STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Achmea Bank N.V.

Primary Credit Analyst:
Constance Hauville, Paris (33) 1-4420-6749; constance.hauville@standardandpoors.com

Secondary Contact:
Dhruv Roy, London (44) 20-7176-6709; dhruv.roy@standardandpoors.com

Table Of Contents

1330766 | 301945398

Achmea Bank N.V.

SACP	bbb	+	Support	+3	+	Additional Factors	0

Anchor	bbb+	
Business Position	Weak	-2
Capital and Earnings	Strong	+1
Risk Position	Strong	+1
Funding	Below Average	-1
Liquidity	Adequate	

GRE Support	0
Group Support	+3
Sovereign Support	0

Issuer Credit Rating
A/Negative/A-1

Major Rating Factors

Strengths:	Weaknesses:
• Strategically important subsidiary of the Achmea group. • Strong capitalization. • Sound asset quality, reflecting its focus on Dutch residential mortgage lending and savings.	• Lack of diversification by geography and product offering. • Dependence on wholesale funding. • Restricted earnings growth prospects, owing to a low net interest margin and limited loan volume growth.

Outlook: Negative

The negative outlook on Achmea Bank N.V. (AB) reflects Standard & Poor's Ratings Services' negative outlook on the Achmea group. It also reflects potential pressure on AB's risk position if continued weakness in the Dutch housing market results in a sustained and material rise in credit losses.

We could lower the ratings if we lowered the ratings on the parent company, Achmea B.V., because our rating on AB is capped at one notch below Achmea's group credit profile. We would also lower the ratings if AB's credit losses were higher than we typically observe for mortgage-focused banks in countries with similar economic risk as The Netherlands. This could lead us to revise our risk position assessment downward to "adequate" from "strong."

We could revise the outlook to stable if we revised the outlook on the parent to stable, and if AB's loan portfolio remained resilient to wider housing market pressures and it maintained a conservative risk profile.

Rationale

Our ratings on AB reflect its 'bbb+' anchor, "weak" business position, "strong" capital and earnings, "strong" risk position, "below average" funding, and "adequate" liquidity, as our criteria define these terms. AB's stand-alone credit profile (SACP) is at 'bbb'.

Anchor: 'bbb+' for a commercial bank operating only in The Netherlands

Our bank criteria use our Banking Industry Country Risk Assessment's economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for a commercial bank operating only in The Netherlands is 'bbb+', reflecting an economic risk score of '3' and an industry risk score of '3'.

In our view, Dutch banks benefit from a diverse and competitive domestic economy, flexible fiscal policy, and adaptable labor market. However, we expect ongoing pressure on the private sector, as a result of the continued price correction in the Dutch property market, the recessionary conditions in the eurozone (European Economic and Monetary Union), and the government's measures to reduce the budget deficit.

With regard to industry risk, the Dutch banking industry is dominated by three large players, two of which have had to receive state aid. The industry's reliance on wholesale funding is partly attributable to households' propensity to save using life insurance and pension products.

Table 1

Achmea Bank N.V. Key Figures

	--Year-ended Dec. 31--				
(Mil. €)	**2013**	**2012**	**2011**	**2010**	**2009**
Adjusted assets	17,145.0	16,041.0	16,528.0	16,753.0	16,710.0
Customer loans (gross)	12,440.0	13,255.0	13,489.0	14,383.0	14,904.0
Adjusted common equity	574.0	557.0	533.0	568.0	517.0
Operating revenues	108.0	108.0	(7.0)	133.0	143.0
Noninterest expenses	73.0	64.0	38.0	53.0	53.0
Core earnings	17.0	24.0	(34.0)	50.0	49.0

Business position: Concentration in Dutch residential mortgage lending

Our assessment of AB's business position as "weak" reflects our view of its business and geographic concentration in the competitive Dutch residential mortgage lending sector. AB also develops and offers consumer savings products in The Netherlands. Although we view AB's customer franchise as relatively stable, we consider that its small market share in residential mortgage lending and savings is likely to remain unchanged over the next two years.

We note AB's strategy of emphasizing margins over loan volume growth by focusing on the direct channel and tightening underwriting standards. That said, the strategy is still being developed, and profitability is likely to remain under pressure over the near to medium term.

Capital and earnings: Capitalization will likely remain a credit strength

Our assessment of capital and earnings as "strong" reflects our expectation that the risk-adjusted capital (RAC) ratio before diversification adjustments will reach 11%-11.5% over the next 24 months from 10.8% on Dec. 31, 2013, reflecting modest internal capital generation, low risk-weighted assets growth, and no dividends.

We base our expectation of internal capital generation on our view that AB's earnings capacity will be constrained by continued pressure on the net interest margin from elevated wholesale funding costs, higher liquidity levels, increasing regulatory-related expenses, and flat loan growth. Ongoing asset repricing could relieve some of the pressure on the net interest margin, however. In addition, AB's continued focus on tight cost control and low impairment charges should enhance earnings in the medium term. We note that the absence of hybrids supports the quality of AB's capital.

Table 2

Achmea Bank N.V. Capital And Earnings					
	--Year-ended Dec. 31--				
(%)	**2013**	**2012**	**2011**	**2010**	**2009**
Tier 1 capital ratio	15.9	14.2	12.3	12.7	10.3
S&P RAC ratio before diversification	10.8	12.9	N.M.	N.M.	N.M.
S&P RAC ratio after diversification	8.6	10.4	N.M.	N.M.	N.M.
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	69.6	59.6	(900.2)	88.0	103.7
Fee income/operating revenues	(0.2)	(1.6)	86.6	(5.5)	(10.2)
Market-sensitive income/operating revenues	28.4	39.3	932.2	17.5	4.3
Noninterest expenses/operating revenues	67.5	59.4	(550.4)	40.1	36.8
Preprovision operating income/average assets	0.2	0.3	(0.3)	0.5	0.6
Core earnings/average managed assets	0.1	0.2	(0.2)	0.3	0.3

N.M.--Not meaningful.

Table 3

Achmea Bank N.V. RACF [Risk-Adjusted Capital Framework] Data					
(€ 000s)	**Exposure***	**Basel II RWA**	**Average Basel II RW (%)**	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Credit risk					
Government and central banks	2,577,903	0	0	77,780	3
Institutions	1,558,133	250,863	16	354,179	23
Corporate	0	0	0	0	0
Retail	12,329,029	2,299,475	19	3,513,809	29
Of which mortgage	12,305,574	2,276,025	18	3,496,218	28
Securitization§	755,349	825,663	109	1,034,801	137
Other assets	123,146	90,900	74	138,539	113
Total credit risk	17,343,560	3,466,900	20	5,119,108	30
Market risk					
Equity in the banking book†	0	0	0	0	0
Trading book market risk	--	0	--	0	--
Total market risk	--	0	--	0	--

Table 3

Achmea Bank N.V. RACF [Risk-Adjusted Capital Framework] Data (cont.)					
Operational risk					
Total operational risk	--	146,200	--	206,183	--
(€ 000s)		**Basel II RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		3,613,100		5,325,291	100
Total Diversification/Concentration Adjustments		--		1,326,558	25
RWA after diversification		3,613,100		6,651,848	125
(€ 000s)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		574,390	15.9	574,390	10.8
Capital ratio after adjustments‡		574,390	16.1	574,390	8.6

*Exposure at default. §Securitisation exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2013; Standard & Poor's.

Risk position: Focus on prime residential mortgage lending

We assess AB's risk position as "strong." This primarily reflects our conservative risk weight for residential mortgages in countries with "intermediate" economic risk, given our view of AB's Dutch residential mortgage portfolio as low risk.

We expect AB's loan portfolio growth to be broadly flat over the next two years, given management's focus on the direct channel and the weak outlook for the Dutch housing market. Furthermore, AB has a relatively simple business model, in our view.

AB's historical losses are lower than peers'. In 2009, the peak impairment charge (defined as new loan loss provisions to average customer loans) was just seven basis points (bps), which is favorable compared with that of peers in countries with similar economic risk. As of Dec. 31, 2013, AB's gross nonperforming assets amounted to 1.22% of its €12.4 billion customer loan portfolio, and the impairment charge reflected an increase to 10 bps from 5 bps in 2011. Although we expect a modest near-term increase in the impairment charge due to wider macroeconomic and housing market pressures in The Netherlands, we expect that AB's overall asset quality will continue to support our assessment of its risk position.

Table 4

Achmea Bank N.V. Risk Position					
	--Year-ended Dec. 31--				
(%)	**2013**	**2012**	**2011**	**2010**	**2009**
Growth in customer loans	(6.2)	(1.7)	(6.2)	(3.5)	1.2
Total diversification adjustment / S&P RWA before diversification	24.9	26.4	25.0	21.6	N.M.
Total managed assets/adjusted common equity (x)	29.9	28.8	31.0	29.5	32.3
New loan loss provisions/average customer loans	0.10	0.09	0.05	0.09	0.18

Table 4

Achmea Bank N.V. Risk Position (cont.)					
Net charge-offs/average customer loans	0.08	0.06	0.06	0.04	0.03
Gross nonperforming assets/customer loans + other real estate owned	1.22	0.63	0.54	0.60	0.49
Loan loss reserves/gross nonperforming assets	15.0	23.4	21.5	22.2	45.2

N.M.--Not meaningful.

Funding and liquidity: Reliance on wholesale funding

We view AB's funding as "below average" given the bank's reliance on wholesale funding.

We note that part of AB's funding comprises €4.3 billion in customer deposits. However a portion of these customer deposits is collected through the online channel. This, combined with AB's above-average pricing, leads us to view the deposit franchise as relatively less stable in terms of customer retention.

We also note that AB's secured wholesale funding model results in a high level of asset encumbrance, reducing its financial flexibility. AB set up a €5 billion unsecured medium-term note program in October 2012 to further diversify its funding profile. It issued the first tranche of €500 million in November and additional tranches of, respectively, €800 million and €750 million in January 2013 and February 2014.

Our assessment of AB's liquidity as "adequate" takes into account AB's cash and available deposits with central banks of about €1.8 billion, and an interest-bearing securities portfolio of €801 million (comprising mainly Dutch government bonds) as of Dec. 31, 2013. We also consider AB's access to liquidity facilities from the Achmea group, such as a €200 million standby facility and a commitment from Achmea Pension and Life that enables AB to transfer €1.5 billion of mortgage loans in exchange for cash in the event of a liquidity emergency.

Table 5

Achmea Bank N.V. Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	**2013**	**2012**	**2011**	**2010**	**2009**
Core deposits/funding base	28.2	26.7	20.5	13.6	9.0
Customer loans (net)/customer deposits	285.5	354.9	449.4	694.1	1,081.7
Long term funding ratio	74.2	90.1	82.8	95.2	80.4
Stable funding ratio	84.9	89.7	85.1	97.9	81.3
Short-term wholesale funding/funding base	26.8	10.3	17.9	4.9	20.3
Broad liquid assets/short-term wholesale funding (x)	0.7	0.6	0.4	0.9	0.2
Short-term wholesale funding/total wholesale funding	37.28	14.07	22.48	5.71	22.26

External support: A three-notch uplift for the likelihood of group support

The issuer credit rating on AB is three notches higher than the SACP to reflect our view of AB as "strategically important" to its parent Achmea. AB continues to be an important distribution channel for the insurance operations and its bank products complement the life insurance products, producing cross-selling opportunities.

Additional rating factors:

There are no additional rating factors.

Related Criteria And Research

- Group Rating Methodology, Nov. 19, 2013
- Banking Industry Country Risk Assessment: The Netherlands, Nov. 16, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of June 10, 2014)	
Achmea Bank N.V.	
Counterparty Credit Rating	A/Negative/A-1
Senior Secured	A
Senior Unsecured	A
Short-Term Secured Debt	A-1
Subordinated	A-
Counterparty Credit Ratings History	
16-Nov-2012	A/Negative/A-1
08-Dec-2011	A/Stable/A-1
18-Oct-2006	A-/Stable/A-2
Sovereign Rating	
Netherlands (State of The) (Unsolicited Ratings)	AA+/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com