

Research Update:

Achmea Hypotheekbank N.V. Ratings Raised To 'A/A-1' On Bank Criteria Change; Outlook Stable

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Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

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Overview

- Following a review of Achmea Hypotheekbank N.V. under Standard & Poor's revised bank criteria (published on Nov. 9, 2011), we have raised our ratings on Achmea Hypotheekbank N.V. (AHB) to 'A/A-1' from 'A-/A-2'. The outlook is stable.
- Our ratings on AHB reflect its 'a-' anchor, weak business position, very strong capital and earnings, adequate risk position, below average funding, and adequate liquidity. The ratings also reflect its "strategically important" status to its parent, insurance group Achmea B.V.
- We expect AHB to remain "strategically important" to its parent and continue to be well capitalized.

Rating Action

As we previously announced on Dec. 8, 2011, Standard & Poor's Ratings Services raised its long- and short-term counterparty credit ratings on Netherlands-based Achmea Hypotheekbank N.V. (AHB) to 'A/A-1' from 'A-/A-2'. The outlook is stable. We have also raised our ratings on AHB's nondeferrable subordinated debt to 'A-' from 'BBB+'. In addition, we lowered our rating on AHB's senior secured debt to 'A' from 'A+' to correct an error.

Rationale

Our ratings on AHB reflect its 'a-' anchor, "weak" business position, "very strong" capital and earnings, "adequate" risk position, "below average" funding, and "adequate" liquidity, as our criteria define these terms. The stand-alone credit profile (SACP) is 'bbb+'.

Our bank criteria uses our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for a commercial bank operating only in The Netherlands is 'a-'. The BICRA score is informed by our evaluation of economic risk, where we see The Netherlands as a diversified and competitive economy, which has minimal political risk. Although we expect sluggish near-term growth, unemployment should remain low relative to peers. Risks such as continued pressure on property markets are in our view mitigated by generally sound underwriting criteria and a strong credit culture. Gross household indebtedness is high, due to specific

conditions of the Dutch mortgage system. With regard to industry risk, the Dutch banking industry is dominated by three large players; two of them are subject to restructurings as a result of state aid that they had received. The large reliance on wholesale funding is partly attributable to households' propensity to save into life insurance and pension products.

Our assessment of AHB's business position as "weak" reflects our view of its business and geographic concentration in the competitive Dutch residential mortgage lending sector. Although we view AHB's customer franchise as relatively stable, we consider that its small market share in residential mortgage lending is likely to remain broadly unchanged over the rating horizon. We note AHB's strategy of emphasizing margins over loan volume growth by focusing on the direct channel and tightening underwriting standards. That said, the strategy is still at an early stage and profitability is likely to remain under pressure over the near-to-medium term.

Our assessment of capital and earnings as "very strong" reflects our expectation that the risk-adjusted capital (RAC) ratio before diversification adjustments will be broadly stable at a little over 15% over the next 12-18 months. We base our expectation on our view that AHB's earnings capacity will be modest due to continued pressure on the net interest margin from high funding costs and flat loan growth. Balancing these factors, tight cost control and low impairment charges should enable AHB to remain modestly profitable over the medium term, albeit well below the 2010 post-tax profit level of €46 million.

Our assessment of AHB's risk position is "adequate", primarily reflecting our view that the low-risk characteristics of AHB's Dutch residential mortgage portfolio are adequately captured by the RAC ratio. We expect AHB's loan portfolio growth to be broadly flat over the rating horizon given management's focus on the direct channel and continued uncertainty in the Dutch housing market. Furthermore, our view of AHB's relatively simple business model and historical loss experience--it had a peak 2009 impairment charge of just 7 basis points (bps) that is broadly in line with Dutch peers--support our assessment of AHB's risk position.

We view funding as "below average" given AHB's reliance on wholesale funding. Although deposits via its sister company, Achmea Retail Bank, should over time reduce its reliance on wholesale funding, we view that transition as being in its early stages. We view liquidity as "adequate" given AHB's access to parental liquidity facilities.

The ICR is two notches higher than the SACP, reflecting AHB's "strategically important" status to its parent Achmea B.V. (Achmea). As per our criteria, it is capped at one notch below Achmea's group credit profile (GCP) of 'A+'. AHB continues to be an important distribution channel for the insurance group and bank products are viewed as complementary to insurance products with cross-selling opportunities.

Outlook

The stable outlook reflects our expectation that the bank should be in a position to maintain modest profitability with capitalization remaining at current levels despite the likelihood that its loan portfolio growth will largely be flat in the coming years with medium-term pressure on net interest margin. Furthermore, we expect AHB to remain strategically important to Achmea.

A strengthening of AHB's SACP would not necessarily lead to an upgrade of the ICR as it is capped at one notch below Achmea's GCP in line with our criteria for strategically important subsidiaries. However, an upgrade of Achmea would most likely lead to an upgrade of AHB's ICR. Negative pressure on the ratings could arise from a reduction in AHB's strategic importance to the group. In addition, an unexpected deterioration in earnings or a more aggressive capital management policy, which could lead us to believe that the RAC ratio before diversification adjustments will decline below 10%, could also put pressure on the ratings.

Ratings Score Snapshot

Issuer Credit Rating	A/Stable/A-1
SACP	bbb+
Anchor	a-
Business Position	Weak (-2)
Capital and Earnings	Very Strong (+2)
Risk Position	Adequate (0)
Funding and Liquidity	Below Average and Adequate (-1)
Support	+2
GRE Support	0
Group Support	+2
Sovereign Support	0
Additional Factors	0

Related Criteria And Research

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Group Methodology, April 22, 2009
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011

Ratings List

Upgraded

	To	From
Achmea Hypotheekbank N.V. Counterparty Credit Rating Certificate Of Deposit	A/Stable/A-1 A/A-1	A-/Stable/A-2 A-/A-2
Achmea Hypotheekbank N.V. Subordinated Commercial Paper	A- A-1	BBB+ A-2

Downgraded

	To	From
Achmea Hypotheekbank N.V. Senior Secured	A	A+

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