

Achmea Hypotheekbank N.V.

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Achmea Hypotheekbank N.V.

Major Rating Factors

Strengths:

- Strategically important subsidiary of the Achmea group.
- Sound asset quality, reflecting its focus on Dutch residential mortgage lending.
- Very strong capitalization.

Weaknesses:

- Lack of diversification by geography and product offering.
- Dependence on wholesale funding.
- Earnings growth prospects constrained by increased funding costs and limited loan volume growth due to focus on direct distribution.

Counterparty Credit Rating

A-/Stable/A-2

Rationale

The ratings on Netherlands-based Achmea Hypotheekbank N.V. (AHB) reflect its position within the Achmea group of companies, which form an integral part of the pan-European insurance group headed by Eureko B.V. (A-/Stable/--). Standard & Poor's Ratings Services considers AHB to be a strategically important subsidiary of the Eureko group. The ratings also reflect the bank's relatively strong asset quality and capitalization. Offsetting these factors are the bank's limited earnings growth potential, business and geographic concentration, and reliance on wholesale funding sources.

AHB forms the major part of the banking operations of the Achmea group accounting for over 80% of the group's credit portfolio. AHB is also an important distribution channel for group insurance products and AHB's bank products are complementary to Achmea's insurance offering for the purpose of driving cross-sales. The strength of AHB's relationship with the wider Achmea group is further evidenced by the common use of the "Achmea" brand name and cooperation in group functions such as internal control procedures, compliance, audit, information technology, and human resources. Standard & Poor's therefore considers AHB to be strategically important to Eureko and the ratings on AHB benefit from a three-notch uplift under our group rating methodology. Beyond its relationship with Eureko, the ratings on AHB do not include any uplift for external support. In practice, we regard the bank as being of low systemic importance to the Dutch banking system, and envisage that, if needed, external support would come first from the Eureko group.

AHB's business consists entirely of Dutch residential mortgage lending. It has no branch network, and consequently relies on direct writers and--to a more limited extent--intermediaries for the distribution of its products. Despite some moderate deterioration in impairment charges, AHB maintains good asset quality, reflecting its focus on the relatively low-risk Dutch residential mortgage market coupled with conservative underwriting criteria. Standard & Poor's expects AHB's credit loss charge (as measured by new loan loss provisions/average customer loans) to peak at around 7-8 basis points (bps) in 2010, which is low relative to peers. Going forward, our base-case expectation is that management's focus on direct lending to expand margins and further tighten underwriting standards should see credit charges gradually decline to the 5-6 bp range.

We consider the bank's capitalization as very strong, as evidenced by an estimated risk-adjusted capital (RAC) ratio in excess of 16% at end-June 2010 (after diversification adjustments). Moderate internal capital generation over the past few years has been compensated for by the absence of dividends and a broadly flat loan book.

Unlike the majority of European mortgage lenders, AHB has no deposit-taking business of its own, making it dependent on wholesale funding. In our view, this concentration is partly mitigated by AHB's focus on secured longer-term funding (covered bonds and securitization), access to its sister company's growing deposit base (Achmea Retail Bank N.V.), moderate refinancing needs in 2011-2012, and our expectation that the size of the loan book will be largely flat over the next two years. The bank's funding and liquidity position has been further supported by the Dutch government's guarantee scheme, a short-term liquidity facility from Eureko B.V. and a mortgage purchase commitment from Achmea group insurance companies.

Given the relatively low-margin and undiversified nature of its business, AHB has a track record of modest underlying profitability. Performance has historically lagged that of its more diversified peers' Dutch retail businesses. Standard & Poor's expects 2010 profitability to be pressured by higher funding costs leading to a decline of net interest margin from 78 bps in 2009 to the 65-70 bp range. The recent strategic focus on higher margin, direct lending should somewhat mitigate higher funding costs, but it will also likely constrain the size of the loan book and consequently the revenue base. Cost containment measures will, therefore, continue to be a key factor in maintaining profitability at acceptable levels.

Outlook

The stable outlook is based on Standard & Poor's view that, although AHB's loan portfolio growth will likely be largely flat in the coming years, the bank should be in a position to maintain acceptable profitability and will remain strategically important to the Achmea group.

A positive rating action is currently unlikely and would require the demonstration by the bank of its ability to strengthen its market position without weakening its financial profile. Negative pressure on the ratings could arise from a reduction in AHB's strategic importance to the group or an unexpected deterioration in financial performance such as an increase in credit loss charges materially above the 12 bp level or a sustained decline in net interest margin well below 65 bps.

Related Criteria And Research

- Mortgage Lending Business Supports Some European Banking Systems, Yet Could Impede Others, Sept. 2, 2010
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Financial Institutions Group Methodology, April 22, 2009
- Bank Rating Analysis Methodology Profile, March 18, 2004

Table 1

Achmea Hypotheekbank N.V. Asset Quality, Funding, And Liquidity Ratios					
	--Year-ended Dec. 31--				
(%)	2010*	2009	2008	2007	2006
Gross nonperforming assets/customer loans plus other real estate owned	N/A	N/A	0.33	0.44	0.50

Table 1

Achmea Hypotheekbank N.V. Asset Quality, Funding, And Liquidity Ratios (cont.)					
Net nonperforming assets/customer loans plus other real estate owned	N/A	N/A	0.27	0.37	0.46
Loan loss reserves/gross nonperforming assets	N/A	N/A	18.46	15.22	9.66
Loan loss reserves/customer loans	N/A	0.10	0.06	0.07	0.05
New loan loss provisions/average customer loans	0.03	0.07	0.04	0.04	0.01
Net charge-offs/average customer loans	N.M.	0.03	0.04	0.03	0.03
Customer deposits/funding base	0.00	0.00	0.00	0.00	0.00
Total loans/customer deposits	N.M.	N.M.	N.M.	N.M.	N.M.
Total loans/customer deposits plus long-term funds	351.50	399.81	425.76	633.65	474.47
Customer loans (net)/assets (adjusted)	85.28	89.93	93.96	92.91	94.32

*Data as of June 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 2

(%)	--Year-ended Dec. 31--				
	2010*	2009	2008	2007	2006
Net interest income/average earning assets	0.69	0.78	0.66	0.63	0.45
Net interest income/revenues	74.31	103.91	108.53	118.11	121.99
Fee income/revenues	(2.43)	(9.23)	(11.44)	(11.91)	(4.24)
Market-sensitive income/revenues	28.13	5.33	2.91	(6.19)	(17.75)
Personnel expense/revenues	0.00	7.10	11.74	14.16	33.96
Noninterest expenses/revenues	25.49	31.39	39.40	46.21	85.19
New loan loss provisions/revenues	2.95	8.83	6.38	7.63	2.33
Net operating income before loan loss provisions/loan loss provisions	2,522.02	776.83	949.63	704.60	634.61
Net operating income after loan loss provisions/revenues	71.56	59.78	54.22	46.16	12.48
Pretax profit/revenues	71.56	57.72	43.21	46.16	12.48
Tax/pretax profit	25.50	24.70	25.47	23.25	66.55
Core earnings/revenues	53.31	45.53	43.21	35.42	4.17
Core earnings/average adjusted assets	0.48	0.33	0.25	0.18	0.02
Noninterest expenses/average adjusted assets	0.23	0.23	0.23	0.24	0.31
Core earnings/average risk-weighted assets	1.72	1.19	0.84	0.63	0.07
Core earnings/average adjusted common equity	15.78	11.48	9.45	8.30	0.82
Pretax profit/average common equity (%)	21.09	14.47	9.40	10.79	2.44

*Data as of June 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 3

Achmea Hypotheekbank N.V. Risk-Adjusted Capital Data					
(Mil. €)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government and central banks	618	0	0	19	3
Institutions	2,416	486	20	432	18
Corporate	1	0	50	0	66
Retail	8,467	3,973	47	1,478	17

Table 3

Achmea Hypotheekbank N.V. Risk-Adjusted Capital Data (cont.)					
Of which mortgage	8,467	3,973	47	1,478	17
Securitization	804	0	0	471	59
Other assets	45	45	100	41	90
Total credit risk	12,351	4,505	36	2,440	20
Market risk					
Equity in the banking book¶	0	0	0	0	0
Trading book market risk	--	--	--	21	--
Total market risk	--	--	--	21	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	174	--	189	--
(Mil. €)	Basel II RWA		Standard & Poor's RWA		% of Standard & Poor's RWA
Diversification adjustments					
RWA before diversification	4,679		2,650		100
Total adjustments to RWA	--		489		18
RWA after diversification	4,679		3,139		118
(Mil. €)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	Standard & Poor's RAC ratio (%)	
Capital ratio					
Capital ratio before adjustments	508	10.8	521	19.7	
Capital ratio after adjustments§	508	10.9	521	16.6	

*Exposure at default. ¶Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions.

§Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight.

RAC--Risk-adjusted capital. Sources: Company data as of June 30, 2010, Standard & Poor's.

Table 4

Achmea Hypotheekbank N.V. Capital Ratios					
	--Year-ended Dec. 31--				
(%)	2010*	2009	2008	2007	2006
Adjusted common equity/risk assets (%)	11.1	10.7	10.0	7.9	7.4
Tier 1 capital ratio	10.9	10.4	9.7	7.9	7.4
Adjusted total equity/adjusted assets	2.9	2.8	2.6	2.4	1.7
Adjusted total equity/managed assets	2.9	2.8	2.6	2.4	1.7
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	3.4	3.3	2.8	2.7	1.8
Common dividend payout ratio	0.0	0.0	0.0	0.0	0.0

*Data as of June 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 5

Achmea Hypotheekbank N.V. Summary Balance Sheet					
(Mil. €)	--Year-ended Dec. 31--				
	2010*	2009	2008	2007	2006
Assets					
Cash and money market instruments	1,488.8	1,145.3	346.8	387.9	136.3
Securities	44.9	79.6	79.3	75.8	77.2
Trading securities (marked to market)	N/A	N/A	0.0	0.0	0.0
Nontrading securities	44.9	79.6	79.3	75.8	77.2
Mortgage-backed securities included above	0.0	0.0	0.0	0.0	0.0
Loans to banks (net)	0.0	0.0	0.0	130.0	277.5
Customer loans (gross)	14,689.1	14,401.8	14,734.0	13,566.6	13,676.5
Loan loss reserves	0.0	14.6	8.9	9.1	6.7
Customer loans (net)	14,689.1	14,387.2	14,725.2	13,557.6	13,669.8
Earning assets	16,209.5	15,596.9	15,134.2	14,150.0	14,139.9
Equity interests/participations (nonfinancial)	N/A	N/A	N/A	N/A	N/A
Investments in unconsolidated subsidiaries (financial companies)	N/A	N/A	N/A	N/A	N/A
Intangibles (nonservicing)	0.0	0.0	0.1	2.9	0.0
Interest-only strips	N/A	N/A	0.0	N/A	N/A
Fixed assets	N/A	0.0	0.0	0.1	0.2
Derivatives credit amount	938.6	382.9	379.7	382.3	246.5
Accrued receivables	45.0	3.2	108.1	47.0	77.3
All other assets	18.4	0.6	32.5	11.6	8.5
Total assets	17,224.9	15,998.8	15,671.8	14,595.1	14,493.3
Intangibles (nonservicing)	0.0	0.0	0.1	2.9	0.0
Minus insurance statutory funds	0.0	0.0	0.0	0.0	0.0
Adjusted assets	17,224.9	15,998.8	15,671.6	14,592.2	14,493.3
Liabilities					
Total deposits	1,744.4	1,280.3	669.6	564.1	846.3
Noncore deposits	1,744.4	1,280.3	669.6	564.1	846.3
Core/customer deposits	0.0	0.0	0.0	0.0	0.0
Acceptances	N/A	N/A	0.0	0.0	0.0
Repurchase agreements	N/A	N/A	N/A	N/A	N/A
Other borrowings	13,830.2	13,418.3	13,731.5	13,055.5	12,869.5
Other other borrowings	10,174.4	10,300.5	10,704.8	11,274.1	10,192.2
Other credit reserves	N/A	N/A	N/A	N/A	N/A
Other liabilities	1,127.0	815.8	836.7	595.3	513.8
Total liabilities	16,701.7	15,514.4	15,237.8	14,215.0	14,229.6
Total equity	523.2	484.4	433.9	380.1	263.6
Mandatorily convertible securities	N/A	N/A	0.0	0.0	0.0
Limited life preferred and quasi equity	0.0	0.0	0.0	0.0	0.0
Enhanced trust preferred	N/A	N/A	0.0	0.0	0.0
Minority interest-equity	N/A	N/A	0.0	N/A	N/A
Common shareholders' equity (reported)	523.2	484.4	433.9	380.1	263.6

Table 5

Achmea Hypotheekbank N.V. Summary Balance Sheet (cont.)					
Share capital and surplus	287.4	287.4	287.4	272.4	182.4
Revaluation reserve	2.0	2.7	2.4	(0.9)	(0.7)
Retained profits	39.6	50.1	28.5	26.6	2.2
Other equity	N/A	N/A	N/A	N/A	N/A
Total liabilities and equity	17,224.9	15,998.8	15,671.8	14,595.0	14,493.3

*Data as of June 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 6

Achmea Hypotheekbank N.V. Equity Reconciliation Table					
(Mil. €)	--Year-ended Dec. 31--				
	2010*	2009	2008	2007	2006
Common shareholders' equity (reported)	523.2	484.4	433.9	380.1	263.6
Plus minority interest (equity)	0.0	0.0	0.0	0.0	0.0
Minus dividends (not yet distributed)	0.0	0.0	0.0	0.0	0.0
Minus revaluation reserves	(2.0)	(2.7)	(2.4)	0.9	0.7
Minus nonservicing intangibles	0.0	0.0	(0.1)	(2.9)	0.0
Minus interest-only strips (net)	0.0	0.0	0.0	0.0	0.0
Minus tax loss carryforwards	0.0	0.0	0.0	0.0	0.0
Minus postretirement benefit adjustment	0.0	0.0	0.0	0.0	0.0
Minus cumulative effect of credit-spread related revaluation of liabilities	N/A	N/A	N/A	N/A	N/A
Minus other adjustments	N/A	N/A	0.0	0.0	0.0
Adjusted common equity	521.2	481.6	431.4	378.1	264.4
Plus admissible preferred and hybrids	0.0	0.0	0.0	0.0	0.0
Total Adjusted Capital	521.2	481.6	431.4	378.1	264.4
Plus general reserves	0.0	0.0	0.0	2.3	0.0
Plus unrealized gains	N/A	0.0	0.0	0.0	0.0
Minus equity in unconsolidated subsidiaries	0.0	0.0	0.0	0.0	0.0
Minus capital of insurance subsidiaries	N/A	0.0	0.0	0.0	0.0
Minus adjustment for securitized assets	(26.0)	(26.0)	(26.0)	(24.3)	(24.3)
Adjusted total equity	495.2	455.6	405.4	356.1	240.1

*Data as of June 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 7

Achmea Hypotheekbank N.V. Profit And Loss					
(Mil. €)	--Year-ended Dec. 31--				
	2010*	2009	2008	2007	2006
Net interest income	55.2	119.6	96.1	88.8	63.0
Interest income	347.9	720.7	715.3	708.7	640.5
Interest expense	292.7	601.1	619.2	619.9	577.6
Operating noninterest income	19.1	(4.5)	(7.6)	(13.6)	(11.4)
Fees and commissions	(1.8)	(10.6)	(10.1)	(9.0)	(2.2)
Net brokerage commissions	N/A	N/A	0.0	0.0	0.0
Trading gains	0.0	0.0	0.0	0.0	0.0

Table 7

Achmea Hypotheekbank N.V. Profit And Loss (cont.)					
Other market-sensitive income	20.9	6.1	2.6	(4.7)	(9.2)
Net insurance income	0.0	0.0	0.0	0.0	0.0
Equity in earnings of unconsolidated subsidiaries	N/A	N/A	0.0	0.0	0.0
Other noninterest income	0.0	0.0	0.0	0.0	0.0
Operating revenues	74.2	115.1	88.5	75.2	51.6
Noninterest expenses	18.9	36.1	34.9	34.8	44.0
Personnel expenses	N/A	8.2	10.4	10.7	17.5
Other general and administrative expense	18.9	27.9	24.4	24.0	26.2
Preprovision operating income	55.3	79.0	53.7	40.5	7.6
Credit loss provisions (net new)	2.2	10.2	5.7	5.7	1.2
Operating income after loss provisions	53.1	68.8	48.0	34.7	6.4
Nonrecurring/special income	N/A	0.0	0.0	0.0	0.0
Nonrecurring/special expense	N/A	N/A	0.0	0.0	0.0
Amortization of intangibles	N/A	N/A	0.0	0.0	0.0
Impairment of intangibles	0.0	2.4	9.7	0.0	0.0
Pretax profit	53.1	66.5	38.3	34.7	6.4
Tax expense/credit	13.5	16.4	9.7	8.1	4.3
Net income (before minority interest)	39.6	50.0	28.5	26.6	2.2
Minority interest in consolidated subsidiaries	0.0	N/A	N/A	N/A	N/A
Net income before extraordinaries	39.6	50.1	28.5	26.6	2.2
Net income after extraordinaries	39.6	50.1	28.5	26.6	2.2

*Data as of June 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 8

(Mil. €)	--Year-ended Dec. 31--				
	2010*	2009	2008	2007	2006
Net income (before minority interest)	39.6	50.0	28.5	26.6	2.2
Minus nonrecurring/special income	0.0	0.0	0.0	0.0	0.0
Plus nonrecurring/special expense	0.0	0.0	0.0	0.0	0.0
Plus or minus tax impact of adjustments	0.0	0.0	0.0	0.0	0.0
Plus amortization/impairment of goodwill/intangibles	0.0	2.4	9.7	0.0	0.0
Minus preferred dividends	0.0	0.0	0.0	0.0	0.0
Plus or minus other earnings adjustments	N/A	0.0	0.0	0.0	0.0
Core earnings	39.6	52.4	38.3	26.6	2.2

*Data as of June 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Ratings Detail (As Of March 11, 2011)*

Achmea Hypotheekbank N.V.

Counterparty Credit Rating	A-/Stable/A-2
Certificate Of Deposit	A-/A-2
Commercial Paper	
Local Currency	A-2

Ratings Detail (As Of March 11, 2011)* (cont.)	
Senior Secured (4 Issues)	A+
Senior Unsecured (1 Issue)	A-
Short-Term Secured Debt (1 Issue)	A-1
Subordinated (3 Issues)	BBB+
Counterparty Credit Ratings History	
18-Oct-2006	A-/Stable/A-2
21-Dec-2004	A/Stable/A-1
16-Sep-2003	A/Negative/A-1
Sovereign Rating	
Netherlands (State of The) (Unsolicited Ratings)	AAA/Stable/A-1+
Related Entities	
Achmea Holding N.V.	
Issuer Credit Rating	
<i>Local Currency</i>	A-/Stable/A-2
Achmea Pensioen- & Levensverzekeringen N.V.	
Financial Strength Rating	
<i>Local Currency</i>	A+/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Stable/--
Achmea Schadeverzekeringen N.V.	
Financial Strength Rating	
<i>Local Currency</i>	A+/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Stable/--
Achmea Zorgverzekeringen N.V.	
Financial Strength Rating	
<i>Local Currency</i>	A+/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Stable/--
Eureko B.V.	
Issuer Credit Rating	
<i>Local Currency</i>	A-/Stable/--
Junior Subordinated (4 Issues)	BBB
Senior Unsecured (2 Issues)	A-
Subordinated (1 Issue)	BBB+

*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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