

RatingsDirect®

AEGON Bank N.V.

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AEGON Bank N.V.

Major Rating Factors

Issuer Credit Rating

A/Stable/A-1

| Strengths: | Weaknesses: |
|---|--|
| <ul style="list-style-type: none">• Strategic importance within Aegon N.V. thanks to complementary customer base and products.• Expanding franchise via the Knab brand.• Low-risk mortgage lending portfolio. | <ul style="list-style-type: none">• Significant exposure to consumer finance and small and midsize enterprise (SME) loans compared with other bank subsidiaries of Dutch insurance groups.• Concentrated exposure on Dutch mortgage loans.• Small size, limiting economies of scale. |

Outlook

S&P Global Ratings' stable outlook on Netherlands-based Aegon Bank N.V. (AEB) mirrors the stable outlook on its parent AEGON N.V. (Aegon; A-/Stable/A-2), one of the world's largest insurance companies, writing gross premiums of €18.1 billion in 2019.

The stable outlook on AEB 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.

We would lower our ratings on AEB if we came to believe that its strategic importance for Aegon 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. We note that 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.

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. This makes support from the group likely under almost all foreseeable circumstances, in our view. 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 €15.9 billion as of year-end 2019, similar in size to Achmea Bank (€13.7 billion) but smaller than NN Bank (€24.7 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 (above 10% at year-end 2019).

The bank operates under two brands, Aegon Bank and Knab, offering two distinct customer propositions, the latter of which has become AEB's primary brand over time. AEB is a retail bank providing mostly savings products to the group's Dutch customers, where it has a strong market position (top three in savings). Knab is an online-only bank focused on retail customers and small business owners and provides a comprehensive set of financial services, including payment services, investments, savings products, and financial planning tools. Knab now accounts for about 40% of the bank's customers, reflecting its strong development since its launch in 2012, particularly among self-employed clients.

We expect the bank to continue expanding at a sustained pace (compound annual growth rate of 9% over the past three years). AEB can rely on its relatively high yielding asset mix, reflected in the moderately high net interest margin (NIM) of 2.3% (adjusted for mortgage amortization in the profit and loss statement due to the prior years' asset-liability management transactions), to offer relatively high savings interest rates that spur deposit growth.

We expect Aegon to continue supporting AEB's growth. Aegon has injected capital on several occasions: twice in 2019 for a total of €75 million, after €50 million in 2018. The bank had a common equity tier 1 ratio of 21.5% as of mid-year 2020, comfortably above its minimum capital requirements. As such, we don't expect any capital injection in the short term, even taking into account that the bank is unlikely to generate capital in 2020.

We expect AEB's earnings to be nil or negative in 2020, as a result of a possible spike in loan-loss provisions on consumer finance and SME exposures due to the economic recession in Europe spurred by COVID-19. By contrast, we don't expect any significant loan-loss provisions on Dutch mortgage loans. The bank's statutory return on average equity (ROE) of 4% in 2019 does not reflect its underlying performance, in our view, due to the effects of asset-liability management transactions in prior years. Adjusted for these effects, we calculate a ROE of 11% in 2019. In the medium

term, we believe AEB may be able to operate at a high-single-digit ROE on a statutory basis, once benefits of cost savings and greater scale take effect. Although we acknowledge that the interest rate environment has become less favorable following central banks' responses to COVID-19, we also see potential for cost reduction from merging AEB's two brands (on track and expected to be completed by year-end 2021) and increased fee income from Knab's further development.

The funding and liquidity profile is comfortable, in our opinion, with 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 94% at year-end 2019). 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. 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. For further information, see "Aegon Bank's Proposed Senior Nonpreferred Notes Rated 'A'," published June 10, 2019 on RatingsDirect.

We continue to believe 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 (ASR in the Netherlands, 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. We do not expect this risk to materialize within our two-year outlook horizon (for further insight on bank subsidiaries of Dutch insurance groups, see "Bank Subsidiaries Of Insurance Groups In The Netherlands Are Challenger Banks--And Here To Stay," published Dec. 13, 2018).

Table 1

| AEGON Bank N.V. Key Figures | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Mil. € | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| Adjusted assets | 15,918 | 14,140 | 13,676 | 12,150 | 10,367 | 9,042 |
| Customer loans (gross) | 12,730 | 11,240 | 10,195 | 8,642 | 7,023 | 5,993 |
| Non-performing loans* | 133 | 61 | 48 | 58 | 78 | 125 |
| Adjusted common equity | 729 | 628 | 580 | 534 | 416 | 401 |
| Operating revenues | 264 | 190 | 200 | 242 | 111 | 222 |
| Noninterest expenses | 156 | 144 | 118 | 107 | 84 | 80 |
| Core earnings | 27 | 6 | 45 | 89 | 12 | 99 |
| % | | | | | | |
| Return on average common equity | 3.9 | 0.9 | 7.9 | 18.4 | 2.8 | 25.1 |
| Common equity tier 1 ratio | 19.8 | 21.6 | 20.7 | 19.9 | 16.4 | 17.7 |
| Net interest income/operating revenues | 90.5 | 100.9 | 72.7 | 50.0 | 93.7 | 39.8 |
| Fee income/operating revenues | 5.8 | 5.7 | 5.0 | 2.2 | 2.3 | 0.9 |
| Market-sensitive income/operating revenues | 3.7 | (6.6) | 22.3 | 47.8 | 3.9 | 59.3 |
| Noninterest expenses/operating revenues | 59.0 | 75.8 | 58.7 | 44.4 | 76.1 | 36.3 |
| Growth in customer loans | 13.2 | 10.3 | 18.0 | 23.1 | 17.2 | 15.1 |

Table 1

| AEGON Bank N.V. Key Figures (cont.) | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Mil. € | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| Gross nonperforming assets/customer loans + other real estate owned | 1.0 | 0.5 | 0.5 | 0.7 | 1.1 | 2.1 |
| New loan loss provisions/average customer loans | 0.58 | 0.45 | 0.25 | 0.21 | 0.17 | 0.10 |
| Customer loans (net)/adjusted assets | 79.2 | 78.9 | 74.3 | 71.0 | 67.6 | 66.1 |

*Since 2018, defined as stage 3 loans as well as stage 2 loans which are more than 90 days past due.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- 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

Related Research

- Aegon N.V.'s Favorable First-Quarter 2020 Results Up The Insurer's Resilience For Potential Shocks Ahead, May 13, 2020
- Aegon Group's Core Subsidiaries Downgraded To 'A+'; Aegon N.V. Ratings Affirmed; Outlooks Stable, Feb. 21, 2020
- Aegon Bank's Proposed Senior Nonpreferred Notes Rated 'A', June 10, 2019
- Bank Subsidiaries Of Insurance Groups In The Netherlands Are Challenger Banks--And Here To Stay, Dec. 13, 2018

Ratings Detail (As Of August 25, 2020)*

AEGON Bank N.V.

| | |
|----------------------|--------------|
| Issuer Credit Rating | A/Stable/A-1 |
| 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+ |
|-------------|-----------------|

Ratings Detail (As Of August 25, 2020)*(cont.)

Related Entities**AEGON Levensverzekering N.V.**

Financial Strength Rating

Local Currency

A+/Stable/--

Issuer Credit Rating

Local Currency

A+/Stable/--

AEGON N.V.

Issuer Credit Rating

A-/Stable/A-2

Commercial Paper

Foreign Currency

A-2

Junior Subordinated

BBB

Junior Subordinated

BBB-

Senior Unsecured

A-

Subordinated

BBB

Blue Square Re N.V.

Financial Strength Rating

Local Currency

A+/Stable/--

Issuer Credit Rating

Local Currency

A+/Stable/--

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+

Transamerica Premier Life Insurance Co

Financial Strength Rating

Local Currency

A+/Stable/NR

Issuer Credit Rating

Local Currency

A+/Stable/A-1+

Ratings Detail (As Of August 25, 2020)*(cont.)

*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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