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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-/Stable/A-2

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

Outlook

S&P Global Ratings' stable outlook on The Netherlands-based Achmea Bank N.V. mirrors the stable outlook on parent Achmea B.V. (Achmea), the largest insurer in The Netherlands. The stable outlook on Achmea Bank also reflects our expectation that the bank 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.

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

We would upgrade Achmea Bank if we were to revise Achmea's GCP upward. We would also upgrade the bank if we were to 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.

Rationale

We believe that Achmea Bank has strong operational ties with Achmea and complements the group's products with bank savings. We therefore base our long-term issuer credit rating on Achmea Bank's highly strategic status within Achmea. For this reason, 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' GCP of the parent, reflecting our view that the group is likely to support the bank under almost all foreseeable circumstances.

Achmea Bank is a wholly owned subsidiary of Achmea 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. Achmea Bank is the sole banking entity of Achmea, and accounts for a significant proportion of the group's total equity (8% as of mid-2020).

The bank's size has decreased by a fifth since year-end 2015, reflecting its cautious approach to growing mortgages in a low interest-rate environment to protect its net interest margin (NIM). This is despite the acquisition of part of ASR Bank's operations in 2019, which included €1.5 billion of mortgage loans. Achmea Bank's growth contrasts with that of other bank subsidiaries of Dutch insurance groups, which have been increasing much faster. As a result, Achmea Bank is now the smallest of the three bank subsidiaries of Dutch insurance groups we rate, with total assets of €13 billion as of mid-2020.

Mortgage loans and savings are distributed via two brands (Woonfonds and Centraal Beheer), directly and via brokers, with Achmea Bank acting as a balance sheet allocator between its balance sheet and that of Achmea Pensioen-en Levensverzekeringen (APL), to which three quarters of the mortgage production was transferred in the first half of this year.

This model is about to change. Achmea Bank has announced it will stop originating mortgage loans and instead will invest, alongside other Achmea insurance entities and third-party investors, in mortgage loans originated and serviced by Syntrus Achmea Real Estate & Finance, a real-estate and mortgages investment manager fully-owned by Achmea. More generally, the bank will stop all mortgage-related operating activities it performs, including default management. Our view of the bank's highly strategic importance is unchanged, however. This is because this reorganization merely affects the way mortgage loans will be sourced and doesn't change the need for Achmea Group to provide bank savings and investment solutions that meet personal wealth accumulation needs under the Dutch pension system (third and fourth pillars). For more information, see "Achmea Bank's Planned Switch Producing Mortgage Loans Through Fellow Subsidiary Won't Change Group Status," published Sept. 4, 2020, on RatingsDirect.

Although fully integrated within the group, Achmea Bank is self-funded. It has the specificity of heavily using wholesale funding for a savings bank (39% of total funding at year-end 2019, according to our metric). The wholesale funding includes senior unsecured loans (€2.1 billion), securitization (€1.2 billion), and covered bonds (€1.0 billion). The Dutch National Bank (DNB) has clarified its resolution strategy for one of the bank's closest peers, Aegon Bank, leading it to issue senior nonpreferred (SNP) debt. Nevertheless, considering the lower share of customer deposits in the funding base (61% at year-end 2019 according to our metric), we believe Achmea Bank might not necessarily have to issue

SNP debt to meet its minimum requirement for own funds and eligible liabilities (MREL).

The bank's tier 1 capital ratio was 21.0% as of mid-2020, which we consider very robust, considering 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)--and the use of the standardized approach to determine regulatory risk-weighted assets. 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 the bank to release more than €100 million in common equity tier 1 (CET1) capital (compared with CET1 capital of €776 million at year-end 2019), lifting the return on Achmea's equity investment and therefore supporting its interest in the bank.

The bank's profitability is structurally low, but we do not view it as a major rating weakness as long as it does not meaningfully deteriorate, considering its contribution to group earnings goes beyond its statutory profits. The bank's return on equity has averaged 3% since 2012, and has never exceeded 5%. A relatively low NIM (1.0% in 2019) largely explains the bank's relatively low profitability, in our view. We believe this relatively low NIM is due to the bank's wholesale funded profile with some of the outstanding debt issued in a higher interest rate environment.

We expect the bank to remain profitable this year and next, despite economic fallout from the pandemic. Cost of risk would have to rise to 40 basis points (bps) or above for the bank to be loss-making all else equal, in our view. This is unlikely considering the low risk on mortgage loans whose asset quality remained high during the global financial crisis (2007-2008). Although Achmea Bank has a higher risk portfolio of loans in runoff (Acier portfolio, a former Staalbankiers portfolio), which includes mortgage loans (€790 million at year-end 2019), some of which are backed by commercial real estate, there is a cap on credit losses supported by the bank (credit losses above 8 bps this year and 20 bps next year onward 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 Netherlands, in our view, beyond the regulatory incentive from the introduction of tax-friendly bank savings products in 2008 (with the Dutch Saving Bank Act). For this 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 its banking activities in The Netherlands. 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. (For further information on bank subsidiaries of Dutch insurance groups, see "Bank Subsidiaries Of Insurance Groups In The Netherlands Are Challenger Banks--And Here To Stay," published Dec. 13, 2018.)

Achmea Bank N.V.--Key Figures

	--Year ended Dec. 31--					
(Mil. €)	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Adjusted assets	13,665	12,286	14,199	14,985	16,072	15,125
Customer loans (gross)	12,672	11,100	11,738	12,530	13,324	12,593
Nonperforming loans	308	272.0	157.0	14.0	101.0	106.0
Adjusted common equity	791	777	789	822	775	598

Achmea Bank N.V.--Key Figures (cont.)						
Operating revenue	150	116	112	115	93	128
Noninterest expense	105	79	96	95	82	86
Core earnings	37	29	18	13	4	24
%						
Return on average common equity	4.6	3.6	2.1	1.6	0.6	4.1
Tier 1 capital ratio	19.2	20.8	20.4	19.1	16.7	17.0
Net interest income/operating revenue	83.0	95.0	92.2	95.7	99.6	90.0
Fee income/operating revenue	5.3	3.6	4.5	1.8	0.1	(0.4)
Market-sensitive income/operating revenue	10.6	(0.2)	1.4	0.5	(2.5)	7.3
Noninterest expense/operating revenue	69.8	68.0	85.0	83.1	88.0	67.4
Growth in customer loans	14.2	(5.4)	(6.3)	(6.0)	5.8	1.2
Gross nonperforming assets/customer loans + other real estate owned	2.4	2.5	1.3	0.1	0.8	0.8
New loan loss provisions/average customer loans	(0.04)	(0.01)	(0.06)	0.02	0.04	0.05
Customer loans (net)/customer deposits	168.4	188.7	190.1	196.0	261.6	251.7

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

- Bulletin: Achmea Bank's Planned Switch Producing Mortgage Loans Through Fellow Subsidiary Won't Change Group Status, Sept. 4, 2020
- Netherlands-Based Achmea Group's Core Subsidiaries Affirmed At 'A'; Outlook Stable, June 15, 2020
- Bank Subsidiaries Of Insurance Groups In The Netherlands Are Challenger Banks--And Here To Stay, Dec. 13, 2018

Ratings Detail (As Of October 30, 2020)*	
Achmea Bank N.V.	
Issuer Credit Rating	A-/Stable/A-2
Senior Secured	A-
Senior Unsecured	A-
Short-Term Secured Debt	A-2

Ratings Detail (As Of October 30, 2020)*(cont.)	
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
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+/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/--
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.