

FITCH UPGRADES VIVAT INSURANCE ENTITIES TO 'BBB+'; OUTLOOK STABLE

Fitch Ratings-London-19 October 2016: Fitch Ratings has upgraded VIVAT NV's (VIVAT) Issuer Default Rating (IDR) to 'BBB' from 'BBB-'. The agency has simultaneously upgraded VIVAT's insurance entities, SRLEV NV's and REAAL Schadeverzekeringen NV's (together, VIVAT Insurance), Insurer Financial Strength (IFS) ratings to 'BBB+' from 'BBB'. The Outlooks are Stable.

The upgrade reflects Fitch's expectation that VIVAT will return to sustainable underlying profitability and takes account of the insurer's improved solvency position and financial leverage. The ratings also benefit from a sharpened strategic focus under the new ownership of China-based Anbang Group Holdings Co. Ltd. (Anbang).

KEY RATING DRIVERS

VIVAT's capital position is supportive of 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 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.

VIVAT's new management team has initiated a strategic review, which seeks to engender a more customer-focussed culture and simultaneously to cut costs. VIVAT reported a strong improvement 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.

VIVAT has a conservative investment portfolio with significant exposure to German and Dutch government bonds. Following its capital injection VIVAT has begun taking more investment risk, but only incrementally. Fitch thus expects the increase in risk to remain contained.

VIVAT Insurance's ratings are underpinned by the companies' stable presence in the Dutch insurance market, notably in life and pensions. SRLEV N.V. ranks third among Dutch life insurers, with a market share of around 15%. REAAL Schadeverzekeringen is a significant, albeit smaller, non-life player, with a 5% market share.

The Stable Outlook reflects Fitch's expectations that VIVAT will stabilise its underlying earnings and debt servicing capabilities through operational efficiencies, portfolio adjustments, re-branding and streamlining its distribution channels, while maintaining overall capital strength.

RATING SENSITIVITIES

VIVAT's ratings may be downgraded if the company 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 low in 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.

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

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Applicable Criteria
Insurance Rating Methodology (pub. 15 Sep 2016)
<https://www.fitchratings.com/site/re/887191>

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