



RATING ACTION COMMENTARY

Fitch Affirms Achmea at IFS 'A+'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 24 Aug 2020: Fitch Ratings has affirmed Achmea B.V.'s core operating entities' Insurer Financial Strength (IFS) Ratings at 'A+' with a Stable Outlook. A full list of rating actions is below.

KEY RATING DRIVERS

The ratings reflect Achmea's 'Very Strong' business profile, capitalisation and leverage. These strengths are somewhat offset by the group's profitability and debt servicing capabilities, which we assess as 'Good'.

Fitch ranks Achmea's business profile as 'favourable' compared with other insurance companies in the Netherlands. Achmea is the largest Dutch insurer by gross written premiums (GWP), with EUR20 billion written in the Dutch business in 2019. It is a health and non-life insurance market leader in the Netherlands with Fitch-estimated market shares of 29% and 25%, respectively. International markets generated 5% of the group's total GWP in 2019 (2018: 6%) and accounted for 4% (2018: 7%) of total operating earnings in 2019.

Achmea maintained a very strong capital position in 1H20 despite coronavirus-related market weakness. The group's 1H20 Solvency II ratio fell to 204% (2019: 219%). Achmea's Fitch Prism Factor Based Capital Model (Prism FBM) score remained 'Very Strong' in 2019, which we expect to be maintained in 2020. The financial leverage ratio (FLR) decreased to 21% at end-2019 from 24% at end-2018, mainly due to the redemption of CHF200 million senior notes and EUR600 million subordinated notes,

and the issuance of restricted tier 1 (RT1) notes during the year. These perpetual RT1 securities receive 100% equity credit in our FLR calculation.

Achmea's financial performance is a rating weakness (2019 net income return on equity (ROE) 6%; 2018: 4%). However, this factor is of only moderate importance in our analysis, as inherently low returns in the mandatory health insurance segment distort overall profitability metrics. Achmea posted significantly lower operating earnings of EUR127 million in 1H20 (1H19: EUR284 million), due to financial-market volatility, increased medical expenses related to COVID-19 and claims for travel insurance and event cancellations. These factors were partly offset by lower claims experience in motor and household lines and supplementary health insurance.

Achmea's debt-servicing capability and financial flexibility is 'Good' based on a Fitch-calculated fixed charge coverage (FCC) ratio of 4x in 2019 (unchanged from 2018). Achmea has maintained good market access during the coronavirus crisis, evidenced by successful recent debt issuance at favourable terms. The FCC ratio will likely weaken in the short term, driven by a lower operating result while we expect interest expenses to remain broadly stable.

Fitch assesses Achmea's investment-and asset-risk as low and scores this credit factor as 'Very Strong'. Investments mainly consist of investment-grade debt securities and a conservative Dutch residential mortgage portfolio. Achmea is gradually optimising its investment portfolio by shifting to higher-yielding fixed-income assets. This could lead to incremental investment risk and lower average rating of the credit portfolio, but we expect that the overall high quality of the investment portfolio to be maintained. The Fitch-calculated risky assets-to-equity ratio increased to 45% at end-2019 from 37% in 2018.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A material adverse change in Fitch's rating assumptions with respect to the coronavirus impact.

--The ratings could be downgraded if net income ROE falls below 3% on a sustained basis.

--The ratings could also be downgraded if the Prism FBM score falls below 'Very Strong' or if FLR increases above 30% for a sustained period.

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

--A material positive change in Fitch's rating assumptions with respect to the coronavirus impact.

--A positive rating action is prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profiles of both the Dutch insurance industry and Achmea.

--The ratings could be upgraded if net income ROE increases to above 9% on a sustained basis, while maintaining the Prism FBM score and FLR at levels consistent with a 'Very Strong' assessment.

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 rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

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(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS



ENTITY/DEBT	RATING			PRIOR
Achmea Schadeverzekeringen N.V.	Ins Fin Str	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
Achmea Pensioen- en Levensverzekeringen N.V.	Ins Fin Str	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
Achmea Zorgverzekeringen N.V.	Ins Fin Str	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
Achmea B.V.	LT IDR	A Rating Outlook Stable	Affirmed	A Rating Outlook Stable
● senior unsecured	LT	A-	Affirmed	A-

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FITCH RATINGS ANALYSTS

Andras Sasdi, CEFA

Director

Primary Rating Analyst

+49 69 768076 162

Fitch Ratings – a branch of Fitch Ratings Ireland Limited

Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

Willem Loots, FIA

Senior Director

Secondary Rating Analyst

+44 20 3530 1808

Graham Coutts, ACA

Senior Director

Committee Chairperson

+44 20 3530 1654

MEDIA CONTACTS

Athos Larkou

London

+44 20 3530 1549

athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[Insurance Rating Criteria \(pub. 02 Mar 2020\) \(including rating assumption sensitivity\)](#)**APPLICABLE MODELS**

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

Prism Factor-Based Capital Model, v1.7.1 (1)

ADDITIONAL DISCLOSURES[Dodd-Frank Rating Information Disclosure Form](#)[Solicitation Status](#)[Endorsement Policy](#)**ENDORSEMENT STATUS**

Achmea B.V.	EU Issued
Achmea Pensioen- en Levensverzekeringen N.V.	EU Issued
Achmea Schadeverzekeringen N.V.	EU Issued
Achmea Zorgverzekeringen N.V.	EU Issued

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