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Research Update:

Ratings On Netherlands-Based Achmea Group Entities Affirmed; Outlooks Remain Negative

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Overview

- In 2018-2020, we expect Achmea Group will stabilize its operating performance, 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 actions--both taken and planned.
- We are therefore affirming our 'BBB+' ratings on Achmea B.V, our 'A-' ratings on highly strategic subsidiaries Achmea Reinsurance Company N.V. and Achmea Bank N.V., and our 'A' ratings on the group's core operating companies.
- 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 volatility of capital and/or earnings persists and the financial risk profile does not strengthen in line with our expectations.

Rating Action

On July 26, 2018, S&P Global Ratings affirmed its 'BBB+' ratings on Achmea B.V, 'A-' ratings on highly strategic subsidiaries Achmea Reinsurance Company N.V. and Achmea Bank N.V., and 'A' ratings on the group's core operating companies. The outlook is negative.

Rationale

We believe Achmea has made steps to reduce its capital and earnings volatility by strengthening its premium rates and improving its claims experience and expense control, albeit amid intense competition in the non-life and life sectors. Moreover, the sale of Friends First and revision of its reinsurance program also helped to reduce capital and earnings volatility in 2017, and will continue to do so. This, in turn, is likely to reduce pressure on its fixed charge coverage and strengthen its financial risk profile. 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.

We expect Achmea's operational result to be in excess of €300 million in 2018, €380 million in 2019, and €440 million in 2020. Our revised earnings forecast and potential management 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 are therefore revising our assessment of Achmea's financial flexibility to adequate from less than adequate. 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 has improved.

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 and financial risk profile. We have revised downward our assessment of Achmea's ERM because the group did not recover its fixed-charge coverage ratios to more than 4x within its own specified timeframe. This is due to certain strategic choices made to support basic health segment, which also led us to reassess our previous opinion that Achmea optimizes its risk adjusted returns across all business units.

The ratings on the core operating insurance subsidiaries continue to reflect our view of the group's leading position in the Dutch non-life and health markets, with a well-diversified profile including life insurance, asset management, and banking activities.

Outlook

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 was below our expectations, outlined above, and this prevented Achmea from maintaining its capital adequacy at least within the 'A' range 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 to historic performance. This would enable the group to strengthen its financial risk profile, return to a sustainable fixed-coverage of over 4x, and maintain capital in excess of the 'A' level under our capital model.

Ratings Score Snapshot

	To	From
Financial Strength Rating	A/Negative	A/Negative
Anchor	a	a-
Business Risk Profile	Strong	Strong
IICRA*	Intermediate Risk	Intermediate Risk
Competitive Position	Strong	Strong
Financial Risk Profile	Strong	Moderately Strong
Capital & Earnings	Very Strong	Very Strong
Risk Position	Moderate Risk	Moderate Risk
Financial Flexibility	Adequate	Less than Adequate
Modifiers	0	+1
ERM and Management	0	+1
ERM	Adequate with Strong Risk Controls	Strong
Management & Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Strong	Exceptional
Support	0	0
Group Support	0	0
Government Support	0	0

*Insurance Industry And Country Risk Assessment. NB: Support does not consider 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 List

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Ratings Affirmed

Achmea B.V.
 Issuer Credit Rating
  Local Currency                       BBB+/Negative/--
 Senior Unsecured                      BBB+
 Junior Subordinated                   BBB-

Achmea Bank N.V.
 Issuer Credit Rating                  A-/Negative/A-1
 Certificate Of Deposit
  Local Currency                       A-1
 Senior Unsecured                      A-
  Commercial Paper                     A-1

Achmea Pensioen & Levensverzekeringen N.V.
Achmea Zorgverzekeringen N.V.
Achmea Schadeverzekeringen N.V.
 Issuer Credit Rating
  Local Currency                       A/Negative/--
 Financial Strength Rating
  Local Currency                       A/Negative/--

Achmea Reinsurance Company NV
 Financial Strength Rating
  Local Currency                       A-/Negative/--
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.