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Achmea Bank N.V.

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Achmea Bank N.V.

Credit Highlights

Issuer Credit Rating
A-/Stable/A-2

Key strengths	Key risks
Fully owned, highly strategic subsidiary of the Achmea insurance group.	Concentrated exposure to Dutch mortgage loans.
Strong operational ties with the group thanks to complementary customer, product, and asset-liability management.	Small size limiting economies of scale.
Low-risk loan book consisting of mortgage loans.	Low profitability.

Achmea Bank N.V.'s highly strategic importance for Achmea B.V. (Achmea) is the main rating driver. As a wholly owned subsidiary of Achmea, Achmea Bank has strong operational ties and complements the group's products with bank savings. Achmea Bank accounts for a significant proportion of the group's total assets (13% at mid-year 2021), equity (8%) and profit (8%). We therefore base our long-term issuer credit rating on Achmea Bank's highly strategic importance within Achmea. We rate the bank based on a top-down approach, without assessing its stand-alone credit profile. The long-term rating on the bank is one notch lower than the 'a' group credit profile (GCP) assessment of the parent, reflecting our view that the group is likely to support the bank under almost all foreseeable circumstances.

Achmea Bank has transformed from a traditional bank to a network business model. As such, the bank funds Achmea's mortgage portfolio through savings accounts and wholesale funding. Mortgages are now served by Syntrus Achmea Real Estate & Finance, a real-estate and mortgages investment manager fully owned by Achmea, which also originates new mortgages, mainly under the Centraal Beheer brand. Achmea Bank is the orchestrator of Achmea's mortgage value chain and responsible for concluding partnerships, which are consequential to this business model, and acquiring mortgage portfolios. It aims to expand its balance sheet to €16 billion by 2025.

The bank's size has decreased 18% since year-end 2015, reflecting its cautious approach to mortgage growth amid low interest rates to protect its net interest margin (NIM). This is despite several acquisitions including part of ASR Bank's operations in 2019, which included €1.5 billion of mortgage loans, and a €470 million residential mortgage loan portfolio from BlinckBank in 2020. Achmea Bank's portfolio decline contrasts with other bank subsidiaries of Dutch insurance groups. As a result, Achmea Bank is now the smallest of the three banking subsidiaries of Dutch insurance groups we rate, with total assets of €13.1 billion at mid-year 2021. However, the bank intends to expand its mortgage activities to reach a 5% market share in the Netherlands in the next five years. Therefore, Achmea Bank closed a deal to buy €500 million of ASR Nederland's mortgage portfolio in second-half 2021 and aims for similar size transactions over the next two years. It will also acquire a projected €190 million of ASR's newly originated mortgages annually over the next three years.

Although fully integrated within the group, Achmea Bank is self-funded. Unlike most savings bank, it heavily relies on wholesale funding, which accounted for 40% of total funding at year-end 2020, according to our metrics. This wholesale funding includes senior unsecured loans (€2.1 billion), securitization (€1.2 billion), and covered bonds (€1.5 billion). Considering the lower share of customer deposits in the funding base (60% at year-end 2020 according to our metrics), we believe Achmea Bank does not need to necessarily issue senior nonpreferred debt to meet its minimum requirement for own funds and eligible liabilities (MREL). Achmea Bank will probably use mostly soft bullet covered bonds to fund balance sheet expansion and might reopen its portal to attract new clients if interest rates rise.

The bank's Tier 1 capital ratio was 21.4% at mid-year 2021, which we consider very robust. Our assessment is underpinned by the bank's exposure to the low-risk asset class of Dutch mortgages--a significant portion of which benefits from a Dutch government-supported guarantee (Nationale Hypotheek Garantie). The bank is now working toward adopting the Advanced Internal Rating Based (AIRB) approach to determine regulatory risk-weighted assets. We believe this could allow it to release more than €100 million in common equity Tier 1 (CET1) capital (compared with CET1 capital of close to €850 million at mid-year 2021), lifting the return on Achmea's equity investment and thereby supporting its interest in the bank subsidiary. We believe that the capital requirement reduction induced by the AIRB model will likely absorb the bank's future portfolio acquisitions while upholding its capital strength.

The bank's profitability is structurally low, but we do not view this as a major rating weakness considering its group earnings contribution is beyond profits. Achmea Bank's return on equity has averaged 3% over the past five years and never exceeded 5% in a full year. The bank's low profitability is largely explained by a relatively low NIM (1.2% in 2020) underpinned by its wholesale-funded profile with some outstanding debt issued during higher interest rates. Nevertheless, cost of risk would have to rise to 35 basis points (bps) or above for the bank to be loss-making, all else being equal, which we view as unlikely. Although Achmea Bank has a higher risk portfolio of loans in runoff, which includes mortgage loans (€723 million at year-end 2020), some of which are backed by commercial real estate, there is a 20-bps cap on credit losses supported by the bank. Credit losses above this are supported by Achmea.

Achmea's leadership ambitions in retirement services and position as the largest insurer in the Netherlands create a strong incentive for the group to own a bank in the country, in our view. For this reason, and despite relatively recent cases of insurance groups exiting or starting to exit banking activities (ASR in the Netherlands, Gjensidige in Norway, and AXA in Belgium), we continue to believe Achmea will keep and expand its Dutch banking activities. Nevertheless, we are monitoring legal changes that would reduce the attractiveness of bank savings products and, therefore, the attractiveness of in-house banking activities for insurance groups. We do not expect this risk to materialize within our two-year outlook horizon.

Outlook

Our stable outlook on Achmea Bank mirrors the stable outlook on parent Achmea, the largest insurer in the Netherlands. The stable outlook on Achmea Bank also reflects our expectation that it will remain a highly strategic subsidiary of Achmea over the next two years. Any rating action on the parent would therefore result in a similar rating action on the bank.

Downside scenario

We would lower our ratings on Achmea Bank if we believe that its strategic importance for Achmea is diminishing, for instance, if the bank's earnings metrics are not in line with group expectations, or if it starts to pose a greater financial risk to its parent. Rating pressure could also come from a downward revision to Achmea's GCP assessment, which would indicate the insurance group's reduced capacity to support its bank subsidiary in case of need.

Upside scenario

We would upgrade Achmea Bank if we revise Achmea's GCP assessment upward. We would also upgrade the bank if we reassess its strategic importance for the group as core. We view this as a remote possibility because it would necessitate a stronger contribution to the group's profits, as well as the bank becoming a critical component of the group's business model.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have a neutral impact on our assessment of Achmea Bank's creditworthiness. Social and environmental credit factors are in line with those of peers in the banking industry, while the bank's governance is comparable with industry standards in its home country.

Key Metrics

Table 1

Achmea Bank N.V.--Key Figures

	--Year ended Dec. 31--							
(Mil. €)	**1H2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Adjusted assets	13,109.0	13,834.0	13,665.0	12,286.0	14,199.0	14,985.0	16,072.0	15,125.0
Customer loans (gross)	N.A.	12,120.6	12,672.0	11,100.0	11,738.0	12,530.0	13,324.0	12,593.0
Nonperforming loans	N.A.	306.0	308.0	272.0	157.0	14.0	101.0	106.0
Adjusted common equity	859.5	835.0	791.0	777.0	789.0	822.0	775.0	598.0
Operating revenue	75.0	147.0	150.0	116.0	112.0	115.0	93.0	128.0
Noninterest expense	53.0	106.0	105.0	79.0	96.0	95.0	82.0	86.0
Core earnings	25.0	28.0	37.0	29.0	18.0	13.0	4.0	24.0
%								
Return on average common equity	5.8	3.4	4.6	3.6	2.1	1.6	0.6	4.1
Tier 1 capital ratio	21.4	20.4	19.2	20.8	20.4	19.1	16.7	17.0
Net interest income/operating revenue	92.0	96.0	83.0	95.0	92.2	95.7	99.6	90.0
Fee income/operating revenue	8.0	4.0	5.3	3.6	4.5	1.8	0.1	(0.4)
Market-sensitive income/operating revenue	6.7	(3.4)	10.6	(0.2)	1.4	0.5	(2.5)	7.3
Noninterest expense/operating revenue	70.7	72.1	69.8	68.0	85.0	83.1	88.0	67.4
Growth in customer loans	ND	(4.4)	14.2	(5.4)	(6.3)	(6.0)	5.8	1.2
Gross nonperforming assets/customer loans + other real estate owned	ND	2.5	2.4	2.5	1.3	0.1	0.8	0.8
New loan loss provisions/average customer loans	ND	0.0	(0.0)	(0.0)	(0.1)	0.0	0.0	0.1
Customer loans (net)/customer deposits	145.9	162.4	168.4	188.7	190.1	196.0	261.6	251.7

1H--First half. N.A.--Not available.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Achmea Group, Aug. 2, 2021

Ratings Detail (As Of March 8, 2022)*	
Achmea Bank N.V.	
Issuer Credit Rating	A-/Stable/A-2
Senior Secured	AAA/Stable
Senior Unsecured	A-
Subordinated	BBB
Issuer Credit Ratings History	
26-Apr-2019	A-/Stable/A-2
11-Apr-2019	A-/Stable/A-1
13-Apr-2017	A-/Negative/A-1
Sovereign Rating	
Netherlands	AAA/Stable/A-1+
Related Entities	
Achmea B.V.	
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Junior Subordinated	BB+
Junior Subordinated	BBB-
Senior Unsecured	BBB+
Subordinated	BBB
Achmea Pensioen & Levensverzekeringen N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--

Ratings Detail (As Of March 8, 2022)*(cont.)	
Achmea Reinsurance Co. N.V.	
Financial Strength Rating	
Local Currency	A-/Stable/--
Achmea Schadeverzekeringen N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Achmea Zorgverzekeringen N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.