Fitch Ratings

Fitch Affirms VIVAT's IDR at 'BBB'; Maintains VIVAT Schade on RWP

Fitch Ratings - Frankfurt am Main - 26 November 2019:

Fitch Ratings has affirmed SRLEV N.V.'s Insurer Financial Strength (IFS) Rating at 'BBB+' (Good) and VIVAT N.V.'s Issuer Default Rating (IDR) at 'BBB'. The Outlooks are Stable, reflecting Fitch's expectation that the acquisition by Athora Holding Ltd (IFS of operating subsidiaries: BBB+/Stable) will be broadly neutral to the ratings, and will be driven by our credit assessment of the Athora group.

Fitch has simultaneously maintained a Positive Rating Watch (RWP) on VIVAT Schadeverzekeringen N.V.'s (VIVAT Schade) IFS. The RWP reflects Fitch's view that a successful sale of VIVAT Schade to NN Group N.V. (IFS of operating subsidiaries: A+/Stable) would be positive to its rating due to NN's strong credit profile, its expected 'Core' strategic status and synergies with NN's existing non-life businesses.

VIVAT is the holding company of insurance operating subsidiaries SRLEV and VIVAT Schade.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
SRLEV N.V.	Ins Fin Str BBB+ Affirmed	BBB+
VIVAT Schadeverzekeringen N.V.	Ins Fin Str BBB+ Rating Watch Maintained	BBB+
VIVAT N.V.	LT IDR BBB Affirmed	BBB
senior unsecured	LT BBB- Affirmed	BBB-
subordinated	LT BB Affirmed	BB
junior subordinated	LT BB- Affirmed	BB-

Key Rating Drivers

The ratings of VIVAT are driven by its strong consolidated capitalisation and leverage and business profile. These strengths are offset by financial performance and debt servicing capabilities, which are its rating weaknesses. We expect VIVAT's and SRLEV's ratings to be aligned with those of Athora once the sale by the current owner (Anbang Insurance Company Limited; now known as Daija Insurance) concludes. This reflects their strategic importance to the Athora group and alignment with its business model.

VIVAT's end-2018 capitalisation, as measured by Fitch's Prism Factor-Based Model, fell to 'Very Strong' from 'Extremely Strong' at end-2017, due mainly to a higher capital charge on investments as a result of ongoing re-risking, as well as lower total capital due to an annual net loss. Fitch expects the continued re-risking of the investment portfolio to put downward pressure on VIVAT's capital metrics.

VIVAT's Solvency 2 (S2) ratio has been highly volatile in recent periods. Solvency coverage improved to 192% at end-2018 but declined to 151% at end-1H19, mainly a result of the decrease of the S2 volatility adjuster (S2VA). Fitch notes that S2VA-related movements are of technical nature and have no impact on VIVAT's economic capital. Therefore, we do not put a high emphasis on S2VA-related movements in our overall capital assessment.

VIVAT's financial leverage decreased modestly to 29% at end-1H19 from 32% at end-2017, benefiting from the issue of EUR300 million restricted tier 1 (RT1) notes in June 2018 and the early redemption of EUR150 million of EUR400 million subordinated notes originally due in 2041. The improvement was partly offset by lower shareholder's equity. VIVAT's S2 RT1 notes receive 100% equity credit in our financial leverage calculation.

Fitch ranks VIVAT's business profile as 'moderate' compared with other insurers in the Netherlands and given this ranking, we score its business profile at 'bbb+' under our credit factor scoring guidelines. VIVAT is a top-five insurer in the Netherlands with activities in life and pensions and non-life insurance, as well as asset management. At end-2018 it had an 18% market share in life and pensions and a 5% market share in non-life insurance by premiums.

VIVAT's financial performance has been weaker (2018 net income return on equity: -8%) and more volatile than Dutch peers'. This is due mainly to periodic re-valuations of VIVAT's insurance liabilities that are held at fair value. Excluding fair-value volatility, Fitch views the improving trend in underlying earnings favourably and expects that cost savings, together with the re-risking of investments, to support VIVAT's profitability. 1H19 underlying earnings improved to EUR161 million (1H18: EUR115 million), reflecting stronger interest income and higher interest income on hedging derivatives due to market movements.

VIVAT's fixed charge coverage ratio (2018: -1x; 2017: -0.4x) has been weak due to inadequate and volatile profitability and more expensive debt funding relative to other large Dutch competitors. Fitch expects VIVAT's fixed charge coverage to improve in 2019, supported by expectedly positive earnings and stable interest expenses.

RATING SENSITIVITIES

The successful sale of VIVAT Schade to NN would lead to an upgrade of its rating.

Following the sale, a change in Athora Life Re's rating would likely lead to a corresponding change of SRLEV N.V.'s and VIVAT N.V.'s ratings.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

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Applicable Criteria

Insurance Rating Criteria (pub. 18 Nov 2019)

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