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Achmea Bank N.V.

Primary Credit Analyst:

Philippe Raposo, Paris (33) 1-4420-7377; philippe.raposo@spglobal.com

Secondary Contacts:

Nicolas Hardy, Paris (33) 1-4420-7318; nicolas.hardy@spglobal.com

Stanislas De Bazelaire, Paris +33 1 44 20 66 54; stanislas.bazelaire@spglobal.com

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Achmea Bank N.V.

Major Rating Factors

Counterparty Credit Rating

A-/Negative/A-2

Strengths:	Weaknesses:
<ul style="list-style-type: none">Fully owned highly strategic subsidiary of the insurance group Achmea.Increasing operational cooperation with the group's core insurance entities.Sound asset quality, reflecting its focus on Dutch residential mortgage lending.	<ul style="list-style-type: none">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 may lower the ratings on Achmea Group by one notch over the next one to two years if it fails to rebuild its financial risk profile. We could revise the outlook to stable if we see an improvement in operating performance, allowing the group to rebuild its financial risk profile.

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 we saw the strategical importance to the group lessen.

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 strategy. Its bank products complement the 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. Our view that the bank is currently the group's main banking arm is supported by the completed acquisition of the loan portfolio of its sister company, Staalbankiers. Achmea Bank now operates almost all of the Achmea Group's retail banking activities.

With €15 billion in total assets at end-2016, Achmea Bank remains a small player in The Netherlands. We expect its loan portfolio to continue to grow 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, stipulated by the 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 consider Achmea Bank's low profitability (reported return on equity of 1.6% in 2016) as neutral in our assessment of its group status. We expect the bank's earnings capacity will remain constrained in the next two years, reflecting the bank's overall low-risk profile. Our anticipation includes continued pressure on the net interest margin from low interest rates and the cost of being largely wholesale funded, increasing regulatory-related expenses, and limited loan book growth in a context of high prepayments in the Dutch market. Still, we think profitability might continue to improve slightly in the next two years on the back of lower refinancing costs, in line with the trend observed in 2016, 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 focus is to increase client retention within the group by facilitating cross-selling and improving customer satisfaction.

We view Achmea Bank's credit losses as lower than peers', with a cost of risk ranging between five and 10 basis points for the past five years, and expect the bank to maintain this level of losses over the next two years. As of June 30, 2016, the bank's past-due loans amounted to 3% of its €12.8 billion customer loan portfolio. 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.

Table 1

Achmea Bank Key Figures							
	--Year-ended Dec. 31--						
	HY2016	2015	2014	2013	2012	2011	2010
(Mil €)							
Adjusted assets	14,931.7	16,071.7	15,125.0	17,145.0	16,041.0	16,528.0	16,753.0
Customer loans (gross)	12,801.5	13,323.6	12,593.0	12,440.0	13,255.0	13,489.0	14,383.0
Adjusted common equity	773.1	775.3	598.0	574.0	557.0	533.0	568.0
Operating revenues	51.4	93.3	128.0	108.0	108.0	(7)	133.0
Noninterest expenses	52.5	82.0	86.0	73.0	64.0	38.0	53.0
Core earnings	(2.2)	4.5	24.0	17.0	24.0	(34)	50.0
(%)							
Tier 1 capital ratio	18.0	16.7	17.0	15.0	14.2	12.3	12.7
Net interest income/operating revenues	104.1	99.6	90.0	69.6	59.6	(900.19)	88.0
Noninterest expenses/operating revenues	102.2	88.0	67.4	67.5	59.4	(550.44)	40.1
Core earnings/average managed assets	(0.0)	0.0	0.2	0.1	0.2	(0.21)	0.3
Growth in customer loans	(7.8)	5.8	1.2	(6.15)	(1.74)	(6.21)	(3.49)
New loan loss provisions/average customer loans	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned	N/A	0.8	0.8	0.8	0.7	0.6	0.8
Loan loss reserves/gross nonperforming assets	N/A	18.2	9.3	15.0	23.4	21.5	22.2
Core deposits/funding base	38.7	35.6	42.0	28.2	26.7	20.5	13.6
Customer loans (net)/customer deposits	253.2	261.6	209.7	285.5	354.9	449.4	694.1
Stable funding ratio	87.7	92.7	87.0	84.9	89.7	85.1	97.9
Short-term wholesale funding/funding base	9.9	10.8	19.6	26.8	10.3	17.9	4.9
Short-term wholesale funding/total wholesale funding	16.2	16.8	33.8	37.3	14.1	22.5	5.7
Broad liquid assets/short-term wholesale funding (x)	0.3	0.8	0.3	0.7	0.6	0.4	0.9

N/A--Not applicable.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011

Related Research

- Netherlands-Based Insurance Group Achmea Outlook To Negative On Weakening Financial Risk Profile; Ratings Affirmed, Feb. 21, 2017
- Achmea Group, Aug. 15, 2016
- Achmea Bank 'A/A-1' Ratings Affirmed On Purchase Of Staalbankiers' Loan Activities; Outlook Remains Negative, Aug. 6, 2015

Ratings Detail (As Of March 31, 2017)

Achmea Bank N.V.

Counterparty Credit Rating	A-/Negative/A-2
Certificate Of Deposit	
<i>Local Currency</i>	A-2
Senior Secured	A-
Senior Unsecured	A-
Short-Term Secured Debt	A-2
Subordinated	BBB

Counterparty Credit Ratings History

21-Feb-2017	A-/Negative/A-2
25-Jul-2016	A-/Stable/A-2
16-Nov-2012	A/Negative/A-1

Sovereign Rating

Netherlands (State of The)	AAA/Stable/A-1+
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Related Entities**Achmea B.V.**

Issuer Credit Rating	
<i>Local Currency</i>	BBB+/Negative/--
Junior Subordinated	BBB-
Senior Unsecured	BBB+
Subordinated	BBB

Achmea Pensioen & Levensverzekeringen N.V.

Financial Strength Rating	
<i>Local Currency</i>	A/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	A/Negative/--

Achmea Reinsurance Company NV

Financial Strength Rating	
<i>Local Currency</i>	A-/Negative/--

Achmea Schadeverzekeringen N.V.

Financial Strength Rating	
<i>Local Currency</i>	A/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	A/Negative/--

Achmea Zorgverzekeringen N.V.

Financial Strength Rating	
<i>Local Currency</i>	A/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	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.

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@spglobal.com

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