regulatory solvency position in 2017.

In addition to that, management actions have been taken to hedge the regulatory solvency 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 (especially on sovereign bonds) given the basis risk inherent in the volatility adjuster and to potential changes in the ultimate forward rate (UFR) given the material amount of insurance liabilities coming due at the longer end of the curve. As concerns the UFR, VIVAT reported that if this rate were to decrease to 3.7% from the current 4.2% that would result in a negative impact of 13 percentage points on the SII coverage ratio.

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

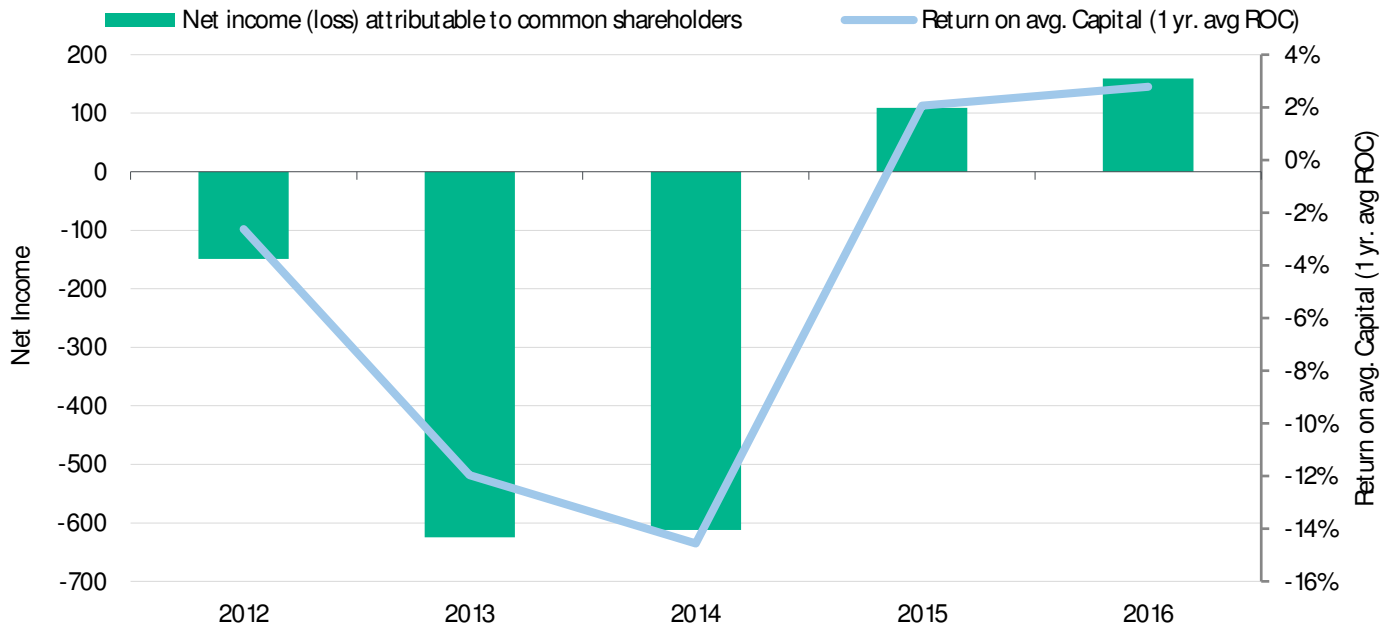
In 2016 VIVAT reported a net income of €159 million (2015: €109 million), with the improvement year-on-year largely driven by lower expenses and higher investment income, especially within the Life business where the mentioned reduction of German sovereign bonds holdings has generated significant realised gains.

Looking at the short term, we believe that technical profitability within the life business will remain under pressure in 2017 given the mature, extremely competitive and highly penetrated Dutch insurance industry and the persistency of low interest rates. The group is alleviating some of the pressures on the operating performance by delivering on a strategy focused on cost savings and organisational simplification. As a part of this strategy, VIVAT's workforce has been reduced by about one-third in 2016, which in turn will reduce significantly the cost base. This reduction in cost base and selective re-risking of the investment portfolio will likely raise VIVAT's net income potential, however the execution risks inherent in the new strategic course and the material organisational changes undertaken may add to the headwinds.

The same context of high penetration and limited underwriting profitability applies to the Dutch non-life sector, where VIVAT's P&C business has reported negative underwriting losses since 2013, primarily reflecting a relatively high cost base, recurring claims inflation and inflexible rates compressed by fierce competition and the rising use of price comparison websites. Additionally, in both 2015 and 2016 exceptionally adverse weather events have negatively impacted non-life insurers including VIVAT. Improvements consisting in re-pricing the risks underwritten, exiting loss-making portfolios and the mentioned cost savings programme are likely to help achieve a combined ratio close to or modestly below 100% in 2017.

Overall we expect Vivat's operating performance to improve modestly while remaining challenged 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 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, the economic duration gap (between the assets and the liabilities of the insurance activities) remains meaningful, leaving the insurance company exposed to reinvestment risk, especially given the relatively high guarantees embedded in the life products. We positively note that VIVAT has taken management actions to reduce its duration mismatch and its spread risk more recently.

RESERVE ADEQUACY: A - RISK IN THE DISABILITY PORTFOLIO

The disclosure of prior year non-life reserves shows a modestly 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 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

Financial flexibility at VIVAT has improved as a result of the capital injection from Anbang, however it remains under pressure given the relatively 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 a 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.

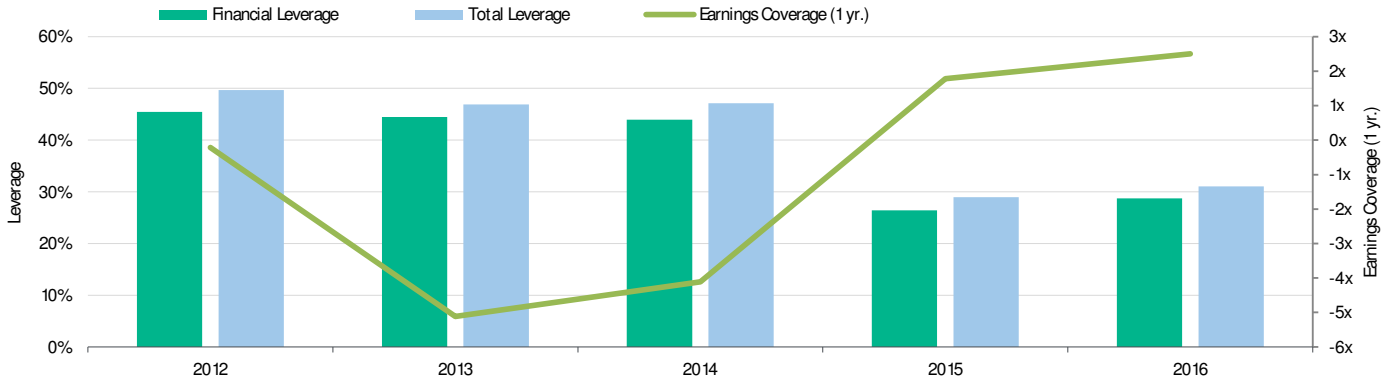
Following Anbang's capital injection, VIVAT's financial leverage has progressively declined to the YE2016 percentage of 28.7% on the basis of €1.05bn of financial debts mainly including subordinated debts issued by SRLEV in 2011 and private loans granted by the parent Anbang, which the holding company largely downstreams to the operating entities in order to support their capital position.

We note that our calculations exclude c.€1.35bn of cash collateral due to banks, repo agreements and borrowings related to securitised mortgages, which we do not view as financial debt.

In May 2017 VIVAT has also issued a 7-year, €650 million senior bond whose proceeds are primarily meant to strengthen the capital position of the operating subsidiaries. On a pro-forma basis we estimate that financial leverage has risen to c.36.5% and that earnings coverage has decreased to c.1.8x. We view these estimates as still in line with the existing rating for financial flexibility.

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			98.1%						
- Reinsurance Recoverable % Shareholders' Equity	5.8%								
- Goodwill & Intangibles % Shareholders' Equity	0.1%								
Capital Adequacy (15%)								Baa	Baa
- Shareholders' Equity % Total Assets				6.0%					
Profitability (15%)								B	Baa
- Return on Capital (5 yr. avg)						-4.9%			
- 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)			-1.1%						
Financial Flexibility (15%)								Ba	Baa
- Financial Leverage		28.7%							
- Total Leverage			31.0%						
- 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 Junior Subordinate	Ba1 (hyb)
REAAL SCHADEVERZEKERINGEN NV	
Rating Outlook	STA
Insurance Financial Strength	Baa2

Source: Moody's Investors Service

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