S&P Global
Ratings

Research

AEGON Bank N.V.

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AEGON Bank N.V.

Credit Highlights

Issuer Credit Rating
A/Stable/A-1

Overview

Key strengths	Key risks
Strategic importance to parent Aegon N.V. thanks to complementary customer base and products.	Significant exposure to consumer finance and small and midsize enterprise (SME) loans compared with other bank subsidiaries of Dutch insurance groups.
Expanding franchise via the Knab brand.	Concentrated exposure to Dutch mortgage loans, and limited income diversification.
Low-risk mortgage lending portfolio.	Small size, limiting economies of scale.

Aegon Bank N.V. (AEB) saw solid outstanding loan growth in 2020 and in the first half of 2021, supported by strong origination levels. By year-end 2020, AEB reported a 9.1% growth in customer loans, as per S&P Global Ratings' calculations, which include the mortgage loans, supported by the performance of its Knab portfolio. This exceeded its growth targets. Aegon Group (AEG) maintained high mortgage origination volumes in 2021, with €10.9 billion in originated mortgages. Nevertheless, AEB expects mortgage production to decrease in the coming quarters, owing to its focus on maintaining competitive margins.

The bank is focused on improving efficiency via its Knab brand. AEB is continuing its efforts to reduce its cost-to-income ratio from 81% as of end-2020 (as per S&P Global Ratings's calculations) to 60% in the medium term. It also seeks to increase its efficiency by scaling up its operations to lower cost per client through the digitalization of its product base.

We expect that AEB will remain profitable over the next two years after the negative result at end-2020. Despite ongoing pressure on margins, credit provisions decreased and expenses stabilized, helping the bank return to a positive bottom-line result in 2021. We think that ongoing cost reduction initiatives, together with business growth, should support AEB's profitability, and could help AEB to achieve its medium-term target of operating at a 9% return on average equity (ROE).

Outlook

S&P Global Ratings' stable outlook on Netherlands-based AEB mirrors the outlook on its parent Aegon N.V. (Aegon; A-/Stable/A-2), one of the world's largest insurance companies, writing gross premiums of €11.5 billion for the first nine months of 2021.

The outlook also reflects our expectation that the bank will remain a highly strategic subsidiary of Aegon over the next two years. Any rating action on Aegon would therefore result in a similar rating action on AEB.

Downside scenario

We would lower our ratings on AEB if we believed that its strategic importance for the group was diminishing, for instance if the bank's earnings metrics were not in line with group expectations, or if it started to pose a greater financial risk to its parent. Any sign of significant decline of AEB's importance within the group and as a result weakening in extraordinary group support could result in a multi-notch lowering of our issuer credit and issue-level ratings. Rating pressure could also come from a downward revision of Aegon's group credit profile (GCP), which would indicate the insurance group's reduced capability to support its bank subsidiary in case of need.

Upside scenario

Conversely, we would upgrade AEB if we were to revise Aegon's GCP upward. We would also upgrade AEB if we were to reassess the bank's strategic importance for the group as core. We view this reassessment as a remote possibility for the moment because it would necessitate a stronger contribution to the group's profits, as well as the bank becoming a critical component of the group's business model.

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. We therefore rate AEB one notch lower than our 'a+' GCP on the group, in line with the approach followed for most peers, such as NN Bank and Achmea Bank in the Netherlands, or Allianz Banque in France.

AEB is a fully owned subsidiary of Aegon via ANL, with total assets of €15.8 billion as of end-2021; similar in size to Achmea Bank (€13.8 billion as of December 2020) and smaller than NN Bank (€24.8 billion). In addition to payment and bank account services, the bank provides savings and investment solutions in the Netherlands, which meet personal wealth accumulation needs under the Dutch pension system (third and fourth pillars) and complement life insurance and pension products sold by the parent. AEB is a modular savings bank, investing in Dutch mortgage loans originated internally (by Aegon Hypotheken B.V.), but also consumer finance loans originated externally and purchased via strategic partnerships, which notably include Auxmoney, Zopa, and Funding Circle (SME loans). When compared with other bank subsidiaries of Dutch insurance groups, AEB has a significant proportion of consumer finance and SME loans (about 8% at end-2020). We expect AEB's exposure to SME loans to remain stable over the next two years.

Since 2012, the bank operates under two brands, Aegon Bank and Knab, offering distinct customer propositions. Over time, Knab has become AEB's primary brand. We view this change positively, because the Knab brand became widely known in the Netherlands, placing AEB in the spectrum of leading digital banking players in the Netherlands. AEB is a retail bank providing mostly savings products to the group's Dutch customers, where it has a strong market position. Knab is an online-only bank, focused on retail customers and small business owners. It provides a comprehensive set of financial services, including payment services, investments, savings products, and financial planning tools. Knab has now grown to accommodate a customer base of about 300,000 as of mid-2021, reflecting its strong development since its launch in 2012, particularly among self-employed clients. AEB is now developing Knab to become a digital gateway for individual retirement solutions and, to accelerate its strategy, the bank has stopped offering savings products to fourth-pillar, non-fee-paying customers. These customers are being encouraged to either convert their accounts to Knab accounts or transfer their funds to another bank.

Over 2020, AEB experienced a pre-tax loss of €36 million. This was mostly as a result of pressures on its net interest margin; elevated provisioning taken because of the COVID-19 pandemic; and higher operating expenses, which were largely related to high one-off costs due to provisions taken on security lease products litigation. The increase in operating expenses due to regulatory tracks (credit risk and know-your-customer) triggered a spike in AEB's cost-to-income ratio, as per S&P Global Ratings' calculations, to 81% for 2020, compared with 59% in 2019. That said, AEB remains focused on reducing its cost-to-income ratio to 60% in the medium term, and increasing its efficiency by scaling up its operations to reduce cost per client through the digitalization of its product base.

We believe that AEB will remain profitable after a return to profit at year-end 2021, underpinned by a decrease in credit provisions and stabilizing expenses. In the first half of 2021, AEB generated a net profit of €26.6 million. The bank expected the execution of the settlement by third-quarter 2021. However, the settlement had already been fully provisioned, and therefore did not affect first-half 2021 results. We also expect the bank to continue growing at a sustained pace, reflecting its compounded growth rate of 9% over the three years before the pandemic.

In the medium term, we believe AEB may be able to operate at their targeted ROE of 9%, on a statutory basis, once the benefits of cost savings and greater scale take effect. Although the interest rate environment has become less favorable following central banks' pandemic responses, we also see potential for further cost reduction from the merger of AEB's two brands (on track and expected to be completed in 2022) and increased fee income from Knab's planned development. Moreover, AEB's net interest margin (NIM) remains slightly higher than peers', at 1.6% compared with NN Bank (1.2%) and Achmea Bank (1.1%). This is thanks to AEB's diversified asset base (debt securities, mortgage loans, consumer loans, and SME loans).

We expect Aegon to continue supporting AEB's growth. Despite the pandemic, AEB did not require any capital injections from its parent after receiving €75 million in 2019. The bank had a common equity tier 1 ratio of 21% as of year-end 2021, comfortably above its minimum capital requirements. Therefore, we believe there will be no capital injections in the short term. Furthermore, AEB did not pay a dividend in 2020 in accordance with the Dutch regulator, but we expect it to resume distributions.

In our view, the funding and liquidity profile is comfortable. This is supported by loans largely funded by deposits (loans to deposits of 109% by our metrics) and short-term wholesale needs amply covered by liquid assets (broad liquid assets to wholesale funding at 98% at year-end 2020). AEB issued its first senior nonpreferred (SNP) debt in June 2019 in anticipation of the Dutch resolution authority's minimum requirement for own funds and eligible liabilities (MREL) and retained residential mortgage-backed securities (RMBS) issued in 2020. Our 'A-' rating on AEB's SNP debt factors in exceptional group support. We believe that AEB would benefit from group support before a hypothetical resolution scenario, due to its strategic importance within the group. Furthermore, in 2021, AEB registered its new soft bullet covered bond program with the Dutch central bank, which complements the existing conditional pass-through covered bond program and enables the bank to fund itself and diversify its funding given its existing debt investor base.

We continue to believe that Aegon has a strong incentive to own a bank in the Netherlands. The introduction of tax-friendly bank savings products in 2008 (Dutch Saving Bank Act) has provided a regulatory incentive for the development of bank subsidiaries of insurance groups. Also, as one of the largest players in the Dutch life insurance and pension businesses, we believe bank savings products are a complementary must-have. As such, and despite recent cases of insurance groups exiting banking activities (for example, ASR in the Netherlands and Gjensidige in Norway), we believe that Aegon will keep AEB. Nevertheless, we are monitoring emerging legal changes or profitability pressure that would reduce the attractiveness of in-house banking activities for insurance groups.

Environmental, Social, And Governance

We do not see environment, social, and governance (ESG) credit factors for AEB as influencing the bank's credit quality more positively or negatively than peers. AEB's ESG factors stem from those of the larger group, Aegon.

AEB's exposure to environmental risks is low given the nature of its business model. We view positively AEB's increasing portfolio transparency and the disclosure of its carbon footprint metrics, estimated to amount to 312,400 tonnes of carbon dioxide equivalent (tCO2e) in 2020.

We see social factors as relevant, because of changing customer preferences and the regulatory focus on banks' business conduct. AEB has faced litigation related to the sale of two security leasing products. At year-end 2020, the bank had a provision of €49 million, which mainly relates to pending claims and litigations.

The bank's governance standards are comparable with the practice in the Netherlands, and we do not see any governance concerns at the parent level.

Key Statistics

Aegon Bank N.V.--Key Figures*

(Mil. €)	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**
Adjusted assets	17,137.0	15,918.0	14,140.0	13,676.0	12,150.0	10,367.0	9,042.0
Customer loans (gross)	13,887.0	12,730.0	11,240.0	10,195.0	8,642.0	7,023.0	5,993.0
Nonperforming loans§	140.0	133.0	61.0	48.0	58.0	78.0	125.0
Adjusted common equity	697.0	729.0	628.0	580.0	534.0	416.0	401.0
Operating revenues	293.0	264.0	190.0	200.0	242.0	111.0	222.0
Noninterest expenses	236.0	156.0	144.0	118.0	107.0	84.0	80.0
Core earnings	(31.0)	27.0	6.0	45.0	89.0	12.0	99.0
(%)							
Return on average common equity	(4.4)	3.9	0.9	7.9	18.4	2.8	25.1
Common equity tier 1 ratio	20.9	19.8	21.6	20.7	19.9	16.4	17.7
Net interest income/operating revenues	79.2	90.5	100.9	72.7	50.0	93.7	39.8
Fee income/operating revenues	7.0	5.8	5.7	5.0	2.2	2.3	0.9
Market-sensitive income/operating revenues	13.8	3.7	(6.6)	22.3	47.8	3.9	59.3
Cost-to-income	80.5	59.0	75.8	58.7	44.4	76.1	36.3

Aegon Bank N.V.--Key Figures* (cont.)							
Growth in customer loans	9.1	13.2	10.3	18.0	23.1	17.2	15.1
Gross nonperforming assets/customer loans + other real estate owned	1.0	1.0	0.5	0.5	0.7	1.1	2.1
New loan loss provisions/average customer loans	0.7	0.6	0.5	0.3	0.2	0.2	0.1
Customer loans (net)/adjusted assets	80.1	79.2	78.9	74.3	71.0	67.6	66.1

*As per S&P Global Ratings' calculations. §Since 2018, defined as stage 3 loans as well as stage 2 loans that are more than 90 days past due.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- AEGON Group, Sept. 15, 2021
- AEGON Bank N.V. Dutch Soft-Bullet Covered Bond Program Assigned 'AAA' Rating; Outlook Stable, June 9, 2021

Ratings Detail (As Of February 15, 2022)*	
AEGON Bank N.V.	
Issuer Credit Rating	A/Stable/A-1
Senior Secured	AAA/Stable
Senior Subordinated	A-
Issuer Credit Ratings History	
21-Feb-2020	A/Stable/A-1
13-Apr-2017	A+/Negative/A-1+
10-Feb-2017	A+/Negative/A-1
Sovereign Rating	
Netherlands	AAA/Stable/A-1+
Related Entities	
AEGON Levensverzekering N.V.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--

Ratings Detail (As Of February 15, 2022)*(cont.)	
AEGON N.V.	
Issuer Credit Rating	A-/Stable/A-2
Junior Subordinated	BBB
Junior Subordinated	BBB-
Senior Unsecured	A-
Subordinated	BBB
Scottish Equitable PLC	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Transamerica Financial Life Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Stable/NR
Issuer Credit Rating	
Local Currency	A+/Stable/NR
Transamerica Life (Bermuda) Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Transamerica Life Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Stable/NR
Issuer Credit Rating	
Local Currency	A+/Stable/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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