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Transaction Update: AEGON Bank N.V. Dutch Soft Bullet Covered Bond Programme

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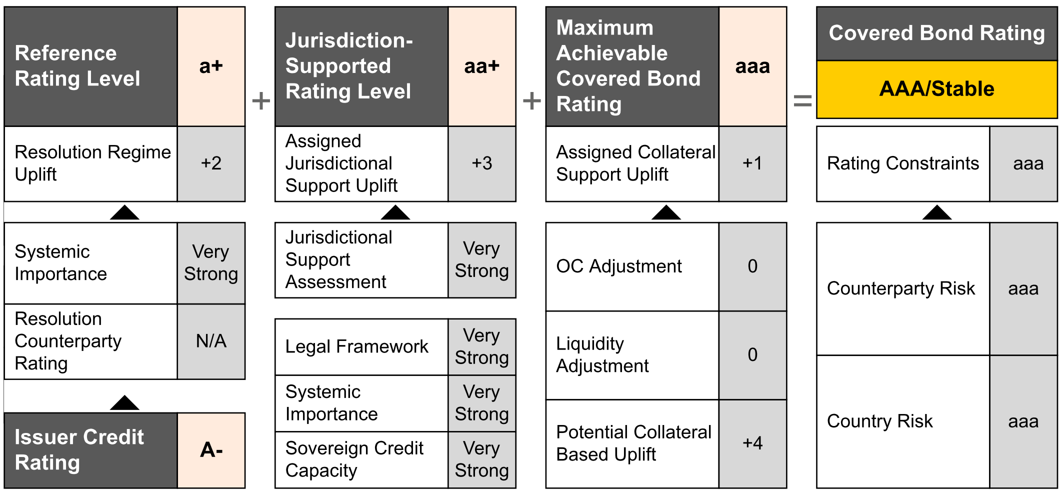
Ratings Detail



N/A--Not applicable.OC--Overcollateralization.

Major Rating Factors

Strengths

- The assets are well-seasoned, geographically well diversified, prime Dutch residential loans, which we view as relatively low-risk exposures.
- Three unused notches of collateral uplift protect the ratings if we downgraded the issuer.

Weaknesses

- High excess spread in the program has decreased after the issuance of series 2, with a comparably high coupon on the covered bonds, reflecting recent market trends.
- The cover pool comprises mortgage loans with no maturity dates or with remaining maturities beyond 30 years. The asset cover test (ACT) partially mitigates this risk.

Outlook

S&P Global Ratings' stable outlook on the ratings on AEGON Bank N.V.'s soft bullet covered bonds reflects that the ratings on the covered bonds benefit from three unused notches of support under our covered bonds criteria. This means that the ratings on the covered bonds would be unaffected if we were to lower our long-term issuer credit rating

(ICR) on the issuer by up to three notches, all else being equal.

Rationale

We are publishing this transaction update following our periodic review of AEGON Bank N.V.'s soft bullet covered bond program and related issuances.

Our covered bond ratings process follows the methodology and assumptions outlined in our "Covered Bonds Criteria," published on Dec. 9, 2014, and "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015.

We consider that the transaction documents, together with the Dutch legal and regulatory framework, effectively isolate the cover pool assets for the covered bondholders' benefit. This asset isolation allows us to assign a higher rating to the covered bonds than our long-term ICR.

We conducted a review of AEGON's mortgage operations, which we view as prudent. We believe satisfactory procedures exist to support our ratings on the covered bonds.

AEGON Bank is domiciled in the Netherlands, which is subject to the EU's Bank Recovery and Resolution Directive (BRRD). We consider that mortgage covered bonds have a very strong systemic importance to the Netherlands. These factors increase the likelihood that AEGON Bank would continue servicing its covered bonds without accessing the cover pool or receiving jurisdictional support, even following a bail-in of its senior unsecured obligations. Under our covered bonds criteria, we assess the reference rating level (RRL) as 'a+'.

We considered the likelihood for the provision of jurisdictional support. Based on a very strong jurisdictional support assessment for mortgage programs in the Netherlands, we assigned three notches of uplift from the RRL. Therefore, we assess the jurisdiction-supported rating level (JRL) as 'aa+'.

We have reviewed the asset information provided as of April 30, 2023, including the loans allocated for cover pool registration to support the issuance of the second series out of the program in June 2023. The analyzed cover pool comprises €1.24 billion of Dutch residential mortgage loans, net of saving and construction deposits. Based on our cash flow analysis as of June 28, 2023, the available credit enhancement in the program exceeds the target credit enhancement (TCE), which means that the covered bonds are eligible for up to four notches of collateral-based uplift. We do not reduce the total collateral-based uplift by any notches owing to the program's committed overcollateralization and because we consider that the liabilities' soft-bullet structure mitigates liquidity risk.

Counterparty or sovereign risks currently do not constrain the 'AAA' covered bond ratings.

We have based our analysis on criteria articles referenced in the "Related Criteria" section.

Program Description

Table 1

Program overview*	
Jurisdiction	The Netherlands
Year of first issuance	2021
Covered bond type	Registered covered bonds§
Outstanding covered bonds (mil. €)	1000
Redemption profile	Soft-bullet
Underlying assets	Dutch residential mortgages
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	2.52
Available credit enhancement (%)	18.26
Assigned collateral support uplift	1
Unused notches for collateral support	3
Total unused notches	3

*Based on program data as of June 2023. §A covered bond law in The Netherlands governs the program, together with the program's documentation.

The mortgage covered bonds issued under AEGON Bank's soft bullet covered bond program constitute its unsecured and unsubordinated obligations.

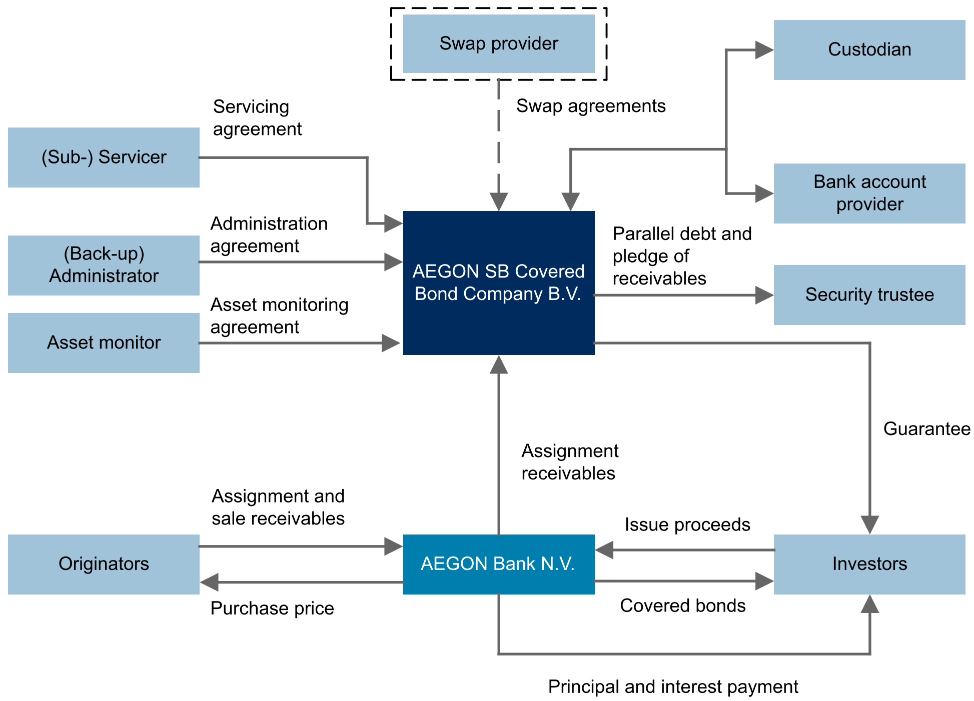
If AEGON Bank were unable to pay the outstanding covered bonds, AEGON SB Covered Bond Company B.V. (CBC) would guarantee payments on the bonds.

The CBC is a bankruptcy remote special-purpose entity (SPE) that manages the mortgage receivables in the cover pool and guarantees covered bonds' payment to the noteholders. To enable the CBC to guarantee payments on the covered bonds, AEGON Bank assigned the cover pool assets to the CBC and further assignments may take place regularly.

Borrowers make their payments to their respective bank accounts in the originators' name. If the issuer becomes insolvent, borrowers will have to repay their mortgage loans into the CBC account.

The structure does not benefit from interest rate hedging, and the originator and/or servicer is not contractually obliged to offer mortgage borrowers a minimum interest rate upon reset. The mortgages' relatively long reset time (96% of the loans are fixed-reset) combined with the bonds' payment of a fixed interest rate until their scheduled maturity mitigate this risk. The program documentation allows the CBC to enter a portfolio or interest rate swap.

Program structure



AEGON Bank pays interest and principal on each series of covered bonds on the respective scheduled payment date. The program is structured in such a way that the notes' redemption can switch to soft-bullet and the covered bonds' maturity is extended from their scheduled maturity to the legal final maturity date, which is 12 months later.

This maturity extension occurs if AEGON Bank has defaulted on its obligations and the CBC does not have sufficient funds available and is unable to sell or refinance sufficient assets to redeem a maturing covered bond.

Two tests ensure that the overcollateralization does not decrease below a minimum predetermined level. Before issuer insolvency, the monthly ACT monitors the level of credit enhancement. If this were to fall below the minimum commitment, the issuer would assign additional collateral to the CBC to ensure that the ACT is met by the next monthly evaluation. Such a breach would prevent the issuer from issuing new covered bonds. Moreover, if the failure to assign sufficient collateral by the following month continues, the funds would be redirected into the CBC account and would not be transferred back to the issuer until the breach is cured.

The asset percentage included in the ACT determines the maximum amount of covered bonds that AEGON Bank can issue. It has been set at 96.7% and is applied on the mortgage loans' current balance in the cover pool after deducting various risks such as set-off or deteriorating pool performance.

After issuer bankruptcy, the monthly amortization test determines if the performing cover pool balance (plus any funds standing in the CBC account minus any negative excess spread) is at least equal to the outstanding covered bonds' balance. A breach of the amortization test would lead to the covered bonds' acceleration.

To redeem the covered bonds after issuer bankruptcy, the CBC sells randomly selected cover pool assets. However, this sale or refinance and the respective bonds' subsequent redemption cannot lead to a breach of the amortization test.

The CBC maintains a reserve account, in which the minimum amount is the higher of the mandatory liquidity required amount, and if the long-term ICR on the issuer falls below 'A', the reserve trigger required amount. The mandatory liquidity required amount is the sum of interest payments falling due in the following six months plus any other senior payments, less the expected cash flows to be received from the cover pool during the same period. The reserve trigger required amount is the sum of interest payments falling due in the following three months plus the sum of 0.045% of the covered bonds' balance and €30,000 (to the extent not covered by swaps).

Table 2

Program participants

Role	Name	Rating	Rating dependency
Issuer	AEGON Bank N.V.	A-/Stable/A-2	Yes
Guarantor	AEGON SB Covered Bond Company B.V.	NR	No
Arranger/dealer/listing agent	Coöperatieve Rabobank U.A.	A+/Stable/A-1	No
Collection account provider	ABN AMRO Bank N.V.	A/Stable/A-1	No
CBC bank account provider	BNG Bank N.V.	AAA/Stable/A-1+	Yes
Paying agent/registrar	Citibank, N.A., London Branch.	NR	No
Trustee	Stichting Security Trustee AEGON SB Covered Bond Company	NR	No
Originator	AEGON Levensverzekering N.V.	A/Stable	No
Originator/servicer	AEGON Hypotheken B.V.	NR	No
Originator/transferor/administrator	AEGON Bank N.V.	A-/Stable/A-2	No
Asset monitor	PricewaterhouseCoopers Accountants N.V.	NR	No

NR--Not rated.

Rating Analysis

Legal and regulatory risks

We base our legal analysis on our "Asset Isolation and Special-Purpose Entity Methodology," published on March 29, 2017, our "General Criteria: Guarantee Criteria," published on Oct. 21, 2016, and our covered bond ratings framework.

The Dutch covered bond legal framework governs the covered bonds. The Dutch general framework is principle-based and was introduced as secondary legislation in the Dutch Financial Supervision Act ("Wet op het financieel toezicht"). It comprises the Decree on Prudential Rules Regulation ("Besluit prudentieel toezicht Wft") and the Implementing

Regulation ("Uitvoeringsregeling Wft"). In January 2015, a revised legislative framework came into force. The new legislation is incorporated into the Dutch Financial Supervision Act, and it introduces, among other provisions, mandatory ACTs, including a 5% minimum overcollateralization, mandatory liquidity buffer, and mandatory audits.

The EU Covered Bond Directive was implemented into the Dutch legislation mainly through a new decree ("Besluit prudentiele regels Wft") dated May 24, 2022, which amends certain provisions of the Dutch Financial Supervision Act. The amendments became effective on July 8, 2022 and apply to covered bonds since then. The main changes include:

- Soft-bullet maturity extension: Extensions can only occur under certain issuer conditions such as liquidation, dissolution, resolution, bankruptcy, and covered bond company (CBC) conditions after issuer default, such as insufficient funds to repay the covered bonds or inability to meet the 5% minimum overcollateralization requirement.
- Soft-bullet extensions cannot invert the outstanding bonds' maturity order.
- 180 days liquidity provision: The extended final maturity date will be considered for liquidity buffer calculations.

The amendments to the framework are essentially refinements and given that the Dutch legislation was already well aligned to the requirements of the directive, the new legislation does not affect our analysis of the Dutch legal framework.

The detailed provisions applicable to AEGON Bank's soft bullet covered bonds are established via contractual obligations.

From our analysis, we have concluded that the cover pool assets are effectively isolated for the covered bondholders' benefit. This asset isolation allows us to assign a higher rating to the covered bond program than the long-term ICR on AEGON Bank.

To grant a security interest over its assets, the CBC and the security trustee entered a parallel debt agreement for the secured parties' benefit. Under this agreement, the guarantor undertakes, through parallel debt, to pay the security trustee the amounts due by it to the secured parties. It thereby creates a claim of the security trustee, which can be validly secured by the rights of pledge created by the pledge agreements.

We have examined whether we can rely on the cover pool cash flows to serve the covered bonds if the issuer becomes insolvent. In our view, this implies that two key preconditions are satisfied: First, that we can reasonably expect that the CBC would not go bankrupt; and second, that we can be comfortable that the CBC would serve the guarantee if the issuer becomes insolvent.

We have analyzed the CBC within the framework of our SPE criteria. We generally regard an entity that satisfies these criteria as sufficiently protected against both voluntary and involuntary insolvency risks. We have concluded that the CBC establishment follows our SPE criteria, and we can therefore treat the CBC as a bankruptcy remote entity in our analysis.

We have also analyzed the CBC guarantee based on our guarantee criteria. The guarantee criteria are intended to minimize the risk that a guarantor may be excused from making a payment necessary for paying the rated debt holders. Therefore, we would normally expect these criteria to be satisfied before giving credit to the guarantee. We have concluded that the CBC guarantee is in line with our guarantee criteria, and therefore we give benefit to the guarantee agreement in the program.

In our view, the program is exposed to commingling and setoff risk. The former because cash belonging to the CBC is mixed with cash belonging to the issuer and could be lost if AEGON Bank were to become insolvent. The latter because AEGON Bank is a deposit-taking institution and borrowers may lose their deposits if the issuer becomes insolvent. Moreover, AEGON Nederland is offering savings mortgages to its clients, which exposes the cash flow payments to further setoff risks. We have addressed commingling risk in our cash flow analysis by assuming that about three weeks' collections are lost. The ACT mitigates setoff risk by reducing the amount of eligible assets (by the potential setoff risk exposure) against which it can issue covered bonds.

Operational and administrative risks

In our opinion, the cover pool's management and loan origination processes do not give rise to any operational risk that would constrain the covered bond rating to the same level as the long-term ICR.

We believe that it is highly likely that a replacement cover pool manager would be appointed if the issuer were to become insolvent. We consider the Netherlands to be an established covered bond market and believe that the mortgage assets in AEGON Bank's cover pool do not comprise product features that would materially limit the range of available replacement cover pool managers or servicers.

AEGON Bank is a fully owned subsidiary of AEGON Nederland, and it previously operated under two brands, AEGON Bank and Knab. In 2022, AEGON labeled products and related operations have been merged into the Knab label and since then AEGON Bank has been operating under the Knab label.

In October 2022, Aegon Group announced that it was selling its Netherlands-based Aegon Bank to ASR Nederland N.V. (ASR) and the acquisition has been completed in July 2023. In June 2023, we updated our view on Aegon Bank's role within the ASR group and lowered our ratings on the issuer by one notch to 'A-' (see "Dutch Aegon Bank Downgraded To 'A-' On Expected Near-Term Sale To ASR; Outlook Stable," published on June 2, 2023). The change in the ICR has no impact on our covered bond ratings.

The issuer invests in Dutch mortgage loans originated internally (by AEGON Hypotheken B.V., for example) and in other consumer finance loans originated externally. AEGON Nederland offers a wide range of financial products and services to its clients, including pensions, insurance (life and non-life), mortgage loans, savings, and investment products. Furthermore, AEGON N.V. is one of the world's largest insurance companies.

AEGON Hypotheken's core clients are young customers buying their first home, customers moving to another house, and those willing to refinance or increase their current mortgage. Mortgage loan origination occurs via intermediaries, which adhere to AEGON's origination standards and requirements. AEGON offers five different types of mortgage loans: annuity, linear, interest-only, savings, and life and investment.

We view AEGON's underwriting criteria as prudent, which is also supported by the low level of delinquencies on its mortgages.

Our analysis of operational and administrative risks follows the guidelines in our criteria (see "Covered Bond Ratings Framework: Methodology And Assumptions," published on June 30, 2015).

Resolution regime analysis

AEGON Bank is domiciled in the Netherlands, which is subject to the EU's BRRD. We assess the systemic importance for Dutch mortgage programs as very strong. Under our covered bonds criteria, this means the RRL is the greater of (i) the ICR on the issuing bank, plus two notches; and (ii) the resolution counterparty rating (RCR) on the issuing bank, where applicable. This calculation results in a RRL of 'a+', two notches above the 'A' ICR on AEGON Bank.

This uplift recognizes that resolution regimes like the BRRD increase the probability that an issuer could service its covered bonds even following a default on its senior unsecured obligations because the law exempts covered bonds from bail-in risk if there is a bank resolution. We consider this as an internal form of support because the bail-in of certain creditors of the issuer does not require direct government support.

Jurisdictional support analysis

In our jurisdictional support analysis, we assess the likelihood that a covered bond program facing stress would receive support from a government-sponsored initiative instead of from the collateral assets' liquidation in the open market.

Our assessment of the expected jurisdictional support for Dutch mortgage programs is very strong. Under our covered bonds criteria, this means that the program can receive up to three notches of jurisdictional uplift over the RRL. The JRL is therefore 'aa+'.

Collateral support analysis

The cover pool comprises Dutch residential mortgage loans originated by AEGON Levensverzekering and AEGON Hypotheken. We base our analysis on the loan-by-loan data as of a cut-off date of April 30, 2023, including the loans allocated for cover pool registration to support the issuance of the second covered bond out of the program on June 28, 2023.

The cover pool balance more than doubled since our last analysis to €1.183 billion cover pool (adjusted for savings mortgages and construction loans' undisbursed amounts) and is granular. It includes 14,742 loan parts backed by 6,757 properties.

While the cover pool significantly grew in size, overall credit characteristics remained fairly stable. The cover pool is granular and geographically well-diversified. The average loan has an original LTV ratio (OLTV) of 76% and current indexed LTV ratio of 49%. The portfolio's weighted-average seasoning is about 6.3 years, and the loans mature in about 25 years from now, on a weighted-average basis. The dominant share of the portfolio is tied to a fixed interest rate and the weighted-average interest switch date is about 15 years. About 30% of the mortgages are interest-only.

NHG guarantee

About 61% of the loans in the cover pool are insured by an NHG guarantee. The Homeownership Guarantee Fund ("Waarborgfonds Eigen Woningen"; WEW) is a nonprofit private foundation. The foundation's main objectives are to promote homeownership and to improve the owner-occupied dwellings' quality. To realize these objectives, it issues NHG guarantees. The guarantees cover the loss remaining to the lender after the end of the foreclosure process for a defaulted borrower's mortgage loan. NHG loans are granted only if certain strict conditions on both the loan and the borrower are met.

In our analysis, we link the WEW's creditworthiness to that of the Netherlands. We adjust the payout level to the originators' observed historical payout ratios in AEGON Bank's cover pool.

The below tables summarize the cover pool's composition based on our credit analysis.

Table 3

Cover pool composition

	As of April 30, 2023*		As of March 31, 2022	
Asset type	**Value (mil. €)**	**Percentage of cover pool**	**Value (mil. €)**	**Percentage of cover pool**
Residential**	1,182.57	100	558.87	100
Commercial	0.00	0	0.00	0
Substitute assets	0.00	0	0.00	0
Total	1,182.57	0	558.87	100

*Including €636 mn loans allocated to support new issuance in June 2023. **Net of saving and construction deposits. Note: In the current analysis, we modeled €5.18 mn cash as liquidity reserve.

Table 4

Key credit metrics

	As of April 30, 2023	As of March 31, 2022
Average loan size (€)	175,014	155,170
Weighted-average effective LTV ratio (%)*	70.35	75.50
Weighted-average current LTV ratio (%)	49.16	46.60
Weighted-average loan seasoning (months)§	76	79
Balance of loans in arrears (%)	0	0.1
Weighted-average loan to income (%)	0	3.13
Interest rate type (%)	95.9 fixed-reset	96.4 fixed-reset
NHG-guaranteed loans (%)	61.23	66.60
Construction loans (%)	9.08	11.80
Credit analysis results:		
WAFF (%)	6.38	6.57
WALS (%)	11.35	8.39
AAA' credit risk (%)	2.50	2.50
Country medians:		
WAFF (%)	9.08	8.62
WALS (%)	30.42	25.52
AAA' credit risk (%)	2.51	2.50

*The effective LTV is the result of the application of our updated criteria that weight the original LTV and current indexed LTV in an 80% and 20% ratio for the WAFF calculation. §Seasoning refers to the elapsed loan term. LTV--Loan-to-value. WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

Table 5

LTV ratios

	Effective LTV (%)		Current LTV (%)	
	As of April 30, 2023	**As of March 31, 2022**	**As of April 30, 2023**	**As of March 31, 2021**
Below 40	12.64	9.04	31.67	31.74
40-50	10.68	7.43	17.34	19.15
50-60	11.38	7.66	23.23	29.99
60-70	10.60	8.58	15.87	16.45
70-80	11.74	12.30	8.47	1.67
80-90	13.62	16.25	1.96	0.77
90-100	25.81	36.34	1.42	1.35
Above 100	3.52	2.35	0.03	0.07
Weighted-average LTV ratio	70.35	75.50	49.16	46.60

LTV--Loan-to-value.

Table 6

Loan seasoning distribution*

	As of April 30, 2023	As of March 31, 2022
Less than 24 months	11.34	0.60
24-48	16.59	1.80
48-60	6.87	17.40
60-72	12.43	18.80
72-84	10.44	23.40
84-96	11.18	22.80
96-108	12.34	8.40
108-120	4.62	3.10
More than 120	14.15	3.80
Weighted-average loan seasoning (months)	76.08	78.98

*Seasoning refers to the elapsed loan term.

Table 7

Geographic distribution of loan assets

	As of April 30, 2023	As of March 31, 2022
Zuid-Holland	19.56	18.90
Noord-Brabant	13.78	14.70
Noord-Holland	13.32	13.60
Gelderland	14.12	13.30
Utrecht	7.24	8.10
Other	31.98	31.40
Total	100.00	100.00

Eligibility criteria

The mortgages included in the cover pool must fulfill the following conditions (among others):

- The loans are any of the following, or a combination of: Linear mortgage loans, interest-only mortgage loans, annuity mortgage loans, investment mortgage loans, savings mortgage loans, bank savings mortgage loans, and life mortgage loans.

- Each borrower is a private individual and a resident of the Netherlands.
- The maximum LTV ratio on loans issued after August 2011 but before January 2018 is 104% based on the properties' original market value (or, if lower, the maximum amount as may be applicable under the relevant regulations at the time of origination); loans originated before this time range may have an LTV ratio of up to 130% based on the properties' foreclosure value, and for those issued after it, up to 100% (unless there are energy saving improvements; LTV ratio up to 106%).
- None of the borrowers is an employee of AEGON Group at origination.
- Each mortgage loan is governed by Dutch law and is euro-denominated.
- The borrower has paid at least the first installment on the mortgage.
- Each borrower is not in material breach of their mortgage loan's conditions (to the transferor's best knowledge).

We have performed our credit analysis of the cover pool under our global residential loans criteria and the cash flow analysis under our global cash flow criteria.

We analyzed asset credit quality using our 'AAA' stress of the level of defaults (the weighted-average foreclosure frequency [WAFF]) and our measure of possible losses given default (the weighted-average loss severity [WALS]).

The product of this WAFF and the WALS estimates the required loss protection, assuming all other factors remain unchanged.

As of April 30, 2023, we estimate a WAFF of 6.38% and a WALS of 11.35%. Since our previous analysis, the WAFF has remained fairly stable, due to a combination of small, mutually offsetting changes. Lower effective LTV ratios decreased the WAFF while the higher share of loans with a relatively high loan-to-income ratio increased the WAFF.

The main reasons for the higher WALS are higher current indexed LTV ratios, a higher share of properties attracting jumbo adjustment in our aggregated pool, and a lower share of loans benefitting from an NHG guarantee.

Our analysis of the covered bonds' payment structure shows that cash flows from the cover pool assets would be sufficient, at 'AAA' rating level, to make timely payment of interest and ultimate principal to the covered bonds on their legal final maturity. We have performed our cash flow analysis with an asset profile as of April 30, 2023 and a bond profile as of June 28, 2023.

The covered bonds are exposed to refinancing risk because structural features, such as pass-through liabilities, do not address the asset and liability maturity mismatches. To assess market value risk, we applied a target asset spread in our cash flow analysis as outlined in our covered bonds criteria.

The program involves no derivatives. Therefore, we have modeled interest rate risk in our cash flow analysis. While the weighted-average interest rate on the assets is broadly unchanged since our previous analysis (2.9%), the weighted-average coupon on the liabilities increased to 1.9% from 0.4% previously. This change has decreased some of the previously high excess spread in the program.

It is uncertain what interest rates the mortgages in the cover pool would be reset to in future, and the originator and/or servicer is not contractually obliged to offer a minimum interest rate upon reset. We considered this risk in our cash flow analysis by assuming a haircut on the interest paid by the mortgages upon reset that we derived from the residential mortgages' historical rates in the originator's balance sheet. In the program, mortgages' relatively long reset time (about 14.8 years) combined with the covered bonds' payment of a fixed interest rate up to the scheduled maturity currently mitigate this risk. Furthermore, both bonds' legal final maturity is scheduled before the weighted-average reset date on the assets.

Borrowers make their payments to their respective bank accounts in the originators' name. Following the issuer insolvency, borrowers' payments will be re-directed into the CBC account. If the issuer becomes insolvent, the program is exposed to commingling risk because cash belonging to the CBC would be mixed with cash belonging to the issuer and could be lost if AEGON Bank were to become insolvent. We considered this risk in our analysis by assuming that about three weeks' collections are lost. We previously modelled three months' lost collections.

Lastly, when our model derives the required credit enhancement levels, it does so by assessing that the program's amortization test is not breached and hence the covered bonds are not accelerated.

According to our criteria, the maximum potential collateral-based uplift on a covered bond program above the JRL is four notches. We may then adjust the maximum collateral-based uplift depending on whether six months' liquidity risk are covered and whether an overcollateralization commitment exists. AEGON Bank's soft bullet covered bond includes a 12-month maturity extension, which we consider to satisfy the liquidity coverage. Furthermore, under the ACT in the program documentation, the issuer is contractually committed to maintaining an overcollateralization level commensurate with the current rating. Therefore, the maximum collateral uplift remains at four notches.

Our 'AAA' credit risk indicates the overcollateralization commensurate with our credit risk assessment, including certain cost elements. The related analysis includes stressed assumptions on asset default and recovery rates, stressed interest rates, and transaction costs, and the liability profile, assuming no asset-liability maturity mismatch. This measure remains floored at 2.50% at the 'AAA' rating level as of June 28, 2023.

In addition to 'AAA' credit risk, our TCE also includes the additional credit enhancement that we expect is required to refinance the cover pool in a stressed environment. We calculated a TCE commensurate with the maximum potential collateral-based uplift of four notches above the JRL at 2.52%, practically unchanged since our previous analysis.

The stable results reflect two main opposing impacts: While our revised assumption of amounts exposed to commingling risk had positively affected the results, lower excess spread caused both 'AAA' credit risk and the TCE to increase.

The overcollateralization commensurate with the ratings is therefore 2.50%.

Table 8

Collateral uplift metrics

	As of June 28, 2023*	As of March 31, 2022
Asset WAM (years)**	25.00	23.35
Liability WAM (years)	11.27 (extendible to 12. 27)	14.2 (extendible to 15.2)

Table 8

Collateral uplift metrics (cont.)		
	As of June 28, 2023*	**As of March 31, 2022**
Available credit enhancement (%)	18.26	11.77
Required credit enhancement for first notch of collateral uplift (%)	2.50	2.50
Required credit enhancement for second notch of collateral uplift (%)	2.50	2.50
Required credit enhancement for third notch of collateral uplift (%)	2.50	2.50
Target credit enhancement for maximum uplift (%)	2.52	2.50
Potential collateral-based uplift (notches)	4	4
Adjustment for liquidity (Y/N)	N	N
Adjustment for committed overcollateralization (Y/N)	N	N
Collateral support uplift (notches)	4	4

*Asset cash flows as of April 30, 2023, covered bond profile as of June 28, 2023. **WAM--Weighted-average maturity.

Counterparty risk

We have identified that the covered bonds are exposed to several counterparty risks. However, as these are either structurally mitigated in line with our counterparty criteria or considered in our cash flow modeling, we believe that they do not constrain the rating from a counterparty risk perspective (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019).

Borrowers make their payments to their respective bank accounts in the originators' name. Following the insolvency of AEGON Levensverzekering N.V. and/or AEGON Hypotheken B.V., the borrowers have to redirect their mortgage loan payments to a bank account in the issuer's name. Furthermore, following issuer insolvency, borrowers have to repay their mortgage loans into the CBC account. While this mechanism protects mortgage payments post notification to pay into the CBC account, funds standing or paid in the collection account post issuer insolvency but pre-notification would be exposed to commingling risk. We considered this risk in our analysis by assuming that about two weeks' collections are lost.

Following a breach of the ACT or the issuer insolvency, the collections are held by the CBC account provider, BNG Bank N.V. The CBC account bank has committed to replace itself within 90 days if it were to lose the 'BBB' long-term rating. Our counterparty criteria categorize this counterparty as bank account (minimal), with a replacement trigger that can support up to 'AAA' rated notes. Our criteria classify the exposure as minimal when the bank account is held with a counterparty unrelated to the covered bond issuer. This is because we believe that the risk relating to an account at an unrelated bank should only adversely affect a covered bond rating if multiple events occur, such as the simultaneous failures of the bank account provider and the issuer.

In addition, various forms of setoff risk relate to deposit accounts and construction and savings deposits. The ACT addresses these risks by limiting the maximum amount of covered bonds that can be issued under the program.

Sovereign risk

We analyze sovereign risk according to our "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published on Jan. 30, 2019. Given our 'AAA' long-term unsolicited rating on the Netherlands, sovereign risk does not constrain our rating on the covered bond.

Environmental, social, and governance

Environmental and governance factors in AEGON Bank's soft bullet covered bond program are a neutral consideration in our credit rating analysis. Social factors are positive considerations in our credit rating analysis. The cover pool includes mortgages that benefit from a guarantee provided by the NHG program. This scheme pursues a social goal by supporting underbanked customers, and we consider it as credit supportive because it reduces the amount of losses we size in our analysis. AEGON Bank commits to an overcollateralization level commensurate with the current rating, and the soft-bullet repayment structure partially mitigates refinancing risk, allowing the program to achieve four notches of potential collateral-based uplift.

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Structured Finance | Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria | Structured Finance | Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- Criteria | Structured Finance | RMBS: Methodology For Assessing Mortgage Insurance And Similar Guarantees And Supports In Structured And Public Sector Finance And Covered Bonds, Dec. 7, 2014
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- S&P Global Ratings Update On ESG Credit Indicators, Aug. 4, 2023
- Global Covered Bond Insights Q3 2023 Finds Robust Covered Bond Issuance Is Here To Stay, June 29, 2023
- S&P Global Ratings Definitions, June 9, 2023
- Dutch Covered Bond Market Insights 2023, Jan. 26, 2023
- European Housing Prices: A Sticky, Gradual Decline, Jan. 11, 2023

- ESG Credit Indicator Report Card: Covered Bonds, April 7, 2022
- Dutch Covered Bond Market Insights 2021, Nov. 8, 2021
- Glossary Of Covered Bond Terms, April 27, 2018