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Ratings

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Achmea Group

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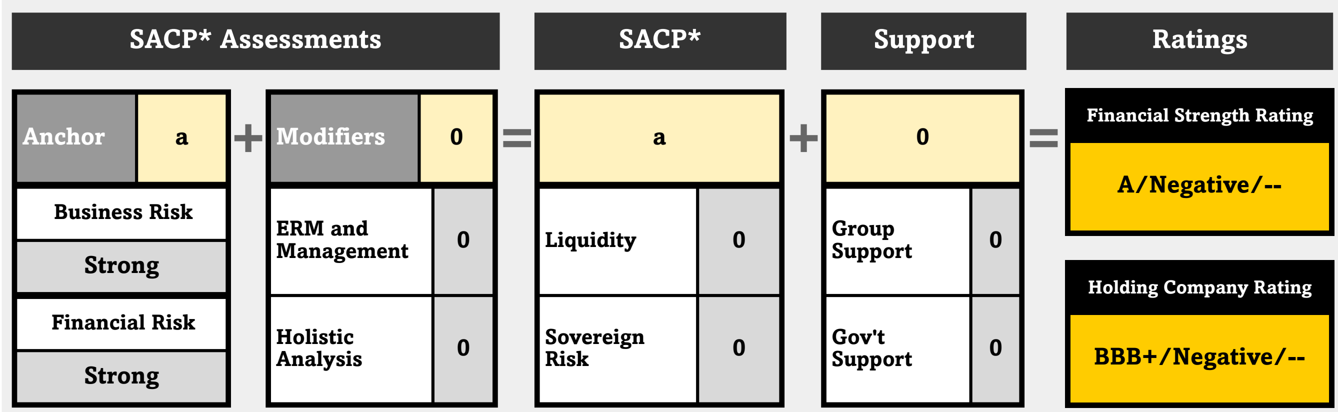


*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Major Rating Factors

Strengths:

- Leading positions in the Dutch Health and property/casualty (P/C) insurance markets.
- Well diversified profile including life insurance, asset management, and banking activities.

Weaknesses:

- Inherent earnings volatility places material pressure on its fixed-charge coverage ratio.
- High concentration in the Dutch market, where we see fierce competition in the P/C sector, fading prospects in the life sector, and the effect of political influence in the health sector. All sectors have limited potential for organic growth.

Rationale

The ratings on Achmea B.V., its core operating insurance subsidiaries, Achmea Pensioen & Levensverzekeringen N.V., Achmea Schadeverzekeringen N.V., and Achmea Zorgverzekeringen N.V., and its highly strategic subsidiaries Achmea Reinsurance Company NV and Achmea Bank N.V. reflect our view of the group's strong competitive position in the Dutch insurance market with an unrivaled dominant position in the basic health insurance sector and leading position in the property and casualty insurance market. They also reflect the group's strengthening financial risk profile and improved operating results in 2017, after numerous one-off losses and provisions over the three years prior to 2017. We believe Achmea took a number of steps to reduce its capital and earnings volatility and improve operating results in 2017 and thereafter. We believe, Achmea's enterprise risk management (ERM) and management and governance are neutral rating factors.

Outlook: Negative

The negative outlook continues to reflect that we may lower the ratings by one notch over the next 12-18 months if earnings do not recover in line with our expectations, or if volatility of capital and earnings persists and the financial risk profile does not strengthen in line with our expectations.

Despite Achmea's improved financial risk profile due to its better operating performance, expected reduction in volatility of earnings and therefore capital, and prospectively reducing pressure on its fixed-charge coverage ratio, we see a risk that earnings may not recover in line with our expectations.

Downside scenario

We could lower the ratings over the next 12-18 months if profitability is below our expectations, and this prevents Achmea from maintaining its capital adequacy at least within our 'A' benchmark under our capital model and its fixed-charge cover ratio above 4x.

Upside scenario

We could revise the outlook to stable over the next 12-18 months if we see an improvement in operating performance in line with or exceeding our expectations, and earnings volatility reducing compared with historic performance. This would enable the group to strengthen its financial risk profile, return to a sustainable fixed-charge coverage of over 4x, and maintain capital in excess of our 'A' benchmark under our capital model.

Base-Case Scenario

Macroeconomic Assumptions

The Netherlands Selected Indicators

	2013	2014	2015	2016	2017	2018f	2019f	2020f
GDP per capita (in '000)	51.7	52.3	44.9	45.8	48.5	53.4	57.6	59.1
GDP growth	(0.2)	1.4	2.3	2.2	3.2	2.7	2.3	1.8
GDP per capita growth	(0.5)	1.1	1.8	1.7	2.5	2.1	1.7	1.2
CPI inflation	2.6	0.3	0.2	0.1	1.3	1.6	1.7	1.8
Bank credit to resident private sector/GDP	114.6	109.0	112.6	109.9	111.7	110.4	109.4	107.8

f--Forecast. CPI--Consumer price index.CAR&FXR--Current account receipts plus usable foreign exchange reserves. A free and interactive version of a larger number of sovereign risk. indicators can be found at spratings.com/sri

Company-Specific Assumptions

- Gross written premiums (GWP) will remain relatively flat with a drop in life premiums by 15% in 2018-2020.
- Combined ratio for P/C business will be less than 100% (based on S&P Global Ratings' calculations).
- Basic health insurance is expected to break even by 2020 and generate underwriting income thereafter.
- We anticipate that Achmea will maintain its dividend policy of distributing about 45% of net result excluding the result of the Health segment.
- Fixed-charge coverage will remain lower than 4x in 2018, however the average fixed-charge coverage ratios for 2018-2020 will be around 4x (2016: 3.1x)

Key Metrics

	2019F	2018F	2017	2016	2015	2014*	2013
Gross premiums written (mil. €)	~19,000	~19,000	19,350	19,500	19,922	20,002	20,225
Net premiums writtten (mil. €)	~19,000	~19,000	19,007	19,396	19,627	19,014	19,499
Net income (mil. €)	>250	>220	216	(382)	386	16	349
EBITDA fixed-charge coverage (x)§	>4.0	<4.0	3.2	(2.1)	3.9	4.3	4.1
Financial leverage (x)	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Return on equity (%)	0	0	2.5	(4.4)	4.3	0.2	3.9
Net investment yield	~3.0	~3.0	3.7	2.9	3.1	3.1	3.5
Net combined ratio non-life (%)¶	<100.0	<100.0	98.2	110.2	105.4	102.1	98.5
Net combined ratio health (%)¶	<101	<101	101.8	102.0	98.7	99.1	97.1
Return on revenues (%)	N.A.	N.A.	1.9	(1.6)	2.0	0.4	1.8
Return on assets (%)	N.A.	N.A.	0.5	(0.4)	0.5	0.1	0.4

Note: Ratios are based on S&P Global Ratings' calculations. F--S&P Global Ratings' forecast. *Basis of calculation changed in 2014. Achmea increased holding company expenses allocation to segments from 2014 onward. §From 2016 we no longer include one-off, nonrecurring items in the calculate of the fixed-charge coverage ratio. The 2016 and forecast 2017-2018 ratios are therefore not directly comparable with prior years. ¶Net combined ratio non-life (%) are for Non-Life Netherlands segment only and not for the entire group non-life operations; our net combined ratios are not adjusted for the unwinding of discount of the provisions for income products unlike Achmea's reported ratios (e.g. 2017: €53 million for the unwinding discount). N.A.--Not available.

Company Description

Achmea is a large Dutch multiline insurer with gross premium income of €19.3 billion in 2017. Achmea also operates in Greece, Turkey, and Slovakia and has a partnership with Rabobank in Australia. In both the Dutch and international markets, Achmea writes P/C, life and pension, and health insurance. In addition to insurance, Achmea has banking interests in The Netherlands through Achmea Bank N.V. Achmea is privately owned, its main shareholders being Achmea Association (65%) and Rabobank (29%), both of which are unlisted Dutch cooperative associations.

Business Risk Profile: Strong

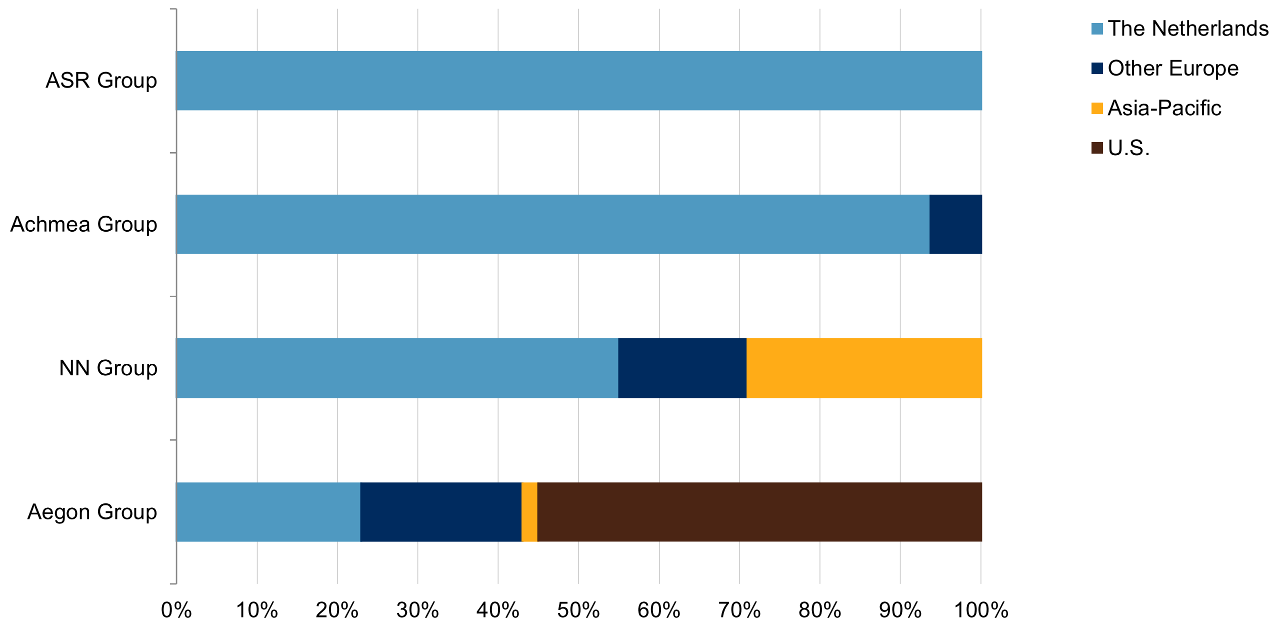
Achmea is a leading insurer in the Dutch market with 30% market share in health, 22% market share in P/C, 18% in income protection insurance, 14% in individual life, 10% in pension insurance. It ranks No.5 in asset management. Within The Netherlands, Achmea operates a multibrand strategy, split by product--for example, Zilveren Kruis for health, Centraal Beheer and FBTO for direct distribution, and Interpolis for bank distribution. The direct distribution channel and bancassurance tie-up with Rabobank provide Achmea with exclusive and extensive sale networks. We regard this multibrand, multidistribution approach in The Netherlands as sound and supportive of Achmea's profile. Achmea's business is heavily concentrated in The Netherlands, however, and we do not anticipate any major change to this strategy.

Achmea operates in the highly challenging Dutch insurance market, which is characterized by intensive competition, legislative changes, and low interest rates in the P/C and life sectors. Also, ongoing indirect political pressure and intense competition in the health segment, despite reduced loss provisions in 2017, continues to undermine the group's overall operating performance.

Despite holding the leading position in the Dutch insurance market, the group has a limited track record of converting this leadership position into higher earnings than its peers. We see limited organic growth opportunities in the market and do not expect the operating environment to improve materially for any sector (P/C, health, or life) compared with 2017. Based on our forecasts, we expect Achmea's profit before tax will be in excess of €300 million in 2018, €380 million in 2019, and €440 million in 2020. We believe, however, that a sustainable track record of performing in line with our base-case assumptions has yet to be demonstrated and, if the group falls short, we may consider a downgrade.

Chart 1

Achmea Group Peer Comparison--Geographic Concentration



Financial Risk Profile: Strong

Achmea's capital adequacy is redundant at our 'A' benchmark according to our risk-based capital model. Capital erosion occurred due to the overall low level of earnings over the past four years amid restructuring costs and write-offs, as well as updated cost assumptions and interest rate developments in the life business. However, the quality of capital is favorable, with almost 70% of total adjusted capital, per our model, derived from core shareholders' funds.

Lower prospective earnings may also hinder future capital generation over the longer term. However, in 2018-2020, we expect Achmea will stabilize its operating results, reduce its capital and earnings volatility, lessen pressure on its fixed-charge ratio, and strengthen its financial risk profile. This momentum stems from the group's improved operating results in 2017, as well as management's actions--both undertaken and planned.

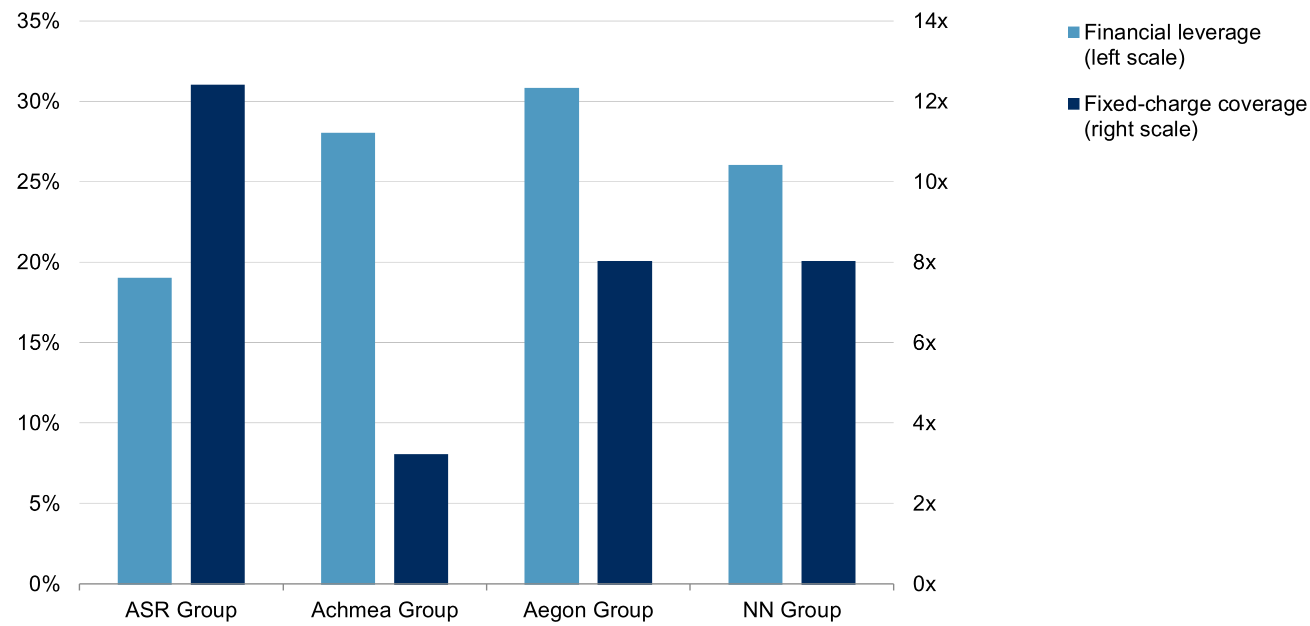
Our revised earnings forecast and management's potential actions also lead us to believe that, although the fixed-charge coverage ratio will still be less than 4x in 2018, Achmea's average fixed-charge coverage ratios for 2018-2020 will be around 4x (2016: 3.1x). We expect its financial leverage to remain stable at around 26%-28% in 2018-2020. As a consequence, we believe Achmea's financial risk profile is on an improving trend.

Chart 2

Achmea Group Peer Comparison--Capitalization

Chart 3

Achmea Group Peer Comparison--Financial Leverage And Fixed-Charge Coverage



Other Assessments

Achmea does not publicly report embedded value. However, we do give credit for the present value of future profits on a market consistent embedded value basis in our assessment of total adjusted capital.

We include health (including basic health) premium risk charges in our capital model.

Ratings Score Snapshot

Financial strength rating	A/Negative
Anchor	a
Business risk profile	Strong
IICRA*	Intermediate risk
Competitive position	Strong
Financial risk profile	Strong
Capital and earnings	Very Strong
Risk position	Moderate risk
Financial flexibility	Adequate

ERM and management	0
ERM	Adequate with strong risk controls
Management and governance	Satisfactory
Holistic analysis	0
Liquidity	Strong
Support	0
Group support	0
Government support	0

*Insurance Industry And Country Risk Assessment. NB: Support does not factor Ratings Above Sovereign criteria.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of October 12, 2018)	
Holding Company: Achmea B.V.	
Issuer Credit Rating	
Local Currency	BBB+/Negative/--
Junior Subordinated	BBB-
Senior Unsecured	BBB+
Operating Companies Covered By This Report	

Ratings Detail (As Of October 12, 2018) (cont.)	
Achmea Pensioen & Levensverzekeringen N.V.	
Financial Strength Rating	
Local Currency	A/Negative/--
Issuer Credit Rating	
Local Currency	A/Negative/--
Achmea Bank N.V.	
Issuer Credit Rating	A-/Negative/A-1
Commercial Paper	
Local Currency	A-1
Senior Secured	A-
Senior Unsecured	A-
Short-Term Secured Debt	A-1
Subordinated	BBB
Achmea Reinsurance Company NV	
Financial Strength Rating	
Local Currency	A-/Negative/--
Achmea Schadeverzekeringen N.V.	
Financial Strength Rating	
Local Currency	A/Negative/--
Issuer Credit Rating	
Local Currency	A/Negative/--
Achmea Zorgverzekeringen N.V.	
Financial Strength Rating	
Local Currency	A/Negative/--
Issuer Credit Rating	
Local Currency	A/Negative/--
Domicile	Netherlands

*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.

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