

RATING ACTION COMMENTARY

Fitch Affirms Achmea's CPT Covered Bonds at 'AAA' Outlook Stable

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Fitch Ratings - Paris - 21 Oct 2020: Fitch Ratings has affirmed Achmea Bank N.V.'s (Achmea; A/Stable) mortgage conditional pass-through (CPT) covered bonds programme at 'AAA' with Stable Outlook.

The affirmation follows the addition of Achmea Hypotheken B.V. as the lender of record for all new mortgage loans included as cover assets for the programme. This update does not affect the covered bonds' rating.

KEY RATING DRIVERS

The asset percentage (AP) that Fitch considers in its analysis - the highest nominal AP level over the last 12 months, of 81.1% - provides more protection than Fitch's 'AAA' breakeven AP for the CPT covered bonds, which remains unchanged at 100%.

The 'AAA' covered bonds rating is based on the Achmea's Long-Term Issuer Default Ratings (IDR), the various uplifts above the IDR granted to the programme and the AP protection that Fitch relies on in its analysis.

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The Stable Outlook on the conditional pass-through covered bonds reflects the six-notch buffer against an IDR downgrade.

Fitch's credit loss assessment remains unchanged at 3.3% under the updated analysis. Given the high overcollateralisation (OC) cushion and stable characteristics, Fitch has maintained the same ALM loss as previously calculated (-4.2%), in accordance with its Covered Bonds Rating Criteria. The programme benefits from the absence of refinancing risk due to the conditional pass-through feature of the bonds. In addition, there is excess spread between the majority fixed-rate assets and the fixed rate of the bonds, which also applies during the extension period

Uplifts

The unchanged resolution uplift reflects Fitch's assessment that Dutch covered bonds are exempt from bail-in, that resolution of the issuer will not result in the direct enforcement of recourse against the cover pool and the low risk of undercollateralisation at the point of resolution. The one-notch resolution uplift further reflects that the bank's IDR is support-driven.

The PCU is eight notches, as the programme benefits from effective principal protection stemming from the 32-year maturity extension of the CPT covered bonds beyond the maturity date of the latest maturing asset in the cover pool. A reserve account is also available providing at least three months of interest payment protection.

The recovery uplift granted is two notches. The programme's timely payment rating level is in the investment-grade range and no material downside risks to recoveries have been identified. However, the 'AAA' breakeven AP is based on a 'AA+' timely payment rating level and a one-notch recovery uplift, as this scenario is supported by a higher AP than a rating based on a two-notch uplift for recoveries above a 'AA' timely payment rating level.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The CPT covered bonds issued under the programme are rated 'AAA' which is the

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Achmea Bank N.V.'s 'AAA' covered bonds' rating would be vulnerable to a downgrade if the bank's IDR was downgraded by seven notches to 'BB-' or below; or if the AP considered by Fitch in its analysis provides less protection than Fitch's 'AAA' breakeven AP.

Fitch expects the coronavirus containment measures to negatively impact the performance of Dutch residential mortgage loans. However, the covered bonds rating benefits from a significant cushion between the AP that Fitch relies upon in its analysis and Fitch's 'AAA' breakeven AP. In addition, the rating is well protected by the six-notch buffer against a downgrade of Achmea Bank N.V.'s IDR. The dual-recourse nature of covered bonds means the issuer is liable to pay the bonds irrespective of the performance of the cover pool. Nevertheless, the agency expects the AP cushion and the buffer against an issuer downgrade could reduce as a consequence of the coronavirus crisis.

Downside scenario stress sensitivity:

Fitch performed a downside sensitivity analysis by increasing its default rate expectations on the mortgage loans and reducing its recovery rate expectations on the mortgage loans by 15% in its driving 'AA+' rating scenario. Under these stressed assumptions, the AP considered by Fitch in its analysis still provided sufficient protection for the 'AAA' covered bonds rating.

Fitch's breakeven AP for the covered bonds' rating will be affected, among other factors, by the profile of the cover assets relative to outstanding covered bonds, which can change over time, even in the absence of new issuance. Therefore, the breakeven AP to maintain the covered bonds' rating cannot be assumed to remain stable over time.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years.

The complete span of best- and worst- case scenario credit ratings for all ratings

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REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Achmea Bank N.V.		
● senior secured, Mortgage Covered Bonds, Conditional Pass-Through	LT AAA Rating Outlook Stable	Affirmed
		AAA Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[Fitch Ratings Interest Rate Stress Assumptions for Structured Finance and Covered Bonds \(Excel\) \(pub. 06 Dec 2019\)](#)[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(pub. 06 Dec 2019\)](#)[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub. 29 Jan 2020\)](#)[Bank Rating Criteria \(pub. 29 Feb 2020\) \(including rating assumption sensitivity\)](#)[European RMBS Rating Criteria \(pub. 22 May 2020\) \(including rating assumption sensitivity\)](#)[Covered Bonds Rating Criteria \(pub. 30 Jun 2020\) \(including rating assumption sensitivity\)](#)[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub. 24 Sep 2020\)](#)**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

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Achmea Bank N.V.

EU Issued

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