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Ratings

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Achmea Bank N.V.

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Achmea Bank N.V.

Major Rating Factors

Issuer Credit Rating
A-/Negative/A-1

Strengths:	Weaknesses:
• Fully owned highly strategic subsidiary of the insurance group Achmea. • Strong operational cooperation with the group's pension and life insurance. • Sound asset quality, reflecting its focus on Dutch residential mortgage lending.	• Lack of diversification by geography and product offering. • Dependence on wholesale funding. • Limited prospects for earnings growth.

Outlook

S&P Global Ratings' negative outlook on The Netherlands-based Achmea Bank N.V. mirrors the negative outlook on the Dutch insurance group Achmea. This reflects our view of Achmea Bank as a highly strategic subsidiary of Achmea Group.

We could lower the ratings on the bank over the next 12-18 months if the insurance group's profitability were below our expectations and this prevented Achmea from maintaining its capital adequacy at least within the 'A' range and its fixed charge coverage ratio above 4x. Any deterioration in the creditworthiness of the parent would indicate a lower capacity to financially support the bank subsidiary.

We expect to continue rating the bank one notch lower than our group credit profile on Achmea Group over the next two years, provided that our view of the bank's status as highly strategic remains unchanged.

Any rating action on Achmea Group could therefore prompt a similar rating action on Achmea Bank. We could also lower our ratings on Achmea Bank if its strategic importance to the group were to lessen, for instance if the group no longer fully owned the bank or if the value created by the bank for the group, notably in the form of asset-liability management and complementing the group's product offering, reduced.

Rationale

Our ratings on Achmea Bank reflect its status as a highly strategic subsidiary of Achmea Group. The ratings are set one notch lower than our 'a' group credit profile on Achmea Group, because we believe the bank would likely receive extraordinary support from its parent under almost all foreseeable circumstances.

We believe that Achmea Bank is fully integrated within the group and forms an integral part of the group's strategy. Its bank products complement the pension and life insurance products, offering cross-selling opportunities. Also, Achmea Bank originates mortgages for its sister company in the pension and life insurance business. In the currently low-interest-rate environment, mortgage origination has become an attractive asset class to invest in for the group, as it facilitates the insurer's asset-liability management thanks to its long-term profile. It also supports revenue generation, yielding better earnings than highly rated government bonds.

Achmea Bank was created in 2014 following the merger of three banking entities--Achmea Hypotheekbank, Achmea Bank Holding, and Achmea Retail Bank--with the objective of increasing efficiency across the whole group. Since the sale of Staalbankiers, a former sister company, Achmea Bank is the main operator of banking products for the group's retail activities.

With €14.2 billion in total assets at end-2017, Achmea Bank remains a small player in The Netherlands. We expect its loan portfolio to be resilient as the bank's position in the Dutch market strengthens gradually as a result of its expanding role in providing retirement products. The bank focuses on residential mortgages and savings products, both distributed by the group's diverse brands and complementing insurance products. Regulatory changes in The Netherlands regarding pension plans have created incentives for individuals to invest themselves in retirement products. We believe that Achmea Bank will be instrumental in capturing this demand for Achmea Group, including via some savings products that, as stipulated by law, can only be distributed by banks.

As we do for Achmea Bank's direct peers--banking subsidiaries of large insurance companies in The Netherlands--we monitor the potential emergence of regulatory changes that would reduce the attractiveness of in-house banking activities for insurance groups. We currently do not foresee that this risk could materialize within our outlook horizon.

We continue to take into account Achmea Bank's low profitability. The bank posted a modest profit before tax of €24 million in 2017 and a reported return on equity of 2.1% in 2017. The latter figure is up from 1.6% in 2016 but is unlikely to reach 5% in the next two years. As the bank is an integrated subsidiary for which one objective is to create value for the whole group, we do not see the modest profitability as a huge rating weakness. The interest margin decreased to €104 million in 2017 from €110 million in 2016, which was mainly the result of lower volumes as the net interest margin remained low but stable. We expect the bank's earnings capacity will remain constrained in the next two years, reflecting the bank's overall low-risk profile and limited business diversity, as the bank is primarily a mortgage lender and non-interest income provides a mere 10% of total revenues. We anticipate continued pressure on the net interest margin from low interest rates and the cost of being largely wholesale-funded, and limited loan book growth in the context of a shift to amortizing mortgage loans in the Dutch market. Still, we think profitability could improve slightly in the next two years on the back of lower refinancing costs, in line with the trend observed in 2017, and lower operating expenses as benefits from mortgage servicing outsourcing kick in and investments in the retirement services strategy diminish. We consider that the bank's main objective is to increase client retention within the group by facilitating cross-selling and improving customer satisfaction.

We view Achmea Bank's credit-loss track record as better than its Dutch peers', with a cost of risk ranging between 0 and 10 basis points for the past five years. We expect the bank to maintain this level of losses over the next two years. The retail mortgage segment remains a very low risk one in The Netherlands. The acquisition of Staalbankiers' retail loan portfolio has somewhat weakened Achmea Bank's risk profile because the acquired portfolio was of markedly weaker quality than the bank's mortgage loan book, in our opinion. However, given the loss-cap guarantee mechanism that Achmea Group provides to the bank, we think that the impact on the bank's net results will remain limited.

Achmea Bank N.V. uses external funds through two channels: funds entrusted including from non-banking institutions within the Achmea Group, and the wholesale market. In November 2017, Achmea Bank set up a €5 billion conditional pass-through covered bond program to replace its existing covered bond program, which ended the prior month. The bank issued €500 million at the program's inception. Retail savings form about 45% of the funding base. Although the proportion of wholesale funds to total funding continues to decline, the funding profile does reflect the modest retail deposit franchise of the bank and its integration within an insurance group, which itself enjoys good liquidity.

Achmea Bank N.V. enjoys a solid capitalization with a common equity Tier 1 ratio exceeding 20% in 2017, which is expected to be marginally lower in 2018, when the 30 basis points impact of IFRS 9 and the €50 million dividend paid to the parent are taken into account.

Table 1

Achmea Bank Key Figures

	--Year-ended Dec. 31--					
	2017	**2016**	**2015**	**2014**	**2013**	**2012**
(Mil. €)						
Adjusted assets	14,199	14,985	16,072	15,125	17,145	16,041
Customer loans (gross)	11,770	12,530	13,324	12,593	12,440	13,255
Adjusted common equity	789.5	821.7	775.3	598.0	574.0	557.0
Operating revenues	112.5	114.6	93.3	128.0	108.0	108.0
Noninterest expenses	95.6	95.3	82.0	86.0	73.0	64.0
Core earnings	17.7	13.0	4.5	24.0	17.0	24.0
(%)						
Tier 1 capital ratio	20.4	19.1	16.7	17.0	15.0	14.2
Net interest income/operating revenues	92.2	95.7	99.6	90.0	69.6	59.6
Noninterest expenses/operating revenues	85.0	83.1	88.0	67.4	67.5	59.4
Core earnings/average managed assets	0.1	0.1	0.0	0.2	0.1	0.2
Growth in customer loans	(6.1)	(6.0)	5.8	1.2	(6.2)	(1.7)
New loan loss provisions/average customer loans	(0.1)	0.0	0.0	0.1	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned	1.3	0.1	0.8	0.8	0.8	0.7
Loan loss reserves/gross nonperforming assets	24.7	84.1	18.2	9.3	15.0	23.4
Core deposits/funding base	48.6	48.0	35.6	42.0	28.2	26.7

Table 1

Achmea Bank Key Figures (cont.)						
	--Year-ended Dec. 31--					
	2017	**2016**	**2015**	**2014**	**2013**	**2012**
Customer loans (net)/customer deposits	190.1	196.0	261.6	209.7	285.5	354.9
Stable funding ratio	90.2	92.8	92.7	87.0	84.9	89.7
Short-term wholesale funding/funding base	15.7	10.8	10.8	19.6	26.8	10.3
Short-term wholesale funding/total wholesale funding	30.6	20.7	16.8	33.8	37.3	14.1
Broad liquid assets/short-term wholesale funding (x)	0.7	0.7	0.8	0.3	0.7	0.6

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- Ratings On Netherlands-Based Achmea Group Entities Affirmed; Outlooks Remain Negative, July 26, 2018

Ratings Detail (As Of August 6, 2018)	
Achmea Bank N.V.	
Issuer Credit Rating	A-/Negative/A-1
Commercial Paper	
Local Currency	A-1
Senior Secured	A-
Senior Unsecured	A-
Short-Term Secured Debt	A-1
Subordinated	BBB
Issuer Credit Ratings History	
13-Apr-2017	A-/Negative/A-1
21-Feb-2017	A-/Negative/A-2
25-Jul-2016	A-/Stable/A-2
Sovereign Rating	
Netherlands	AAA/Stable/A-1+
Related Entities	
Achmea B.V.	
Issuer Credit Rating	
Local Currency	BBB+/Negative/--
Junior Subordinated	BBB-
Senior Unsecured	BBB+
Subordinated	BBB
Achmea Pensioen & Levensverzekeringen N.V.	
Financial Strength Rating	
Local Currency	A/Negative/--
Issuer Credit Rating	
Local Currency	A/Negative/--
Achmea Reinsurance Company NV	
Financial Strength Rating	
Local Currency	A-/Negative/--
Achmea Schadeverzekeringen N.V.	
Financial Strength Rating	
Local Currency	A/Negative/--
Issuer Credit Rating	
Local Currency	A/Negative/--
Achmea Zorgverzekeringen N.V.	
Financial Strength Rating	
Local Currency	A/Negative/--
Issuer Credit Rating	
Local Currency	A/Negative/--

*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.