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Achmea Group

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Table Of Contents

Achmea Group

Please note that the ratings covered by this full analysis apply only to core entities of the group. These ratings do not apply to any noncore or unrated entities of the group. Ratings assigned to noncore entities of the group are published individually.

Major Rating Factors

Counterparty Credit Rating
Local Currency
A-/Stable/--

Strengths:

- Very strong capitalization.
- Strong competitive position.
- Strong investments.

Weaknesses:

- Strong operating performance, but not in line with the rating, and pressured in the short term.

Rationale

The ratings on the core operating entities of Netherlands-based multiline insurer Achmea Group (Achmea or the group) reflect the group's very strong capitalization, strong competitive position, and strong investments, tempered by an operating performance that, although strong, is not in line with the rating.

We view Achmea's capitalization as very strong. Its capital adequacy, as measured by Standard & Poor's risk-based capital model, is very strong and expected to remain so. Quality of capital is also strong, with almost 60% of total adjusted capital per our model derived from core shareholders' funds.

Achmea is the market leader in the Netherlands, and has strong positions in each of its three main lines of business. Moreover, its market shares have mostly been stable in the face of increasing competition, reflecting particularly the strength of its brands and its distribution channels. Achmea's banking and international operations are, in aggregate, very small and of very limited significance in our assessment of the group's competitive position. We expect growth to be organic, although small acquisitions are possible.

We consider Achmea's investment profile to be strong, well-diversified, and appropriate for its liabilities. Credit quality is high, and market risk is moderately low. Asset-liability management (ALM) is good in the Netherlands, and ALM testing and procedures have been implemented across the group. The investment portfolio is likely to remain largely unchanged.

We expect that management will remain focused on executing its strategy, particularly its cost-cutting and complexity-reduction programs. We believe this will help Achmea to maintain its leading position in the Dutch health and non-life markets without sacrificing profitability.

In our opinion, Achmea's operating performance is strong, but a weakness for the rating. This reflects continued strong health and non-life underwriting performance and an adequate life underwriting performance. Income protection insurance has recently become an issue requiring provisions in the non-life segment and there is pressure on earnings over the rating horizon due to pension charges and pressure to keep health insurance premium rates at current levels, despite rising costs. We nevertheless expect earnings to recover to historic levels over the medium term. We expect non-life insurance to produce a net combined ratio under 100% in 2012 and under 97% in 2013 and 2014; basic health insurance a ratio under 100% over the same period; and supplementary health insurance a ratio under 95% over the same period. We also expect life new business margins to be somewhat pressured over the rating horizon, between 0% and 1%, but to reach 1% or higher in the Netherlands in the medium term. Profit before tax for 2012 is expected to be around double the €156 million reported at the half year, before falling in 2013 and 2014 and recovering in 2015 to around 2012 levels.

Outlook

We are unlikely to raise the ratings over the rating horizon. We could lower the ratings, however, if operating performance weakens materially, especially if non-life underwriting performance comes under sustained margin pressure, or if pressures on health pricing are sustained, thus weakening the competitive position permanently. We could also lower the ratings if capitalization weakens to strong levels.

Corporate Profile: Very Large Dutch Multiline Insurer

Achmea is primarily a very large Dutch multiline insurer. In 2011, it wrote gross premiums of €19.7 billion, 93% of which were written in the Netherlands, where the group is based. Of these total premiums, 63% were from health insurance, 19% from non-life insurance, and 18% from life insurance. In addition to insurance, Achmea has banking interests, mainly in the Netherlands, which accounted for 18% of its total reported assets at year-end 2011. The group also has insurance operations in Greece (InterAmerican), Turkey (Eureko Sigorta), and Russia (Oranta), as well as smaller interests in Ireland, Slovakia, Romania, and Bulgaria.

Table 1

Dutch Peer Group Premium Analysis

(Bil. €)	ASR	Delta Lloyd	Achmea	SNS REAAL
2011 GPW	4.4	5.9	18.4	3.7
Change in 2011 GPW (%)	-8.3	21.5	-0.2	-0.8
The Netherlands market share (%)*	5.6	7.4	23.0	4.6

*We assume that all premiums reported by these companies are written in the Netherlands, except for Achmea, where we have input premiums written in the Netherlands. Source: Annual reports, Swiss Re sigma studies

Achmea is privately owned, its main shareholders being Achmea Association (65%) and Rabobank (29%), both of which are Dutch unlisted cooperative associations. In fact, Achmea Association operates for the benefit of Achmea, its employees, and its member customers.

Competitive Position: Strong In Its Core Home Market

Table 2

Achmea Group -- Competitive Position						
(Mil. €)	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
GPW	19,650	19,852	19,645	19,306	14,853	14,302
Annual change in GPW (%)	-1.0	1.1	1.8	30	3.9	117.4
NPW	18,801	19,139	19,007	18,384	13,822	13,337
Annual change in NPW (%)	-1.8	0.7	3.4	33	3.6	116.3
Total assets under management	84,014	82,546	84,178	81,333	89,522	77,081
Nonlinked (%)	52.1	52.2	51.8	55.3	56.3	51.1
Linked (%)	27.8	27.4	25.3	21.4	23.6	26.5
Banking assets (%)	20.2	20.4	22.9	23.3	20.1	22.4

Source: Financial statements.

We believe that Achmea's competitive position is strong, and a strength for the rating. The group is the market leader in the Netherlands, and has strong positions in each of its three main lines of business. We consider health and non-life insurance to be greater competitive strengths than life insurance due to the pressured Dutch life market. Achmea's leading franchise, its basic health business, is subject to mandatory acceptance of risk, irrespective of the risk profile of the person insured and the critical success factor is negotiating power with healthcare providers and, consequently, cost management. As the largest provider, Achmea possesses these advantages. Basic health business is low margin but low volatility.

Achmea's market shares have mostly been stable in the face of increasing competition, reflecting particularly the strength of its brands and its distribution channels. Achmea's banking and international operations are, in aggregate, very small and of very limited significance in our assessment of the group's competitive position. We consider Achmea Hypotheek Bank N.V. as strategically important to the group.

There is short-term pressure on the core franchise of basic health insurance, in which Achmea has a market-leading position of 33% and which represents 63% of gross written premium (figures include supplementary health too). Achmea does not feel able to raise premiums to match the increase in claims expected in 2013 because of public pressure to contain health care costs. This issue is not expected to persist beyond 2013.

In its home market of the Netherlands, we estimate Achmea is the leading insurer by gross premiums written (GPW) in 2011. In health insurance it is the market leader, with a 33% market share; in non-life insurance it is also the leader, with a market share of 19%; and in life insurance it is the third-largest. It is the second-largest in income protection (23%), second-largest in individual life (14%), and fifth-largest in pensions (10%).

Table 3

The Netherlands Market Share Development			
(%)	**2011**	**2010**	**2009**
Achmea's GPW (bil. €)	18.4	18.4	18.2
Annual change in Achmea's GPW	-0.2	1.0	N.A.

Table 3

The Netherlands Market Share Development (cont.)			
The Netherlands market GPW (bil. €)	79.7	77.1	74.2
Annual change in the Netherlands market GPW	3.3	4.0	-4.7
Achmea's Netherlands market share	23.0	23.8	24.5

Source: Annual reports, Swiss Re sigma studies.N.A.--Not available.

Achmea's strong competitive position in the Netherlands is based on its diversity by distribution, brand, and product line. In the Netherlands, Achmea operates under the Achmea banner. Within that, it operates a multibrand strategy, split by product (for example, Zilveren Kruis and Agis for health) and distribution channel (for example, Centraal Beheer for direct distribution, and Interpolis for bank distribution). Standard & Poor's regards this multibrand approach in the Netherlands as sound and appropriate to the business.

Achmea companies frequently place well in customer satisfaction surveys of life and non-life businesses. The main area of relative weakness for distribution remains the intermediary channel, where the Avéro brand does not have a strong position. About 15% of GPW in the Netherlands are distributed through Rabobank, under the Interpolis brand. The broker channel has come under pressure in The Netherlands, but this affects Achmea less than some peers because it relies less on intermediaries. In 2008, a new threat arose from the Dutch banking sector in the form of "banksparen" products (similar to insurance savings contracts, without any insurance element), which began to make an impact in 2009. While this has led to a decline in the individual life market, Achmea has responded successfully by focusing on term life sales.

Achmea lacks geographic diversity, but retains reasonable diversity by business line in its main market. In 2011, about 93% of GPW was in the Netherlands (2010: 93%). Within the Netherlands, about 66% of GPW in 2011 were from health insurance, 17% from non-life insurance, and the remainder from life insurance. As the businesses develop in other countries, particularly Turkey, the geographic profile of the group will change, but we expect this shift to occur very slowly over the long term, possibly supplemented by small acquisitions.

Prospectively, we expect Achmea's domestic business to expand in line with the Dutch market in terms of GPW and to preserve its leading position in the non-life and health markets while maintaining satisfactory combined ratios. In the Dutch life market, we expect the group to remain a top-three player, while maintaining its new business margins. Term life and pension business are the focus. We anticipate that the group will meet these expectations largely through its ongoing cost-cutting program (which is designed to make the group more efficient), as well as through operating initiatives to improve its information technology and simplify its structures. Outside the Netherlands, we view Turkey and Russia as having better long-term growth prospects than the mature Dutch market, but anticipate that ongoing economic problems may limit organic growth.

Management And Governance: Building A Good Track Record, But Some Challenges Lie Ahead

Management and governance is satisfactory in our view. Achmea's strategic positioning is clear and achievable, financial management conservative, and organizational effectiveness is good. Our view of the management and governance of the group reflects a clear determination by the management, led by the CEO appointed in early 2009, to execute its strategy successfully, following a period of disappointing delivery under the previous management. We see this determination in the delivery of targets on time, where Achmea is building a good track record.

Strategic positioning

We consider Achmea's strategy to be clear: it has a three-part plan aimed at making it the "most trusted insurer" in the Netherlands. First, it is addressing profitability in the short term through a cost-cutting program. The planned cost reduction of €300 million by year-end 2011 has been achieved. Similarly, the reduction of 2,500 FTE employees by year-end 2011 has been reached. Second, it is instituting medium-term improvement initiatives, such as SENS, which will further reduce complexity and costs. Complexity reduction continues across products, processes, entities, and IT. Examples include the design and launch of new pension products, the accelerated creation of an integrated health division, the merger of the two holding companies, and continued IT modernization. The third phase is to implement a set of long-term strategic choices, a number of which it has already initiated. The international strategy is also clear: Achmea will focus on its three main countries, while managing the others for value. This follows the sale in 2011 of its operations in countries such as Belgium, Cyprus, and France.

Overall, this means that management is focusing on improving the profitability of Achmea's business in The Netherlands. If managed well, the portfolio of nondomestic operations (collectively known as Division International) could provide meaningful diversification for the group in the long term, but in the near term Division International will continue to face some management challenges and will require strong leadership to realize its potential.

Financial management

In our opinion, Achmea's financial management is conservative. Following action in 2008 and 2009 to protect its balance sheet by reducing its investment risk profile, it has a very strong level of capital adequacy and appears to have a low risk appetite. Capital is supported by preference shares and hybrid equity, as well as debt, but these are within our tolerance levels for the ratings.

Organizational effectiveness

We believe the group's operational management of the group has improved. It is meeting its targets for delivery of the planned expense savings. In our opinion, delivery on information technology projects has been a relative weakness for the group in the past, but now we see that Achmea is delivering on its latest efficiency programs.

Governance

Governance is effective and sound and no issues have been observed.

Enterprise Risk Management: Adequate

We consider the quality of Achmea's enterprise risk management (ERM) framework to be adequate, but note the progress being made to establish, improve, and embed control processes throughout the group. The Value Management program and the Key Risks and Key Controls programs are delivering improved information to management. We have seen evidence of strategic decisions for the group being based on the ERM framework, and expect this will continue over the rating horizon. Explicit and detailed risk appetite statements have been approved and adopted by the management team, and the focus is now on refining the accompanying limit system and aligning the framework with remuneration incentives. There is also a focus on embedding risk management policies by risk type across the organization.

The asset-liability management (ALM) framework uses replicating portfolios and decision matrices to optimize asset allocations. There is increased focus on value-based management, but it is not yet fully embedded in the planning processes of the group. Preparations for Solvency II appear to be progressing well, including participation in the fifth Quantitative Impact Study (QIS5). Achmea has also taken part in De Nederlandsche Bank's (DNB) risk studies and runs stress tests set by the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and DNB. Achmea's admission to full membership of the CRO Forum underlines its progress and commitment to ERM.

Three executive board members participate in the Financial and Risk Committee, which covers all group risks. In addition, Achmea has a group risk management department. We view these as positive developments and believe that these have helped to drive improvements in Achmea's ERM framework.

Achmea allocates capital to each risk using its economic capital model and other sources, and identifies its risks as: insurance (57% of economic capital before diversification benefit at the 99.95% confidence level as at year-end 2011), market (26%), credit (8%), and operational (6%). Liquidity risk is not measured in the model. Management of each of these risks then falls to a committee at the holding and/or division level. Outside the Netherlands, each operating company within the group has its own risk department, which reports through the local board to the group executive board. Achmea Bank operates its own risk management system.

All risks are monitored and reported on throughout the year. External audits of the control processes are carried out biannually by PWC. Internally, a broad array of monitoring and reporting schedules are in place, including: "in control" statements that are required from each division and holding department once a year; quarterly solvency statements for each legal entity showing their exposure to the risk of immediate interest rate and equity shocks; and the economic capital model, which is run fully once a year, with approximate updates in between.

Economic/risk-based capital modeling is progressing well and is being used in conjunction with risk appetite considerations for financial decision making, for example in hedging investment exposures or structuring the reinsurance program. Further progress on ERM may be important to the ratings, especially if the group expands meaningfully outside The Netherlands, but this is not expected in the near term.

Accounting: Conservative, With Very Good Disclosure

Achmea produces consolidated financial statements in accordance with IFRS (International Financial Reporting Standards). Disclosure overall, including the group website, interim financial statements, and investor presentations, is considered to be very good.

In addition to standard adjustments made to reported capital to reflect Standard & Poor's capital model criteria, Standard & Poor's opts to exclude both the capital and related charges associated with Dutch basic health business from its capital model. This reflects the risk equalization system in place whereby insurers pool claims and volatility in profitability and reserving is accordingly constrained significantly. According to Achmea's economic capital model, health insurance risk represents just 7% of all risk, compared with 29% for non-life, 26% for market risk, and 21% for life risk.

With effect from 2012 Achmea adopted MCEV (Market Consistent Embedded Value) instead of EEV (European Embedded Value).

Operating Performance: Strong, But Not In Line With The Rating

Table 4

Achmea Group -- Premiums and Profits				
(Mil. €)	**2011**	**2010**	**2009**	**2008**
GPW: health insurance	12,400	12,289	10,617	11,259
GPW: non-life insurance	3,819	3,992	4,030	3,816
GPW: life insurance	3,431	3,571	4,998	4,231
Pre-tax profit: health insurance	326	262	342	- 28
Pre-tax profit: non-life insurance	375	401	259	- 95
Pre-tax profit: life insurance	- 292	107	- 108	- 1,381
Pre-tax profit: banking	- 47	49	- 47	36
Net income	- 208	1,220	1,381	- 2,118
Comprehensive income	- 323	1,366	1,778	- 3,029

In our opinion, Achmea's operating performance is strong, but a weakness for the rating. This reflects continued strong health and non-life underwriting performance and an adequate life underwriting performance. The current performance is below that which Standard & Poor's expects at this rating level and is unlikely to improve to levels supportive of the rating over the rating horizon and beyond.

Operating performance is expected to be negatively impacted in 2013 and 2014 by pension charges, low investment returns, and rising basic health claims. Profit before tax for 2012 is expected to be around double the €156 million reported at the half year, before falling in 2013 and 2014 and recovering in 2015 to around 2012 levels.

In addition, a profit reduction in basic health insurance is expected in 2013 due to increased claims costs. Achmea does not feel able to raise premiums in 2013 to match the increase in claims because of public pressure to contain health care costs. This lack of pricing power is expected to be temporary only.

Income protection business has performed poorly in recent years and is pressuring the non-life earnings.

Health insurance

Health underwriting performance has been low margin but generally stable in the six years since the introduction of the new Dutch health insurance system in 2006 (see table 5). This reflects the characteristics of the basic health business. About 97% of health GPW is generated in the Netherlands, where the basic health market (86% of the group's Dutch health GPW in 2011) is a volume business, with profitability largely based on cost management as insurers are subject to mandatory acceptance of risk, irrespective of the risk profile of the person insured. The risk equalization system in place, whereby insurers pool claims, limits volatility in profitability. With real scale advantages (Achmea is the market leader with approximately five and a half million customers; only four insurers have more than one million customers), the group's basic health expense ratio was just 3% in 2011, and its net combined ratio 98.7%. We expect basic health insurance to continue to produce low margin, but generally stable, underwriting performance for the group (the combined ratio for basic health insurance for the first six months of 2012 was 97.6%).

Supplementary health in the Netherlands typically produces a better relative technical result than basic health: in 2011, the combined ratio was 94.7% compared with 86.3% (excluding one-off items) in 2010 and 88.9% in 2009. We expect supplementary health to continue to produce higher margins than basic health and for growth to match that of the market.

Table 5

Achmea Group -- Health Insurance

(Mil. €)	2011	2010	2009	2008	2007	2006	2005
GPW	12,400	12,289	10,617	11,259	7,521	7,154	2,072
Combined ratio (%)	98.7	98.8	98.8	100.1	99.0	100.4	94.5
Profit before tax	326	262	342	- 28	141	47	111

Non-life insurance

Non-life underwriting performance has been strong and steady over the past four reported years (see table 6). About 84% of non-life GPW is generated in the Netherlands. Achmea aims to maintain its market leadership in the non-life segment, but pressure on pricing means that it needs greater operating efficiency and lower costs of acquisition to maintain profit. In 2011, the expense ratio for the group was static at 27.8%; the net combined ratio was good at 96.4% at the same date. The Property & Casualty segment posted a combined ratio of 87.6% whereas the income protection segment ratio was 135.9% (109.4% in 2010). This latter performance was due to additional provisions taken for disability business. This weakness persisted in the first six months of 2012, with income protection weaker than for the same period of 2011 (132% versus 104.7%), leaving the non-life ratio worse at 99.6% versus 92.8%.

Table 6

Achmea Group -- Non-Life Insurance

(Mil. €)	2011	2010	2009	2008	2007	2006	2005
GPW	3,819	3,992	4,030	3,816	2,915	2,684	1,699
Combined ratio (%)	96.1	95.7	95.9	95.6	96.4	88.5	89.9
Profit before tax	375	401	259	- 95	296	474	321

Life insurance

Life results have been disappointing (see table 7). About 91% of life GPW is generated in the Netherlands, where life insurers face significant challenges including a loss of consumer confidence in traditional life products, growing life expectancy, limited ability to offer attractive guaranteed products, and the increasing competition provided by banks. We believe that Achmea is adapting successfully to these market challenges, but its results remain under pressure.

The value of new business (VNB) fell to €11 million in 2011 from €25 million in 2010. This reflects a fall in the Dutch VNB to €20 million from €24 million, and a sharp fall in European VNB to negative €10 million from €1 million.

Similarly, while the new business margin for the group decreased in 2011 to 0.7% from 1.4% in 2011, the Dutch margin was stable at 2.1%, reflecting the focus on profitability rather than growth, and Europe declined to negative 1.9% (0.2%). After six months of 2012, compared to the first half of 2011, Dutch VNB was negative €7 million (€5 million); the Dutch new business margin was negative 1.4% (0.8%). Pensions performance drove the negative outcomes. We don't expect Achmea to significantly improve its life underwriting performance in the short-to-medium term.

Impairment of goodwill (€279 million), Greek government bonds (€114 million), real estate (€60 million), and guarantees on segregated accounts (€143 million) all negatively impacted the life result, resulting in a pre-tax loss of €292 million.

Table 7

Achmea Group -- Life Insurance							
(Mil. €)	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
GPW	3,431	3,571	4,998	4,231	4,417	4,464	2,807
New business margin (%)	0.7	1.4	1.6	1.3	1.7	1.6	0.6
Profit before tax	-292	107	-108	-1,381	470	533	202

Other

Division International remains a minor contributor to the group's bottom line. For Achmea, banking is a complementary business in the Netherlands to ensure customers have a complete service offering. Banking generated a pre-tax loss of €47 million in 2011 and, in the first six months of 2012, it made a pre-tax profit of €15 million.

We expect non-life insurance to produce a net combined ratio under 100% in 2012 and under 97% in 2013 and 2014; basic health insurance a combined ratio under 100% over the same period; and supplementary health insurance a combined ratio under 95% over the same period. We also expect the life new business margins to be somewhat pressured over the rating horizon but to reach 1% or higher in the Netherlands in the medium term. Operating performance is expected to be negatively impacted in 2013 and 2014 by pension charges, low investment returns, and rising basic health claims. Profit before tax for 2012 is expected to be around double the €156 million reported at the half year, before falling in 2013 and 2014 and recovering in 2015 to around 2012 levels.

Beyond the rating horizon we expect a return to stronger performance once the group has overcome the impact of exceptional items such as pension charges, income protection losses, and temporary reduction in health pricing power. Nevertheless, despite this improvement, operating performance is unlikely to improve to levels supportive of the rating over the rating horizon and beyond, reinforcing our view that maintenance of capitalization and competitive position at current levels is critical for the ratings.

Investments: Well Diversified, With Limited Exposure To Risky Assets

Table 8

Achmea Group--Portfolio Composition (% Of General Account Invested Assets)					
(%)	**2011**	**2010**	**2009**	**2008**	**2007**
Cash and short term investments (%)	10.6	11.8	15.8	18.0	23.4
Bonds (%)	71.5	69.9	62.2	55.5	46.4

Table 8

Achmea Group--Portfolio Composition (% Of General Account Invested Assets) (cont.)					
Equity investments (%)	5.7	5.0	4.7	8.0	12.0
Real Estate (%)	3.1	3.5	3.4	3.5	3.2
Mortgages & Loans (%)	7.9	8.1	8.7	8.6	7.8
Investments in affiliates (%)	0.2	0.4	3.6	5.8	6.7
Other investments (%)	1.0	1.4	1.4	0.5	0.4

We consider Achmea's investment profile to be strong, well-diversified, and appropriate for its liabilities. Credit quality is high, and market risk is moderately low. ALM is good in the Netherlands, and ALM testing and procedures have been implemented across the group.

Investment strategy

Achmea's investment strategy is determined by its focus on the long term because of its co-operative background and the need to minimize the risk of forced sales. As a result, it has a relatively conservative investment portfolio. At year-end 2011, the group held 72% of its non-linked assets in bonds, 11% in cash, 3% in property, 8% in mortgages and loans, and 6% in equities. This was little changed from the position at year-end 2010.

Credit risk

Credit risk is low for Achmea. At year-end 2011, 90% of the above bond portfolio was rated 'A' or higher, with more than half of the portfolio being invested in 'AAA' sovereign debt. Only 1.8% of its portfolio was in government bonds of Portugal, Italy, Ireland, Greece, and Spain.

Market risk

Following the disposal of the shares Achmea owned in PZU, we believe that market risk is now small. According to the group, it is almost fully hedged against interest-rate volatility.

Liquidity: Strong, Reflecting Strong Balance Sheet

In our view, Achmea's liquidity is strong. This is mainly due to the strong liquidity of the balance sheet, but is partially constrained by its operating cash flow volatility. Liquid assets (reported Level 1 non-linked financial assets) to reported gross non-linked technical reserves were 67.1% at year-end 2011 (70.1% at year-end 2010). Achmea itself states that liquid assets represented 65% of the investment portfolio at year-end 2011.

Additional liquidity comes from undrawn, committed credit facilities of €750 million at Achmea B.V.

Capitalization: Very Strong

We view Achmea's capitalization as being very strong. We anticipate that capitalization will remain very strong, with capital adequacy likely to be at least very strong. Capital adequacy, as measured by Standard & Poor's risk-based capital model, was extremely strong at year-end 2011 and is projected to be slightly weaker at year-end 2012, when capital adequacy is expected to be at the 'AA' level. The move to MCEV from EEV may weaken capital adequacy slightly at the 2012 year-end. Quality of capital is also strong, with almost 60% of total adjusted capital per our model derived from core shareholders' funds.

The IGD solvency coverage was 206% for the group at the end of 2011.

Capital in the group is no less fungible than for most other insurance groups, with the exception of certain of the Dutch and Slovakian health subsidiaries, which have legal or tax constraints on the transfer of capital or dividends to other group entities.

Reserves

Standard & Poor's considers the life reserves to be adequate and makes no additional haircuts to credit given for value in force in the capital model. Non-life reserves are seen as adequate, and we do not expect material adverse reserve development on previous years to emerge. Small prior year claims reserves for non-life insurance were released in 2010 and 2009 of €112 million and €162 million, respectively. We consider that some redundancy exists in these reserves and, consequently, give them partial capital credit in our analysis. Achmea tests its reserves deterministically each quarter and, for non-life, stochastically each quarter. It actively manages the actual level of reserves to within a band around target levels.

Reinsurance

Achmea benefits from a comprehensive reinsurance program, which provides very good coverage against claims frequency and severity. This program is provided mainly by leading reinsurers, all of which are generally rated 'A-' or higher for short-tail contracts and 'A+' or higher for long-tail contracts. Achmea's catastrophe program provides cover for a one-in-200-year event.

Financial Flexibility: Strong, Despite Private Ownership

In our opinion, Achmea's financial flexibility is strong. We do not anticipate the group will require additional short-term liquidity or long-term capital over the rating horizon. In our view, the most likely requirement would be to replenish capital following a severe adverse movement arising from its market risk.

Sources of capital (liquidity has been discussed above) may include an increase in the use of reinsurance, or further borrowing, including hybrid debt, which Achmea has been issuing in the capital markets since 2005. However, we do not view a reduction in dividends as a likely source due to the strict dividend policy that mandates a 45% payout ratio. Similarly, we believe an equity issue is an uncertain source given the cooperative structure of its main shareholder (the last issue was in 2009 for €1,028 million, and Achmea Association funded its participation by means of a loan).

A hybrid equity and senior debt instrument are due for refinancing in the rating horizon and these are expected to be refinanced at lower rates than currently.

Fixed charge coverage, after treating pension charges as recurring, is expected to be somewhat below the range expected for an 'A-' rated holding company, between 2 and 3 times EBITDA. Concerns are offset to some extent by the very strong capital adequacy.

Financial leverage is expected to be consistent with a holding company rated in the 'A' range.

Ratings Detail (As Of January 14, 2013)		
Achmea B.V.		
Counterparty Credit Rating		
Local Currency		A-/Stable/--
Junior Subordinated		BBB
Senior Unsecured		A-
Subordinated		BBB+
Counterparty Credit Ratings History		
23-Dec-2010	*Local Currency*	A-/Stable/--
01-Dec-2008		A-/Negative/--
08-Nov-2007		A-/Stable/--
Related Entities		
Achmea Pensioen & Levensverzekeringen N.V.		
Financial Strength Rating		
Local Currency		A+/Stable/--
Issuer Credit 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. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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