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## AEGON Bank N.V.

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# AEGON Bank N.V.

## Major Rating Factors

### Issuer Credit Rating

A+/Negative/A-1+

Strengths:	Weaknesses:
<ul style="list-style-type: none"><li>Fully owned, highly strategic bank subsidiary of the insurance group Aegon N.V.</li><li>Increasing operational importance within the group thanks to customer, product, and asset-liability management (ALM) complementarities.</li><li>Low risk profile of the mortgage lending portfolio, in line with the market average.</li></ul>	<ul style="list-style-type: none"><li>Relatively small size.</li><li>Concentrated exposure to Dutch retail lending.</li><li>Modest profitability.</li></ul>

### Outlook

S&P Global Ratings' negative outlook on Netherlands-based Aegon Bank N.V. (AEB) mirrors that on Dutch insurance group AEGON N.V. (A-/Negative/A-2), whose group credit profile (GCP) we assess at 'aa-'. The outlook on the group's core operating insurance entities is negative, reflecting our concern that the group's profitability could remain volatile over the next 12 months. This could come from either prolonged margin pressure, exceptional items, or the need to further adjust its models or assumptions.

The negative outlook on AEB also reflects our view that the bank will remain a highly strategic subsidiary in the next two years. As long as our assessment of AEB's subsidiary status remains unchanged, our ratings on AEB will remain one notch below our assessment of Aegon's GCP and move in tandem with it. Any upward or downward pressure on the GCP will affect our ratings and outlook on AEB, as it indicates the stronger or weaker financial capacity of the group to support its bank subsidiary in case of need. We could also lower our ratings on AEB if its strategic importance to the group were to lessen, for instance if the group no longer fully owned the bank, or if the benefit of owning a bank by the group decreased, notably in the form of ALM or product complementarities with the group's pension business.

## Rationale

We base our long-term rating on AEB on our assessment of its highly strategic importance within the Aegon group.

AEB is operationally and strategically fully integrated with Aegon Nederland N.V. (ANL) as its banking arm. This makes support from the group likely under almost all foreseeable circumstances, in our view. We therefore rate AEB one notch lower than our 'aa-' GCP for the Aegon group, in line with the approach followed for most peers, such as NN Bank N.V. and Achmea Bank N.V. in the Netherlands, or Allianz Banque in France.

Under our methodology for linking long- and short-term ratings, the short-term rating on a highly strategic member of a group such as AEB takes into account the group's liquidity assessment. We assess the parent's liquidity as exceptional, and we consider it would be available to the subsidiary in case of distress. To reflect this strength, we assign a short-term rating to AEB that is one notch higher than the 'A-1' under our standard mapping table.

AEB is a fully owned subsidiary of Aegon via ANL, with total assets of €13.7 billion as of year-end 2017, similar in size to NN Bank and Achmea Bank. It provides savings and investment solutions in the Netherlands, which meet personal wealth accumulation needs under the Dutch pension system (3rd and 4th pillars). The bank operates under two labels, Aegon Bank and Knab, offering two distinct propositions. Aegon Bank is an online retail bank providing mostly savings products to the group's Dutch customers, where it has a strong market position (top 3 in bank savings). Knab is an online-only bank focused on retail customers and small business owners, which has turned into an online financial platform providing a comprehensive set of financial services, including crowdfunding, payment services, and financial planning tools. Aegon Bank accounts for 72% of the bank's customers and Knab for the remaining 28%, reflecting Knab's strong development since its launch in 2012. Knab's focus on increasing the share of fee-based products should allow AEB to increase the share of fees in its revenue mix.

In total, AEB has about 600,000 customers with a significant 8% market share in the bank savings market. It holds €9.6 billion of savings deposits and continues to build its strong position in the retirement savings market. On the assets side, AEB invests in Dutch mortgage loans originated internally and consumer loans originated externally and purchased via strategic partnerships, which notably include Auxmoney, Zopa, and Funding Circle (loans to small and midsize enterprises [SMEs]). We project steady growth of the balance sheet of about 10% per year in the next two years. Although there is fierce competition to attract client savings, we believe that AEB will protect its market position and margins, thanks to strong savings demand, Knab's competitive savings rates, and the bank's increasing exposure to consumer finance (which, together with exposure to SMEs, we don't expect to exceed 10% of the portfolio).

We forecast lower funding costs with the new covered bond issuances, and controlled noninterest expenses. However, with International Financial Reporting Standard 9 (IFRS9) implementation, AEB will no longer perform strategic ALM transactions within Aegon group (such as buying shorter-duration national mortgage guaranteed (NHG) mortgage loans and selling non-NHG longer-duration mortgage loans), which have been an important revenue contributor in the past few years (38% over 2014-2017 of total income excluding impairment charges). As a result, we expect more stable, although reduced, net income in the future.

We consider AEB's development to be fully in line with its main parent's overall strategy. In recent years, the fiscal framework in the Netherlands has been supportive of bank savings products compared with life insurance. Like Aegon, AEB focuses on customers in the middle-income segment. We regard AEB as a nonseverable part of Aegon group, underpinning our assessment of it as a highly strategic subsidiary within the group. We take into account:

- AEB's full strategic alignment with Aegon group and ANL.

- Business integration, as the group's Dutch customers account for an important part of the bank savings and investment products distributed by AEB.
- The myriad of shared resources and intragroup transactions (portfolio management, ALM transactions, internal audits, communication, and IT).
- The group's commitment to maintain a high level of capital at the bank level.

We expect the common equity tier 1 ratio, which stood at 20.6% as of year-end 2017, to trend down slightly as the growth of risk-weighted assets outpaces that of retained earnings by 2020. The bank's profitability remains modest due to its relatively small scale. We consider capital management to be conservative. We believe that achieving its return on equity (ROE) target of about 9% will be an important challenge. The bank reported an ROE of close to 8% in 2017, but this includes substantial gains from strategic ALM transactions, which will cease this year. As such, going forward, the net interest margin should benefit from lower amortization costs related to these transactions (charged as interest expenses). If AEB's solvency ratio were to decline too rapidly, we would expect Aegon group to provide extraordinary capital support to AEB. AEB's leverage ratio was above the 3% requirement at 4.3% at end-2017.

We consider that AEB is subject to greater business risk than Aegon group, given our view that banking activities are slightly riskier than insurance activities. Most of the exposure is in the form of mortgage loans in the Netherlands (totaling about €9.1 billion in 2017) of which 70% are guaranteed under the national mortgage guarantee. Those loans are originated by Aegon Hypotheken B.V. and managed by Aegon Levensverzekering N.V., both of which are AEB's sister companies. The rest of the loan portfolio includes consumer loans (about €0.8 billion in 2017). Risk metrics show strong asset quality, with a nonperforming loan ratio under 1% and decreasing arrears. Cost of risk has been historically around 20 basis points, and we do not expect any deviation in 2018-2019. The bank disclosed a potential negative equity impact, under IFRS9 implementation, of about €9 million after taxes due to a change in the impairment models, equivalent to 1.5% of IFRS equity at end-2017. Loan loss reserves covered gross nonperforming assets by 83.4% as of year-end 2017. AEB faces limited currency exchange and interest rate risks, as a result of its hedging and ALM aimed at reducing duration mismatches. For instance, the acquisition of short-term assets (consumer loan portfolio) limits the maturity mismatches and should continue strengthen the bank's ALM profile.

The bank already meets the net stable funding ratio and liquidity coverage ratio under European Central Bank requirements. AEB is mostly funded by customer deposits (76% of the funding base at €9.6 billion), which we view as more stable than wholesale funding. We expect that growth of the balance sheet will continue to be driven by savings growth, as the bank's balance sheet is liability-driven, supported by a fit-for-purpose pricing strategy and favorable fiscal framework. The bank also funds itself through covered bonds to diversify its funding base. It issued its third and fourth covered bond in 2017. On liquidity risk, AEB holds a sizable investment portfolio of fixed income securities of €3.6 billion, which is almost totally invested in investment-grade assets (75% are internally rated 'AAA').

### Aegon Bank N.V. Key Figures

(Mil. €)	--Financial year ended Dec. 31--			
	2017	2016	2015	2014
Adjusted assets	13,676.0	12,150.1	10,366.9	9,041.9
Customer loans (gross)	10,195.3	8,642.0	7,022.9	5,992.8

<b>Aegon Bank N.V. Key Figures (cont.)</b>				
Adjusted common equity	580.4	534.5	416.3	400.7
Operating revenues	200.3	241.9	110.8	221.5
Noninterest expenses	117.6	107.4	84.3	80.4
Core earnings	44.7	88.8	11.8	99.2
<b>%</b>				
Return on average equity	7.9	18.4	2.8	25.1
Net interest income/operating revenues	72.7	50.0	93.7	39.8
Fee income/operating revenues	5.0	2.2	2.3	0.9
Market-sensitive income/operating revenues	22.3	47.8	3.9	59.3
Noninterest expenses/operating revenues	58.7	44.4	76.1	36.3
Growth in customer loans	18.0	23.1	17.2	15.1
New loan loss provisions/average customer loans	0.2	0.2	0.2	0.1
Customer loans (net)/customer deposits	106.1	97.8	98.7	110.5

## Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria - Insurance - Life: Methodology: Treatment Of U.S. Life Insurance Reserves And Reserve Financing Transactions, March 12, 2015
- Criteria - Insurance - General: Methodology For Assessing Capital Charges For U.S. RMBS And CMBS Securities Held By Insurance Companies, Aug. 29, 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
- Criteria - Insurance - General: Methodology For Assessing Capital Charges For Commercial Mortgage Loans Held By U.S. Insurance Companies, May 31, 2012
- Criteria - Insurance - General: Methodology For Calculating The Convexity Risk In U.S. Insurance Risk-Based Capital Model, April 27, 2011
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

## Related Research

- Insurance Group Aegon 'AA-' Ratings Affirmed; Outlook Remains Negative, Feb. 28, 2018

Ratings Detail (As Of August 31, 2018)	
<b>AEGON Bank N.V.</b>	
Issuer Credit Rating	A+/Negative/A-1+
<b>Issuer Credit Ratings History</b>	
13-Apr-2017	A+/Negative/A-1+
10-Feb-2017	A+/Negative/A-1
19-Aug-2011	A+/Stable/A-1
<b>Sovereign Rating</b>	
Netherlands	AAA/Stable/A-1+
<b>Related Entities</b>	
<b>AEGON Levensverzekering N.V.</b>	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Negative/--
<b>AEGON N.V.</b>	
Issuer Credit Rating	A-/Negative/A-2
Commercial Paper	
<i>Foreign Currency</i>	A-2
Junior Subordinated	BBB
Senior Unsecured	A-
Subordinated	BBB
<b>Blue Square Re N.V.</b>	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Negative/--
<b>Scottish Equitable PLC</b>	
Financial Strength Rating	
<i>Local Currency</i>	A+/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Negative/--
<b>Transamerica Advisors Life Insurance Co.</b>	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Negative/--
Senior Unsecured	AA-

## Ratings Detail (As Of August 31, 2018) (cont.)

**Transamerica Financial Life Insurance Co.**

Financial Strength Rating

*Local Currency*

AA-/Negative/NR

Issuer Credit Rating

*Local Currency*

AA-/Negative/NR

**Transamerica Life (Bermuda) Ltd.**

Financial Strength Rating

*Local Currency*

AA-/Negative/--

Issuer Credit Rating

*Local Currency*

AA-/Negative/--

**Transamerica Life Insurance Co.**

Financial Strength Rating

*Local Currency*

AA-/Negative/NR

Issuer Credit Rating

*Local Currency*

AA-/Negative/A-1+

**Transamerica Premier Life Insurance Co**

Financial Strength Rating

*Local Currency*

AA-/Negative/NR

Issuer Credit Rating

*Local Currency*

AA-/Negative/A-1+

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' 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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