



RATING ACTION COMMENTARY

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

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Fitch Ratings - Frankfurt am Main - 05 Aug 2021: Fitch Ratings has affirmed Achmea B.V.'s core operating entities at Insurer Financial Strength (IFS) Ratings '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 partly offset by the group's profitability and debt servicing capabilities, which we both assess as 'Good'.

Fitch ranks Achmea's business profile as 'Favourable' compared with other Dutch insurance companies', driven by the group's favourable competitive positioning, moderate business risk profile and favourable diversification. Achmea is a health and non-life insurance market leader in the Netherlands with Fitch-estimated market shares of 28% and 25%, respectively. However, its international activities are limited relative to more diverse Dutch competitors'. International markets generated 5% of the group's total gross written premiums in 2020 (unchanged on 2019) and accounted for 4% (unchanged on 2019) of its total operating earnings in the same year.

Achmea maintained robust capitalisation in 2020, despite pandemic-related market weaknesses. Its Solvency 2 (S2) ratio was little changed in 2020 at 208% (2019: 214%) post-dividend, and its Fitch Prism Factor Based Model (Prism FBM) score was unchanged at 'Very Strong'. The 6pp decrease of the S2 ratio was mainly due to the inclusion of Achmea Bank and resumed dividend payments. These items more than

offset free capital generation (FCG). The slight decrease in financial leverage ratio (FLR) to 20% in 2020 (2019: 21%) was a result of higher equity and unchanged outstanding debt balances compared with 2019.

Our assessment of Achmea's financial performance is based on our expectation of long-term net income return on equity (ROE) being maintained in the 3%-6% range. We do not expect ROE to materially exceed this range as the group's profitability metrics remain under pressure from inherently low margins in Dutch mandatory health insurance. Achmea's 2020 operating earnings improved to EUR630 million (2019: EUR547 million), and ROE to 7% (2019: 6%). This was mainly due to extraordinary compensations received from the Dutch government (2020: EUR238 million) related to Covid-19 health insurance claims, a decrease in regular elective care, as well as improved non-life earnings in line with the broader Dutch non-life segment.

Achmea's debt-servicing capability and financial flexibility is 'Good'. This is based on a Fitch-calculated fixed charge coverage ratio (FCC) of 4.7x in 2020 adjusted for pandemic-related government compensations (unadjusted 6.5x; 2019: 3.9x), continuing market access proven by recent debt issuance at favourable terms, and robust contingent funding. Achmea's 2020 FCC was the highest in the past five years due to strong operating performance. We expect long-term FCC to be maintained in the 3x-6x range.

Fitch assesses Achmea's investment-and-asset risk as low and scores the 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, mainly by shifting to higher-yielding fixed-income assets. This could lead to incremental credit risk and lower average rating of the credit portfolio, but we expect the overall high quality of its investment portfolio to be maintained. The company's risky-assets-to-equity ratio stood at 38% at end-2020, down from 2019's 45%.

RATING SENSITIVITIES

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

-Net income ROE falls below 3% on a sustained basis.

-Prism FBM score falls below 'Very Strong' for a sustained period.

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

-Net income ROE increases to above 8% on a sustained basis, while maintaining the Prism FBM score and FLR at levels that are 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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance 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 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	Ins A+ Rating Outlook Stable	Affirmed
Schadeverzekeringen	Fin	A+ Rating Outlook
N.V.	Str	Stable

ENTITY/DEBT	RATING			PRIOR
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	A Rating Outlook Stable	Affirmed	A Rating Outlook Stable

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 15 Apr 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Prism Factor-Based Capital Model, v1.7.2 (1)

ADDITIONAL DISCLOSURES

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Achmea Schadeverzekeringen N.V.	EU Issued, UK Endorsed
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