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Achmea Group

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Achmea Group

Rationale

Counterparty Credit Rating

Local Currency

A-/Negative/--

Business Risk Profile

- Strong competitive position evidenced by its leadership within the Dutch insurance market.
- Achmea benefits from its exclusive bancassurance and direct distribution networks.
- Historically sound, technical performance in health and non-life insurance supports our assessment of a strong business risk profile.

Financial Risk Profile

- Very strong capital and earnings backed by a commensurate, albeit pressured, capital adequacy.
- Intermediate risk position thanks to a diverse investment portfolio and reduced exposure to employee benefits obligations.
- Adequate financial flexibility with improving, albeit low, fixed charge coverage ratio.

Other Factors

- Under our criteria, we combine these factors to derive a dual anchor of either 'a' or 'a+'. We select an anchor of 'a' for Achmea B.V. to reflect our expectation that the group's future earnings will grow more slowly than in the past, and our view of the volatility in comprehensive income that results in unpredictable shareholder equity movements and subdued fixed-charge coverage ratios.
- The group credit profile and our ratings on Achmea's core subsidiaries are one notch above the anchor. This reflects our assessment of enterprise risk management (ERM) as strong, combined with satisfactory management and governance.

Outlook

The negative outlook on Achmea reflects the risk that its earnings may not recover sufficiently to maintain capital adequacy in the 'AA' range and a fixed-charge coverage ratio above 4x.

Upside scenario

We would consider revising the outlook to stable if the group's fixed-charge coverage remained above 4x in 2016-2017 and capital adequacy remained very strong (in the 'AA' range).

Downside scenario

We could lower the rating by one notch if we consider that the group's capital adequacy has deteriorated to a level below very strong, or if we do not expect Achmea's fixed-charge coverage to be consistently above 4x over the course of 2016/2017. A failure to improve earnings performance may lead us to reassess our positive assessment of strategic risk management and subsequently our ERM assessment overall.

Base-Case Scenario

Macroeconomic Assumptions

In our view, economic recovery in The Netherlands is broadening, with domestic demand stabilizing as a result of increases in real disposable income, supported by improvements in the job market and investment activity. We forecast real GDP to grow by 2% in 2015 and 2.1% in 2016.

The Dutch life sector is closely linked to the property market. Insurers are significant mortgage issuers and investors while some life products are linked to house sales. We think the housing market is undergoing a turnaround, with an expected price increase of about 2%. This turnaround will have a positive effect on consumption by lifting confidence. We expect inflation to be 0.3% in 2015, 0.8% in 2016, and 1.5% in 2017, partly reflecting the recovery of the Dutch economy.

Company-Specific Assumptions

- Net income will improve, as charges from "one-off" restructuring programs and write-offs (e.g., goodwill) will decline, supported by sound technical results. We expect net income to exceed €200 million in 2015, €280 million in 2016, and €320 million in 2017. We expect operating income to exceed €290 million in 2015, €380 million in 2016, and €420 million in 2017.
- Capital adequacy will remain commensurate with a 'AA' rating in 2015, 2016, and 2017. Achmea will continue to have a strong competitive position thanks to its market-leading status and exclusive distribution networks.

Key Metrics

(Mil. €)	2016f	2015f	2014*	2013	2012
Gross premiums written	18,900	18,900	20,002	20,225	20,445
Change in gross premiums written (%)	0.0	(5.5)	(1.1)	(1.1)	4.1
Net income	>280	>190	16.0	349.0	469.0
Net combined ratio non-life (%)	#101.4	#102.4	102.1	98.5	101.6
Net combined ratio health (%)	#99.2	#99.3	99.1	97.1	98.4
Fixed charge cover	4.5	4.0	4.3	4.1	4.1

Note: Ratios are based on Standard & Poor's calculations. *Basis of calculation changed in 2014. Achmea increases holding company expenses allocation to segments from 2014 onwards. f--forecast.

Company Description

Achmea is a large Dutch multiline insurer with gross premiums of €20 billion in 2014. Through its multiple brands such as Centraal Beheer, Interpolis, and Zilveren Kruis, it serves approximately 11 million customers in The Netherlands. Achmea also operate in Greece, Turkey, Slovakia, and Ireland, and has a partnership with Rabobank in Australia. In both the Dutch and international markets, Achmea writes non-life, life and pension, and health insurance. In addition to insurance, Achmea has banking interests, mainly in The Netherlands. Achmea is privately owned, its main shareholders being Achmea Association (65%) and Rabobank (29%), both of which are Dutch unlisted cooperative associations.

Business Risk Profile

Insurance industry and country risk: Low overall

Achmea derives over 80% of its gross premiums from the Dutch health and non-life markets, which we assess as low risk. We anticipate that the Dutch health insurance sector will report stable, albeit low, margins, and that technical profits in the fiercely competitive Dutch non-life, where market returns are under pressure, should improve following strategic actions within the disability business. We consider the Dutch life market, which accounts for less than one-fifth of the group's business, to carry intermediate risk. Our intermediate risk assessment reflects our view of material longevity and asset-liability management risk compounded by low interest rates and low growth prospects. The overall low risk assessment for Achmea is unlikely to change during 2015–2016 based on our assessment of the Dutch non-life and health sectors, and the balance of the group.

Competitive position: Strong due to market position

Achmea's strong competitive position stems from its leadership within the Dutch insurance market. Achmea has a leading share in the Dutch market with 32% in health insurance, 22% in property and casualty insurance, 18% in income protection insurance, 13% in group insurance, and 15% in individual life insurance. Having leading market shares in health and non-life insurance offers greater competitive strengths than in life insurance, in our opinion, due to the pressured Dutch life market. Within The Netherlands, Achmea operates a multibrand strategy, split by product--for example, Zilveren Kruis and FBTO for health and distribution channels, Centraal Beheer 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 largest line of business--its basic health franchise--is subject to a mandatory acceptance of risk, irrespective of the risk profile of the person insured. The critical success factor is negotiating power with health care providers and, consequently, cost management. As the largest health insurance provider, with 5 million customers, Achmea benefits from economies of scale.

The group has reduced its operational expenses by more than €100 million in 2014, and has set a cost saving target of €450 million by the end of 2016. Though the basic health business is low margin, it is also low volatility. This is evidenced by a relatively modest reported combined ratio of 98.7% (2013: 96.9%) in the basic health business--despite a smaller number of insureds--the premium reduction of around €100 per policy implemented in 2014, and premium setting for 2015. Our base-case assumption is that Achmea will remain technically profitable and sustain its position, in spite of changes in the industry due to reform of long-term care and support, and changes in the risk equalization system.

Table 1

Achmea Industry And Country Risk		
Insurance sector	IICRA	Business mix (%)
Netherlands health	Low	66
Netherlands P/C	Low	17
Netherlands life	Intermediate	12
Other	N/A	5
Weighted average IICRA	Low	100

N/A--Not applicable.

Table 2

Achmea Group Competitive Position					
	2014	2013	2012	2011	2010
Gross premiums written (GPW)	20,002	20,225	20,445	19,650	19,852
Change in GPW (%)	(1.1)	(1.1)	4.1	(1.0)	1.1
Net premiums written	19,014	19,499	19,595	18,801	19,139
Change in net premiums written (%)	(2.5)	(0.5)	4.2	(1.8)	0.7
Net premiums earned	18,757	19,532	19,610	18,802	19,159
Change in net premiums earned (%)	(4.0)	(0.4)	4.3	(1.9)	0.7
Reinsurance utilization (%)	4.9	3.6	4.2	4.3	3.6
Property/casualty (P/C): reinsurance utilization - premiums written (%)	3.3	3.5	3.3	6.3	6.3
Life: reinsurance utilization - reserves (%)	3.3	2.0	2.4	1.9	1.9
Business segment (% of GPW)					
Life	12.4	12.8	14.4	17.5	18.0
P/C	15.8	15.6	15.4	19.4	20.1
Health	66.3	65.5	64.2	63.1	61.9
Other	5.5	6.0	6.0	0.0	0.0

Table 3

Achmea Group Health Insurance					
(Mil. €)	2014	2013	2012	2011	2010
Gross premiums written	13,257	13,253	13,120	12,400	12,289
Combined ratio (%) (reported)	98.4	96.8	98.7	98.8	98.8
Profit before tax	418	529	293	326	262

2012-2014 data represents Dutch business only; other years are all business.

Table 4

Achmea Group Life Insurance					
(Mil. €)	2014	2013	2012	2011	2010
Gross premiums written	2,485	2,593	2,944	3,431	3,571
New business margin (%)	0.4	(4.3)	(1.8)	0.7	1.4
Profit before tax	59	251	383	(292)	107

2012-2014 data represents Dutch business only; other years are all business.

Table 5

Achmea Group Non-Life Insurance					
(Mil. €)	2014	2013	2012	2011	2010
Gross premiums written	3,163	3,164	3,151	3,819	3,992
Combined ratio (%) (reported)	102.5	98.1	99.6	96.0	96.2
Profit before tax	103	265	200	375	401

2012-2014 data represents Dutch business only; other years are all business.

Financial Risk Profile

Capital and earnings: Very strong, but pressured

We anticipate in our base-case scenario that Achmea will maintain its very strong capital and earnings assessment. Capital adequacy, as measured by Standard & Poor's risk-based capital model, is just about commensurate with the very strong level, with increasing pressure from reduced earnings volumes. Quality of capital is favorable, with almost 60% of total adjusted capital, per our model, derived from core shareholders' funds. We expect earnings to improve over 2015-2017 to cover the incremental capital requirements from business growth with a surplus equivalent to our very strong assessment. The 2015 half year operating result of €285 million provides some evidence of the group meeting this expectation.

Although we still view Achmea's capital and earnings as very strong, there has been a gradual and consistent decline in excess capital at the 'AA' level, mainly due to Achmea's subdued earnings over recent years and one-off charges from its strategic and business initiatives, which dramatically decreased net income to €16 million in 2014 from €349 million in 2013. In 2015, Achmea issued additional hybrid capital of €750 million and redeemed €367 million of outstanding hybrid capital issued in 2005, resulting in €383 million additional capital. Achmea's board also decided not to distribute any ordinary shares dividend in 2015 on the basis of 2014 net results, which supported capital adequacy at very strong level.

Consistent with previous years, basic health business--59% of gross premium written--and related capital, assets, and liabilities are excluded from the model due to the business' unique characteristics. We consider the basic health business to be at least adequately capitalized, with Achmea satisfying regulatory requirements. We recognize that €2.4 billion of capital is invested in legal entities focusing on basic health.

We expect continued strong health and non-life underwriting performance, and an adequate life result to enable Achmea to return to its historical earning levels by 2017.

Table 6

Achmea Group Capitalization Statistics					
	2014	2013	2012	2011	2010
Common shareholders' equity	8,540	8,424	8,847	8,450	9,032
Change in common shareholders' equity (%)	1.4	(4.8)	4.7	(6.4)	2.6

Table 7

Achmea Group Earnings Statistics					
	2014	2013	2012	2011	2010
Total revenue	21,364	22,246	22,541	22,012	23,549
EBITDA adjusted	650.0	776.0	651.0	263.0	640
Net income (attributable to all equity holders)	16	349	469	(208)	1,220
Return on revenue (%)	(25.0)	(3.4)	(8.9)	(5.9)	(1.7)
Return on shareholders' equity (reported) (%)	0.2	3.9	5.3	(2.4)	13.7

Risk position: Intermediate and neutral rating factor

In our view, Achmea's risk position reflects intermediate risks. Investment leverage and investment portfolio diversification are at conservative levels with manageable levels of high-risk assets, such as equity and speculative-grade bonds and loans. We estimate the average credit quality of bonds to be 'AA', because more than half of the portfolio is invested in sovereign debt rated 'AA+' or higher. The portfolio is also adequately diversified among sectors and obligors. The group has immaterial exposure to government bonds of Portugal, Italy, Ireland, Greece, and Spain. As of 2014, Achmea reached an agreement with labor unions, resulting in a collective defined contribution scheme. As a result, the main part of the pensions agreement qualifies as a defined contribution scheme, which has significantly reduced exposure to employee benefit obligations for the group. The risk position is a neutral factor for the ratings.

Table 8

Achmea Group Risk Position					
	2014	2013	2012	2011	2010
Total invested assets	63,825	68,432	65,839	63,642	63,229
Net investment income	1,432	1,535	1,678	1,847	2,787
Net investment yield (%)	3.1	3.5	4.1	4.6	6.7
Net investment yield including realized capital gains/(losses) (%)	15.1	6.2	10.5	8.0	11.0
Portfolio composition (% of General account invested assets)					
Cash and short term investments (%)	5.3	9.3	7.2	10.6	11.8
Bonds (%)	73.4	74.5	74.6	71.5	69.9

Table 8

Achmea Group Risk Position (cont.)					
Equity investments (%)	6.9	5.9	6.6	5.7	5.0
Real Estate (%)	1.8	1.9	2.9	3.1	3.5
Mortgages (%)	3.5	0.1	0.0	0.0	0.0
Loans (%)	7.1	6.6	7.5	7.9	8.1
Investments in affiliates (%)	0.3	0.3	0.2	0.2	0.4
Investments in partnerships, joint venture and other alternatives investments (%)					
Other investments (%)	1.6	1.4	1.0	1.0	1.4

Financial flexibility: Adequate, but borderline

Achmea has adequate financial flexibility, in our view. In the first half of 2014, Achmea repaid a total of €750 million on a 7.38% senior unsecured bond which was prefinanced in November 2013. Subsequently, the fixed-charge coverage ratio improved and we anticipate the ratio will improve to above 4x in 2016 and 2017. We expect financial leverage to be satisfactory, at around 26%, in 2015-2017. The adequate assessment also reflects our view that access to sources of capital and liquidity are sufficient, given the group's limited needs. We regard the borderline level of fixed-charge coverage as a potential risk to the ratings.

Table 9

Achmea Group Financial Flexibility					
	2014	2013	2012	2011	2010
Fixed-charge coverage	4.3	4.1	4.1	1.6	3.9
Financial leverage including pension deficit as debt (%)	27.7	29.5	22.0	22.2	20.6

Other Assessments

Enterprise risk management: Strong ERM and high importance enhance the rating

We regard Achmea's strong ERM as a positive factor for the ratings.

In our opinion, Achmea's strong ERM framework reflects the group's positive risk culture, positive strategic risk management, positive risk controls, and affirmation of the other sub factors. A key assumption underlying this assessment is that the Dutch government would support the country's basic health insurance industry if an extreme event, such as a pandemic, caused financial stress to insurers.

We also assess the importance of ERM to the rating as high, given that the group's operations are significantly exposed to pandemic risk, which is heavily reliant on, and sensitive to, changes in the Dutch government's policies. We do not expect the group to experience losses outside its risk tolerances.

Management and governance

We regard management and governance practices as a neutral factor for the ratings. We consider Achmea's management and governance as satisfactory. Achmea's strategic positioning is clear and achievable; its financial management is conservative, and its organizational effectiveness is good.

Liquidity: Exceptional

We regard Achmea's liquidity as exceptional, owing to the strength of available liquidity sources, mainly premium income and liquid assets. There are no refinancing concerns and we believe the group would be capable of managing unexpectedly large claims. Achmea maintains committed and noncommitted credit facilities at the group level at several international banks. At year-end 2014, the committed credit facilities of €750 million had not been drawn down. The credit facilities were renegotiated and renewed in 2014, and the new facility is valid until 2020.

Ratings Score Snapshot

Issuer credit rating: A+/Negative/--

Anchor: a

Business risk: Strong

Financial risk: Very Strong

Modifiers: +1

ERM And Management: Strong

Holistic: 0

SACP: a+

Liquidity test: Exceptional

Sovereign risk: 0

Support: 0

Group support: 0

Government support: 0

Outlook/CreditWatch: Negative

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- Insurers: Rating Methodology, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

- Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of September 8, 2015)

Achmea B.V.

Counterparty Credit Rating

<i>Local Currency</i>	A-/Negative/--
Junior Subordinated	BBB
Senior Unsecured	A-
Subordinated	BBB+

Counterparty Credit Ratings History

21-May-2014	<i>Local Currency</i>	A-/Negative/--
23-Dec-2010		A-/Stable/--
01-Dec-2008		A-/Negative/--

Related Entities

Achmea Pensioen & Levensverzekeringen N.V.

Financial Strength Rating

<i>Local Currency</i>	A+/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Negative/--

Achmea Reinsurance Company NV

Financial Strength Rating

<i>Local Currency</i>	A/Negative/--
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Achmea Schadeverzekeringen N.V.

Financial Strength Rating

<i>Local Currency</i>	A+/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Negative/--

Achmea Zorgverzekeringen N.V.

Financial Strength Rating

<i>Local Currency</i>	A+/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Negative/--

*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. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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