MOODY'S
INVESTORS SERVICE

Credit Opinion: REAAL Verzekeringen

Global Credit Research - 02 Nov 2015

Netherlands

Ratings

Category	Moody's Rating
SRLEV NV	
Rating Outlook	POS
Insurance Financial Strength	Baa3
BACKED Junior Subordinate	Ba2 (hyb)
REAAL Schadeverzekeringen NV	
Rating Outlook	POS
Insurance Financial Strength	Baa3

Contacts

Analyst	Phone
Laura Perez Martinez/London	44.20.7772.5454
Alexandra Aspioti/London	
Antonello Aquino/London	

Key Indicators

REAAL Verzekeringen[1][2]

	2014	2013	2012	2011	2010
As Reported (Euro Millions)					
Total Assets	60,525	55,475	56,464	53,990	53,044
Total Shareholders' Equity	2,015	2,589	2,932	4,020	3,630
Net income (loss) attributable to common shareholders'	(612)	(625)	(149)	192	242
Gross Premiums Written	3,105	3,190	3,455	3,696	3,728
Life Insurance Gross Premiums Written	2,346	2,406	2,636	2,848	2,919
Property & Casualty Insurance Gross Premiums Written	759	784	819	848	809
Net Premiums Written	2,898	2,967	3,232	3,450	3,574
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	153.8%	126.0%	128.4%	91.3%	122.5%
Reinsurance Recoverable % Shareholders' Equity	173.9%	147.6%	100.4%	83.4%	10.0%
Goodwill & Intangibles % Shareholders' Equity	3.5%	2.4%	27.9%	37.9%	63.5%
Shareholders' Equity % Total Assets	3%	4%	5%	7%	6%
Return on avg. Capital (1 yr. avg ROC)	-13.9%	-12.0%	-2.6%	2.8%	3.4%
Sharpe Ratio of ROC (5 yr. avg)	NM	NM	NM	16.9%	NA
Adv./(Fav.) Loss Dev. % Beg. Reserves (1 yr. avg)	-1.8%	-0.7%	-5.2%	-4.4%	-5.0%
Financial Leverage	49.8%	44.5%	45.5%	33.8%	47.8%
Total Leverage	52.6%	46.9%	49.7%	42.6%	64.6%
Earnings Coverage (1 yr.)	-4.1x	-5.1x	-0.2x	2.5x	4.2x

[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

Opinion

SUMMARY RATING RATIONALE

The following credit opinion presents the rating rationale of the financial strength ratings of SRLEV N.V. and REAAL Schadeverzekeringen N.V.. Moody's currently considers the combined operations of VIVAT N.V. (mainly SRLEV N.V., REAAL Schadeverzekeringen N.V. and Proteq Levensverzekeringen N.V.) as one analytic unit. Therefore, the following credit opinion refers to the financial strength of the combination of these companies (called VIVAT in this document, previously REAAL).

Moody's Baa3 insurance financial strength ratings (positive outlook) on VIVAT's main legal entities reflect their focus on retail and SMEs businesses and good asset quality with low investment risk. The ratings also factor in (i) weak economic operating profitability due to 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) volatile capitalisation historically, although we note that management actions have been taking to address this more recently; and (iii) high financial leverage, notwithstanding the reduction in leverage metrics following the capital injection.

The positive outlook on VIVAT's Baa3 IFSR reflects the potential improvement in the consolidated VIVAT's financial profile following the recent capital injection. As part of the positive outlook, Moody's will also assess the strategy that Anbang intends to pursue for VIVAT as well as Moody's view on Anbang's credit quality.

Moody's expects that the IFSR and debt ratings of VIVAT will continue to reflect the standalone fundamentals of the company, the benefits of the regulatory protection from the Dutch regulator and Moody's view of the credit quality of Anbang.

On 28 October 2015, Moody's upgraded the backed subordinated and junior subordinate debt ratings of SRLEV N.V to Ba2(hyb) from Ba3(hyb). The Baa3 insurance financial strength rating of VIVAT's main legal entities remained unaffected. The rating action followed VIVAT's announcement on the resumption of coupon payments on the subordinated bonds issued by SRLEV following the EUR1.35bn capital injection to VIVAT by its parent, Anbang Insurance Group Co. Ltd. (Anbang).

The business mix of VIVAT consists of life insurance (76% of gross premiums written in 2014) and non-life insurance, including disability (24%).

Credit Strengths

The main credit strengths of VIVAT are as follows:

- Conservative investment policy

- Moderate risk profile thanks to a focus on retail and SMEs businesses

Credit Challenges

The key credit challenges of VIVAT are as follows:

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

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

- Improving the operating profitability of the company, adapting itself to the contraction of the individual life insurance market and maintaining reasonable levels of profitability in a context of low interest rates, bearing in mind the relatively high level of guarantees of the traditional savings products

- Manage volatility in economic capitalisation given moderate ALM mismatches

Rating Outlook

SRLEV N.V. and REAAL Schadeverzekeringen N.V. insurance financial strength ratings carry a positive outlook, reflecting the potential improvement in VIVAT's financial profile following the capital injection from Anbang. As part of the positive outlook, we will also assess the strategy that Anbang intends to pursue in VIVAT as well as Moody's view on Anbang's credit quality.

What to watch for:

- Evolution of REAAL's insurance operations' market shares and profitability

- Volatility of economic capitalisation

- Duration mismatch and spread deficiency

What Could Change the Rating - Up

The following factors could exert upward pressure on the ratings:

- A substantial improvement in VIVAT's financial profile by reducing the volatility in economic capitalisation to interest rate movements and remediating the duration mismatch and spread deficiency problems

- A meaningful improvement in VIVAT's operating profitability

- An improvement in market position in life and non-life, both of which have been under pressure as a result of problems faced by the insurer

What Could Change the Rating - Down

Downward pressure is unlikely given the positive outlook. However, the ratings could be stabilised following:

- A substantial deterioration in VIVAT's long-term economic capitalisation either from a sustained material reduction in Solvency II position, increased volatility or material reduction in the quality of capital

- Financial or total leverage exceeding 50%

- Continuing pressures on market position in the Dutch insurance market

Notching Considerations

SRLEV's hybrid debt instruments are rated Ba2(hyb), which is two notches below the IFSR in line with the standard debt notching for subordinated debt issued from operating companies.

DETAILED RATING CONSIDERATIONS

Moody's rates VIVAT's main legal entities Baa3 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 five players in the highly concentrated Dutch market with a market share of 15.3% in individual life, 17.8% in group life and 5% in non-life in 2014. The Group has maintained a top rank in the individual life segment (with a 16.8% market share in new production) but has lost market share notably in the group life business (7.4% in 2014 compared to 14.6% in 2013). Competition is high in the Dutch insurance market as the group is competing with large players such as NN Group and AEGON, and also with banks, as Dutch banking and insurance products carry the same fiscal advantages since 2008.

We believe the period preceding the nationalisation had a negative impact on VIVAT's franchise and raised uncertainty regarding VIVAT's ability to maintain its 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 and Zwitserleven has enjoyed a preferred position with IFAs. The network of SNS Bank is also used to sell insurance products, but this channel currently contributes to less than 10% of the insurance revenues. The acquisition of Axa's operations in the Netherlands and Zwitserleven, provided further diversification in the distribution strategy thanks to a developed agents' network, and the use of the direct channel is also growing rapidly in the Netherlands. Therefore, we believe that distribution control and diversification of VIVAT is in line with a Baa-rating.

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

VIVAT is adequately diversified between life and non-life, although the latest acquisitions have more significantly benefited the life segment (representing 76% of the 2014 premiums). Most of the Group's products are also distributed within the retail and SME segments.

In the non-life segment, Motor accounted for 33% of the 2014 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 the importance of benefits paid by annuities.

In the life segment, 14% of the 2014 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 (9%). This is offset by a large portfolio of unit-linked (UL) contracts (36% of the 2014 liabilities), although 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 of UL products, which contributes to deteriorate the risk profile of the life industry in the Netherlands.

Moreover, unlike most of its competitors, the insurance group 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 were adequate, mostly compiled of equities, loans or not rated debt and real estate. Nevertheless, we note that VIVAT will likely gradually re-risk its investment portfolio to higher-yielding assets to address the weakness in operating profitability following the capital injection from Anbang.

Reinsurance recoverables were at 174% of shareholders' equity in 2014, as the Group entered several traditional life reinsurance transactions as part of its capital release programme.

The Group has historically carried a significant amount of goodwill, yielded by the acquisitions of AXA, Winterthur and DBV. Goodwill and intangibles sharply declined to 3.5% of shareholders' equity at year-end 2014 from historical levels following an impairment incurred in 2012.

CAPITAL ADEQUACY: Baa - CAPITALISATION TO IMPROVE AFTER CAPITAL INJECTION, BUT CHALLENGES REMAIN DUE TO LOW INTEREST RATE ENVIRONMENT

The insurer's capitalisation under Solvency I also deteriorated in 2014 to 136% from 172% at YE13, mainly due to the negative impact of model and cost parameter changes as well as of unfavourable movements in yield curves and credit spreads. Moody's views the capitalisation of the company to be weak in absolute terms and when compared with the rest of the large Dutch insurance players (with on average Solvency I ratios above 200%).

We expect capitalisation to improve, following the EUR1.35 billion capital injection to VIVAT by Anbang. VIVAT's Solvency II ratio will increase to above 150% without transitional measures based on a standard formula pro-forma figures as at H1 2015 (YE14: estimated at 100%). Nevertheless, VIVAT's solvency has been highly volatile in the past, although we note manage actions have been taken to address this more recently.

In addition, 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: Ba - UNDER PRESSURE AS A RESULT OF LOW INTEREST ENVIRONMENT AND A SHRINKING MARKET

In 2014, VIVAT reported a net loss of EUR612 million (YE13: net loss of EUR625 million). This loss was predominantly driven by a total charge of EUR648 million due to weak operating performance in life, which was impacted by the decline in long term interest rates which in turn exacerbated the spread deficiency given the duration mismatch between investments and liabilities.

Following the capital injection, VIVAT may be able to remediate some of the pressures on the group's operating performance. However, the sustained low interest rate environment and difficult and very competitive Dutch insurance market will likely remain a challenge to restore operating performance in the short to medium term.

LIQUIDITY AND ALM: A - REINVESTMENT RISK IS MEANINGFUL

At SRLEV N.V., 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) is 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 that the Group's reserve adequacy is consistent with a A-rating.

FINANCIAL FLEXIBILITY: Ba - LEVERAGE WILL REDUCE FOLLOWING CAPITAL INJECTION, BUT WILL REMAIN HIGH

The financial flexibility of VIVAT remains under pressure given the low interest coverage. Fixed charge coverage has been negative since 2012 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 pressure, in line with our expectations of constrained profitability at the insurance operations.

Following Anbang's capital injection, we estimate that pro-forma financial leverage will decline to 38%, down from 50% at year-end 2014, although leverage remains relatively high. Financial debts at year-end 2014 consisted of EUR0.9 billion subordinated debts - of which EUR400 million and CHF 105 million issued by SRLEV in 2011 - and EUR0.7 billion of amounts due to banks (excluding the repo agreements and the loans related to securitised mortgages that we do not consider as financial debt). The high financial leverage reflects the financing of the acquisitions of AXA operations and of Zwitserleven, which was realised to a large extent through debts issuance. Total leverage for REAAL was 53% in 2014. Furthermore, the coupon deferrals on existing hybrid securities further constrain the financial flexibility of REAAL.

Rating Factors

REAAL Verzekeringen[1][2]

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								**Ba**	**Baa**
Asset Quality (10%)								**A**	**A**
- High Risk Assets % Shareholders' Equity				**153.8%**					
- Reinsurance Recoverable % Shareholders' Equity					**173.9%**				
- Goodwill & Intangibles % Shareholders' Equity	**3.5%**								
Capital Adequacy (15%)								**Ba**	**Baa**
- Shareholders' Equity % Total Assets					**3%**				
Profitability (15%)								**B**	**Ba**
- Return on Capital (5 yr. avg)						**-4.5%**			
- Sharpe Ratio of ROC (5 yr. avg)							**NM**		
Liquidity and Asset/Liability Management (5%)								**Aa**	**A**
- Liquid Assets % Liquid Liabilities		**X**							
Reserve Adequacy (5%)								**Aa**	**A**
- Adv./(Fav.) Loss Dev. % Beg. Reserves (5 yr. wtd avg)		**-3%**							
Financial Flexibility (15%)								**Ba**	**Ba**
- Financial Leverage				**49.8%**					
- Total Leverage					**52.6%**				
- Earnings Coverage (5 yr. avg)						**-0.5x**			
Operating Envrionment								**Aaa - A**	**Aaa - A**
Aggregate Profile								**Baa2**	**Baa3**

[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

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