

29 Apr 2020 | Affirmation

Fitch Affirms Athora and VIVAT Life at IFS 'BBB+'; Outlook Stable

Fitch Ratings-Frankfurt am Main-29 April 2020:

Fitch Ratings has affirmed Athora Life Re Ltd, Athora Ireland plc and SRLEV N.V.'s (VIVAT Life) Insurer Financial Strength Ratings (IFS) at 'BBB+' (Good) and VIVAT N.V.'s Issuer Default Rating (IDR) at 'BBB' (Good) with Stable Outlooks.

Key Rating Drivers

The rating actions are based on Fitch's current assessment of the impact of the coronavirus pandemic, including its economic effects, under a set of ratings assumptions described below. These assumptions were used by Fitch to develop pro forma financial metrics for Athora that Fitch compared to both ratings guidelines defined in its criteria, and relative to previously established Rating Sensitivities for Athora.

Under our pro forma analysis Athora's consolidated Fitch's Prism Factor-Based Model (FBM) capitalisation score is "Very Strong", down from "Extremely Strong" at end-2019. Both scores include the VIVAT operations Athora acquired at the beginning of April 2020 on a pro forma basis.

The group's consolidated financial leverage, which was in the low 30%s taking into account the drawn amounts of the capital commitments Athora raised in advance of the VIVAT acquisition, the on-sale of VIVAT Schade and its debt to NN Group and the tender of VIVAT's senior notes, increases on pro-forma basis to the mid to high 30%s in our assessment of the impact of the coronavirus pandemic. However, we expect that Athora will make use of currently undrawn equity commitments from its owners should Fitch's coronavirus assumptions materialize.

Financial ratios for investment risk and liquidity remained largely stable. In addition, we do not expect the pandemic to cause a significant reduction in Athora's run-rate earnings.

In our assessment we also take into account that Athora's business profile has improved as a consequence of the acquisition of VIVAT.

Assumptions for Coronavirus Impact (Rating Case):

Fitch used the following key assumptions in support of the pro forma ratings analysis discussed above:

- Decline in key stock market indices by 35% relative to January 1, 2020
- Increase in two-year cumulative high-yield bond default rate to 13%, applied to current non-investment grade assets, and 12% of 'BBB' assets
- Both upward and downward pressure on interest rates, with spreads widening (including high yield by 400bp) coupled with notable declines in government rates
- Capital markets access limited for issuers at senior debt levels of 'BBB' and below
- A COVID-19 infection rate of 5% and a mortality rate (as a percentage of those infected) of 1%

RATING SENSITIVITIES

The ratings remain sensitive to any material change in Fitch's Rating Case assumptions with respect to the coronavirus pandemic. Periodic updates to our assumptions are possible given the rapid pace of changes in government actions in response to the pandemic, and the pace with which new information is available on the medical aspects of the outbreak. A discussion of how ratings would be expected to be affected under a set of Stress Case assumptions is included at the end of this section to help frame sensitivities to a severe downside scenario.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A material adverse change in Fitch's Ratings Assumptions with respect to the coronavirus impact
- Athora's consolidated FBM score weakening to "Adequate"
- Consolidated financial leverage remaining above 30% on a sustained basis
- The integration of the acquired VIVAT business resulting in materially adverse financial impact

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A positive rating action is prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profile of both the European insurance industry and Athora.
- Successful integration of VIVAT and profitable growth of Athora's reinsurance business in 2020
- An upgrade would be subject to a minimum FBM score of "Strong"

Stress Case Sensitivity Analysis

--A material positive change in Fitch's Ratings Assumptions with respect to the coronavirus impact

--Fitch's Stress Case assumes a 60% stock market decline, two-year cumulative high-yield bond default rate of 22%, high-yield bond spreads widening by 600bp and more prolonged declines in government rates, heightened pressure on capital markets access, a COVID-19 infection rate of 15% and a mortality rate of 0.75%.

--The implied rating impact under the Stress Case would be a downgrade by no more than one notch

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

SRLEV N.V.; Insurer Financial Strength; Affirmed; BBB+; RO:Sta

Athora Ireland plc; Insurer Financial Strength; Affirmed; BBB+; RO:Sta

Athora Life Re Ltd.; Insurer Financial Strength; Affirmed; BBB+; RO:Sta

VIVAT N.V.; Long Term Issuer Default Rating; Affirmed; BBB; RO:Sta
---senior unsecured; Long Term Rating; Affirmed; BBB-
---subordinated; Long Term Rating; Affirmed; BB
---junior subordinated; Long Term Rating; Affirmed; BB-

Contacts:

Primary Rating Analyst

Ralf Ehrhardt,

Director

+49 69 768076 163

Fitch Deutschland GmbH

Neue Mainzer Strasse 46 - 50

Frankfurt am Main D-60311

Primary Rating Analyst

Andras Sasdi, CEFA

Director

+49 69 768076 162

Fitch Deutschland GmbH

Neue Mainzer Strasse 46 - 50

Frankfurt am Main D-60311

Secondary Rating Analyst

Willem Loots, FIA

Senior Director

+44 20 3530 1808

Secondary Rating Analyst

Ralf Ehrhardt,

Director

+49 69 768076 163

Committee Chairperson

Stephan Kalb,

Senior Director

+49 69 768076 118

Media Relations: Adrian Simpson, London, Tel: +44 20 3530 1010, Email:

adrian.simpson@thefitchgroup.com

Athos Larkou, London, Tel: +44 20 3530 1549, Email: athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com

Applicable Criteria

[Insurance Rating Criteria \(pub. 02 Mar 2020\) \(including rating assumption sensitivity\)](#)

Applicable Model

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.7.1 (1)

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