

Achmea Bank N.V.

Key Rating Drivers

Ratings Equalised with Parent's: Achmea Bank N.V.'s (Achmea Bank) Issuer Default Ratings (IDRs) are equalised with those of its parent Achmea B.V. (Achmea, A/Stable), a large insurance group in the Netherlands. This reflects Fitch Ratings' view of an extremely high probability that Achmea would support the bank, if needed.

Key Subsidiary of Achmea: The bank is wholly owned by Achmea. Fitch believes Achmea Bank is strategically important for the group, complementing its retirement products and services offering through the sale of tax-efficient retail savings and mortgage loans. Achmea Bank also originates long-dated mortgage loans for its sister company in the pension and life insurance business.

Deep Integration with Achmea: There is high integration of management and operations, and Achmea Bank's risk appetite and strategy are in line with the group's. Banking products are primarily sold through Achmea's distribution channels. The bank has direct access to external funding, but partly relies on the group to fulfil its liquidity buffer. Achmea Bank has an asset switch agreement with a sister company under which it transferred about EUR0.6 billion mortgage loans and received highly liquid government bonds in 2019.

Moderate Pressure on Asset Quality: Achmea Bank has a solid asset quality underpinned by its sizeable low-risk and well-collateralised Dutch residential mortgage lending (about 87% of total assets at end-2019). The bank also has a small non-core Swiss franc mortgage book (6% of gross loans at end-2019) of weaker quality. We expect impaired loans to rise due to the stressed economic environment and the consequent rise in unemployment. Temporary credit repayment deferrals and government support measures should mitigate the impact.

Improving but Low Profitability: The profitability is modest in line with the low-risk, low-return business model. The recent improvement in profitability is due to the outsourcing of the loan servicing. Achmea Bank continues to pursue efficiency gains, but we believe there is moderate leeway for further improvement. We expect lower lending volume and higher loan impairment charges in 2020 due to the coronavirus crisis.

Strong Capitalisation: Risk-weighted capital ratios are solid. The common equity Tier 1 ratio decreased slightly to 19.2% at end-2019 due to higher risk-weighted assets from the acquisition of two mortgage loan portfolios. The bank has suspended the distribution of the 2019 dividend until 2H20.

Diversified Funding, Sound Liquidity: Funding is split between customer deposits (62% of total funding at end-2019) and secured and unsecured wholesale funding. Liquidity is sound, underpinned by a sizeable cushion of liquid assets, which consists of on demand central bank deposits and an unencumbered portfolio of high-quality liquid assets.

No Viability Rating Assigned: Fitch does not assign a Viability Rating to Achmea Bank given its close integration in the Achmea group and Fitch's opinion the bank's franchise cannot be assessed meaningfully on a standalone basis.

Rating Sensitivities

Ratings Change with the Parent's: Achmea Bank's Long-Term IDR and Support Rating are primarily sensitive to changes in Achmea's Long-Term IDR. Achmea Bank's IDRs could be upgraded in case of an upgrade of the parent's Long-Term IDR. Ratings could be downgraded if Achmea's Long-Term IDR is downgraded or if Fitch perceives a decrease in the bank's strategic importance to Achmea.

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1

Support Rating	1
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Sovereign Risk

Long-Term Foreign- and Local-Currency IDRs	AAA
Country Ceiling	AAA

Outlooks

Long-Term IDR	Stable
Sovereign Long-Term Foreign-and Local-Currency IDRs	Stable

Applicable Criteria

[Bank Rating Criteria \(February 2020\)](#)

Related Research

[Fitch Affirms Achmea at IFS 'A+'; Outlook Stable \(April 2020\)](#)

[Fitch Affirms Achmea Bank at 'A'; Outlook Stable \(May 2020\)](#)

[Global Economic Outlook: Crisis Update May 2020 - Coronavirus Shock Broadens \(May 2020\)](#)

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Debt Rating Classes

Rating level	Rating
Senior unsecured debt	A/F1

Source: Fitch Ratings

Achmea Bank's senior unsecured debt ratings are in line with the bank's IDRs. Fitch believes the default risk of the bank's senior unsecured debt is equivalent to the default risk related to the IDR since senior unsecured obligations are viewed as having average recovery prospects.

Institutional Support Assessment

Support Factors (negative)	Equalised	1 Notch	2+ Notches
Parent ability to support and subsidiary ability to use support			
Parent/group regulation	✓		
Relative size		✓	
Country risks	✓		
Parent Propensity to Support			
Role in group	✓		
Potential for disposal		✓	
Implication of subsidiary default	✓		
Integration	✓		
Size of ownership stake	✓		
Support track record		✓	
Subsidiary performance and prospects		✓	
Branding		✓	
Legal commitments			✓
Cross-default clauses	✓		

Extremely High Probability of Support

Fitch's assessment of an extremely high likelihood of parent's support is driven by the bank's role in the group, its deep integration with the parent and reputational risks for Achmea in case of a default of the subsidiary. Achmea's ability to support Achmea Bank is strong because Fitch believes the Dutch central bank, which is the regulator for banks and insurance companies in the Netherlands, would encourage Achmea to support the bank if needed. We also consider Achmea's propensity to support the bank as very high as we view Achmea Bank as a key and integral part of Achmea that complements the group's insurance activities.

Significant Changes

Implications of the Coronavirus Crisis

Fitch revised its outlook for the Dutch banks' operating environment to negative in April 2020 to reflect increased risks from economic disruption as a result of the coronavirus outbreak. We believe the pressure on asset quality and earnings will be partly cushioned by fiscal and other support measures from the Dutch government. We expect Achmea Bank to show some resilience in the current context given the bank's low-risk business model and strong asset quality.

Acquisition of Two Portfolios

Achmea Bank acquired EUR1.4 billion residential mortgage loans (nominal value) and EUR1.5 billion retail deposits in 2019 from the banking subsidiary of another Dutch insurer. The acquisition is in line with the bank's strategy to grow its market share in residential mortgage lending from about 3%.

Summary Financials and Key Ratios

	31 Dec 19		31 Dec 18	31 Dec 17	31 Dec 16
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	140	124.9	110.5	103.7	109.7
Net fees and commissions	9	8.0	4.2	5.0	2.0
Other operating income	20	17.6	1.6	3.7	3.0
Total operating income	169	150.5	116.3	112.4	114.7
Operating costs	118	105.0	79.0	95.6	95.3
Pre-impairment operating profit	51	45.5	37.3	16.8	19.4
Loan and other impairment charges	-5	-4.3	-1.7	-6.8	2.1
Operating profit	56	49.8	39.0	23.6	17.3
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	n.a.
Tax	14	12.5	9.5	5.9	4.3
Net income	42	37.3	29.5	17.7	13.0
Other comprehensive income	1	0.6	-1.7	-0.4	0.3
Fitch comprehensive income	43	37.9	27.8	17.3	13.3
Summary balance sheet					
Assets					
Gross loans	14,236	12,671.9	11,100.0	11,770.3	12,592.2
- Of which impaired	112	100.0	200.0	64.0	57.0
Loan-loss allowances	34	30.4	43.0	38.9	73.4
Net loans	14,202	12,641.5	11,057.0	11,731.4	12,518.8
Interbank	801	713.4	758.4	993.2	1,117.3
Derivatives	102	90.5	82.6	118.6	255.5
Other securities and earning assets	n.a.	n.a.	201.2	403.6	401.2
Total earning assets	15,105	13,445.4	12,099.2	13,246.8	14,292.8
Cash and due from banks	81	72.4	115.7	890.1	658.3
Other assets	166	147.4	70.9	62.5	34.1
Total assets	15,352	13,665.2	12,285.8	14,199.4	14,985.2
Liabilities					
Customer deposits	8,434	7,507.9	5,859.9	6,171.6	6,388.5
Interbank and other short-term funding	416	369.9	491.9	401.8	305.4
Other long-term funding	4,955	4,410.3	4,576.8	6,113.8	6,625.7
Trading liabilities and derivatives	522	465.0	470.5	573.4	764.5
Total funding	14,327	12,753.1	11,399.1	13,260.6	14,084.1
Other liabilities	111	98.5	81.5	98.3	78.0
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	914	813.6	805.2	840.5	823.1
Total liabilities and equity	15,352	13,665.2	12,285.8	14,199.4	14,985.2
Exchange rate		USD1 = EUR0.89015	USD1 = EUR0.873057	USD1 = EUR0.83382	USD1 = EUR0.9487

Source: Fitch Ratings, Fitch Solutions, Achmea Bank N.V.

Summary Financials and Key Ratios

	31 Dec 19	31 Dec 18	31 Dec 17	31 Dec 16
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.2	1.1	0.6	0.4
Net interest income/average earning assets	1.0	0.9	0.8	0.7
Non-interest expense/gross revenue	69.8	67.9	85.1	83.1
Net income/average equity	4.7	3.6	2.1	1.6
Asset quality				
Impaired loans ratio	0.8	1.8	0.5	0.5
Growth in gross loans	14.2	-5.7	-6.5	-6.0
Loan-loss allowances/impaird loans	30.4	21.5	60.8	128.8
Loan impairment charges/average gross loans	0.0	0.0	-0.1	0.0
Capitalisation				
Common equity Tier 1 ratio	19.2	20.8	20.4	19.1
Tangible common equity/tangible assets	6.0	6.6	5.9	5.5
Basel leverage ratio	5.7	6.5	6.0	5.6
Net impaired loans/common equity Tier 1	9.0	20.3	3.1	-2.0
Funding and liquidity				
Loans/customer deposits	168.8	189.4	190.7	197.1
Liquidity coverage ratio	249.0	364.0	255.0	572.0
Customer deposits/funding	61.1	53.6	48.6	48.0
Net stable funding ratio	121.0	121.0	119.0	122.0

Source: Fitch Ratings, Fitch Solutions, Achmea Bank N.V.

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