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

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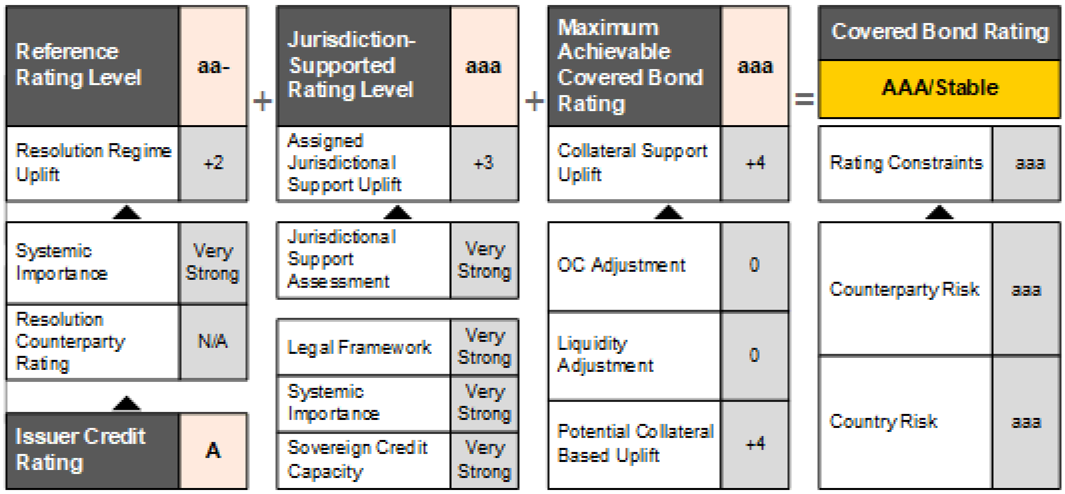
Ratings Detail



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

Major Rating Factors

Strengths

- The structure features soft-bullet extendible maturities, which mitigates liquidity risk.
- The contractual credit enhancement exceeds the credit enhancement commensurate with a 'AAA' rating.
- Of the loans in the pool, about 67% benefit from payments made by the Dutch Homeownership Guarantee Fund, under the "Nationale Hypotheek Garantie" (NHG) guarantee scheme to reduce the foreclosure losses.

Weaknesses

- The structure does not benefit from interest rate hedging and the servicer is not contractually obliged to offer mortgage borrowers a minimum interest rate upon reset. We accounted for this risk in our cash-flow analysis by assuming a haircut on the interest paid by the mortgages upon reset.
- Cash belonging to the special-purpose entity (SPE) is mixed with cash belonging to the issuer and could be lost if AEGON Bank were to become insolvent. We took this risk into account in our analysis by assuming that two months of collections are lost.
- 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 the fact that the ratings on the covered bonds benefit from four 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 four 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 issuance.

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 benefit of the covered bondholders. 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 are in place 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 'aa-'.

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 'aaa'.

We have reviewed the asset information provided as of March 2022. The program's pool comprises €558 million of Dutch residential mortgage loans, net of saving and construction deposits. Based on our cash flow analysis, the available credit enhancement in the program exceeds the target credit enhancement, 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.

There are currently no rating constraints to the 'AAA' ratings relating to counterparty or sovereign risks.

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. €)	500
Redemption profile	Soft-bullet
Underlying assets	Dutch residential mortgages
Jurisdictional support uplift	3
Unused notches for jurisdictional support	0
Target credit enhancement (%)	2.5
Available credit enhancement (%)	11.77
Collateral support uplift	0
Unused notches for collateral support	4
Total unused notches	4

*Based on cover pool data as of March 2022. §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 unsecured and unsubordinated obligations of AEGON Bank.

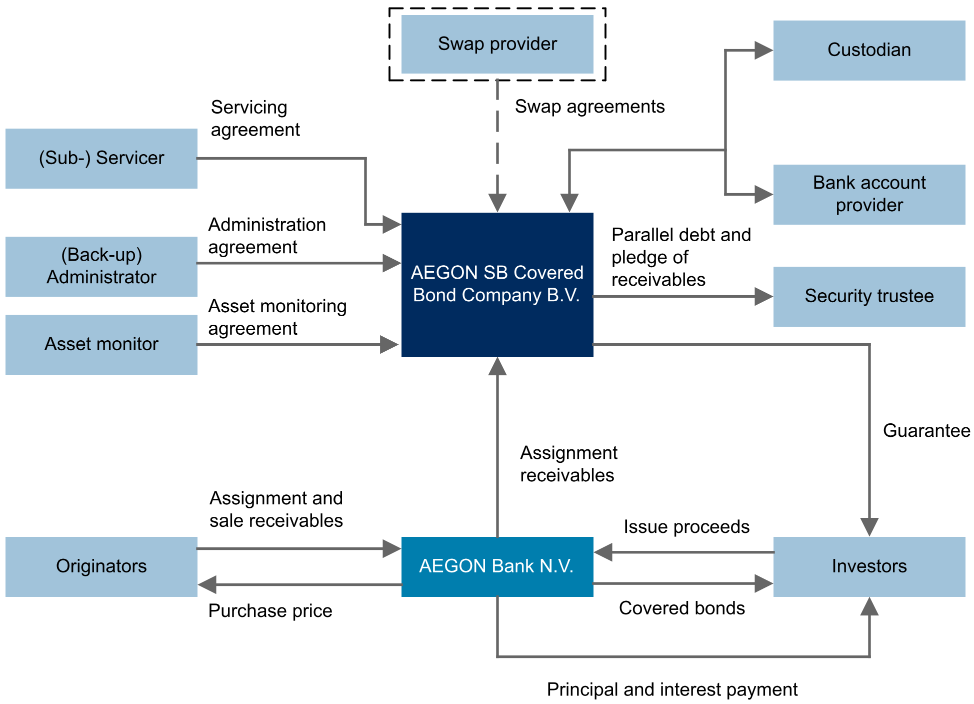
If AEGON Bank were unable to pay the outstanding covered bonds, then AEGON SB Covered Bond Company B.V. (CBC) would guarantee payments on the bonds.

The CBC is a bankruptcy remote SPE that manages the mortgage receivables in the cover pool and guarantees payment of the covered bonds to the noteholders. In order 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. Following the insolvency of AEGON Levensverzekering N.V. and/or AEGON Hypotheken B.V., the borrowers only repay their mortgage loans to a bank account in the issuer's name. Furthermore, following the insolvency of the issuer, 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. This is 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 took this risk into account in our analysis by assuming that two months of collections are lost.

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. This risk is partially mitigated by the relatively long time to reset of the mortgages in the portfolio (96% of the loans are fix-reset) and by the fact that the bond pays a fixed interest rate up to the scheduled maturity. The program documentation allows the CBC to enter into a portfolio or interest rate swap after closing.

Program Structure



AEGON Bank pays interest and principal on each series of covered bonds on the respective scheduled payment dates. The program is structured in such a way that the redemption of the notes can switch to soft-bullet and the maturity of the covered bond is extended from the 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 not able to sell or refinance sufficient assets to redeem a maturing covered bond.

Two tests control that the overcollateralization does not decrease below a minimum predetermined level. Prior to issuer insolvency, the monthly ACT monitors the level of credit enhancement. If this were to fall below the minimum commitment, the issuer would undertake its best efforts to 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 current balance of the mortgage loans 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 acceleration of the covered bonds.

In order to redeem the covered bonds after issuer bankruptcy, the CBC uses its best efforts to sell randomly selected cover pool assets. However, this sale or refinance and subsequent redemption of the respective bonds 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-1	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-1	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 covered bonds are governed by the Dutch covered bond legal framework. 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 introduces, among other provisions, mandatory ACTs, including a 5% minimum overcollateralization, mandatory liquidity buffer, and mandatory audits.

The legislation to transpose the EU Covered Bond Directive in the Dutch legislation includes a new law and a new decree (Besluit prudentiele regels Wft). The decree--dated May 24, 2022--was published in the Dutch Official Gazette on June 13, 2022. It becomes effective on July 8, 2022, and will apply to covered bonds issued from that date onward. As such, the currently outstanding issuance under AEGON Bank's soft-bullet covered bond program is not affected by the new legal framework. In any case, we expect non-material amendments to the framework given that the Dutch legislation was already well aligned to the requirements of the directive. As a result, we believe that the new legislation will 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 benefit of covered bondholders. This asset isolation allows us to assign a higher rating to the covered bond program than the long-term ICR on AEGON Bank.

In order to grant a security interest over its assets, the CBC and the security trustee entered into a parallel debt agreement for the benefit of the secured parties. 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 the CBC establishment follows our SPE criteria and that 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 holders of rated debt. 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 set-off 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. We have stressed this risk in our cash flow model by assuming that two months of collections are lost. 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. The ACT mitigates these risks, by reducing the amount of eligible assets (by the potential set-off risk exposure) against which it can issue covered bonds.

Operational and administrative risks

In our opinion, there is no operational risk from the cover pool's management and loan origination 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 we 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 that operates under two brands, AEGON Bank and Knab. AEGON Bank is a retail bank providing mostly savings products to the group's Dutch customers and Knab is an online-only bank focused on retail customers and small business owners.

The bank invests in Dutch mortgage loans originated internally (by AEGON Hypotheken B.V., for example) and also other consumer finance loans originated externally. AEGON Bank's mortgage pool represents about 74% of the bank's asset mix as of end 2021. 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 customers 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. Our view is also supported by the low level of delinquencies on AEGON's 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 'aa-', 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 liquidation of collateral assets 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 'aaa'.

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 March 31, 2022.

The €0.584 billion cover pool is granular. It includes 6,666 loan parts granted to 3,492 borrowers. This balance decreases to €0.558 billion after considering build-up savings in relation to saving mortgages and construction loans' undisbursed amounts (the asset cover test may also deduct these amounts in its calculation of the eligible balance). These loans currently represent on average about 70.4% of the property's reported market valuation.

The cover pool comprises about 2% of mortgage loans with no maturity dates or with remaining maturities beyond 30 years. The ACT partially mitigates this risk by limiting the eligible share of these assets to 15%.

Dutch property prices increased year-on-year by 12% in 2021, and we forecast house price increases in 2022 and 2023 of 7.8% and 3.6%, respectively (see "Dutch Covered Bond Market Insights 2021," published on Nov. 8, 2021). This increase in house prices is one of the factors behind the decline in the cover pool's loan-to-value (LTV) ratio post-indexation. After considering our indexation and adjustments for house price index developments, the cover pool's adjusted weighted-average LTV ratio is 46.6%.

The portfolio's weighted-average seasoning is about 6.6 years and the interest rate on 96% of these loans is a fixed rate, with an average reset period of 13.2 years. Of the loans, 29% are interest only, with monthly payment intervals. All mortgages are lent on owner-occupied properties.

NHG guarantee

About 67% 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 quality of owner–occupied dwellings. 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 mortgage loan of a defaulted borrower. NHG loans are granted only if certain strict conditions on both the loan and borrower are met.

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

The below tables provide an overview on the cover pool's composition based on our credit analysis.

Table 3

Cover Pool Composition

	As of March 31, 2022		As of March 31, 2021	
Asset type	**Value (mil. €)**	**Percentage of cover pool**	**Value (mil. €)**	**Percentage of cover pool**
Residential*	558.87	100	610.56	100
Commercial	0.00	0	0.00	0
Substitute assets	0.00	0	0.00	0
Other asset type	0.00	0	0.00	0
Total	558.87	100	610.56	100

*Net of saving and construction deposits.

Table 4

Key Credit Metrics

	As of March 31, 2022	As of March 31, 2021
Average loan size (€)	155,170	163,646
Weighted-average effective LTV ratio (%)*	75.50	78.09
Weighted-average current LTV ratio (%)	46.60	54.40
Weighted-average loan seasoning (months)§	79	67.97
Balance of loans in arrears (%)	0.1	0
Weighted-average loan to income (%)	3.13	3.2
Interest rate type (%)	96.4 fixed-reset	94.09 fixed-reset
NHG-guaranteed loans (%)	66.60	69.94
Construction loans (%)	11.80	11.70
Credit analysis results:		
WAFF (%)	6.57	8.15
WALS (%)	8.39	8.29
AAA' credit risk (%)	2.50	2.50
Country medians:		
WAFF (%)	8.62	12.22
WALS (%)	25.52	30.33
AAA' credit risk (%)	2.50	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 March 31, 2022	**As of March 31, 2021**	**As of March 31, 2022**	**As of March 31, 2021**
Below 40	9.04	8.10	31.74	21.84
40-50	7.43	7.19	19.16	12.62

Table 5

LTV Ratios (cont.)

	Effective LTV (%)		Current LTV (%)	
	As of March 31, 2022	**As of March 31, 2021**	**As of March 31, 2022**	**As of March 31, 2021**
50-60	7.66	6.79	29.99	18.84
60-70	8.58	7.19	16.46	27.72
70-80	12.30	10.24	1.67	18.02
80-90	16.25	13.48	0.77	0.83
Above 90	38.74	47.01	0.21	0.13
Weighted-average LTV ratio	75.50	78.09	46.60	54.40

LTV--Loan to value.

Table 6

Loan Seasoning Distribution*

	As of March 31, 2022	As of March 31, 2021
Less than 24 months	0.60	0.06
24-48	1.80	17.51
48-60	17.40	18.87
60-72	18.80	24.59
72-84	23.40	23.76
84-96	22.80	9.28
96-108	8.40	3.01
108-120	3.10	1.07
More than 120	3.80	1.85
Weighted-average loan seasoning (months)	79.00	67.97

*Seasoning refers to the elapsed loan term.

Table 7

Geographic Distribution Of Loan Assets

	As of March 31, 2022	As of March 31, 2021
Zuid-Holland	18.90	19.14
Noord-Brabant	14.70	14.65
Noord-Holland	13.60	14.20
Gelderland	13.30	13.26
Utrecht	8.10	8.11
Other	31.40	30.64
Total	100.00	100.00

Eligibility criteria

The mortgages included in the cover pool have to 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 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 denominated in euro.
- 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 best knowledge of the transferor).

We assess a typical residential mortgage cover pool's credit quality by estimating the credit risk associated with each loan in the pool. For this program, we based this loan-level analysis on the specific adjustments defined for the Netherlands under our global residential loans criteria (see "Global Methodology And Assumptions: Assessing Pools Of Residential Loans," published on Jan. 25, 2019).

We then calculate the aggregate risk to assess the cover pool's overall credit quality. In order to quantify the potential losses associated with the entire pool, we weight each loan's foreclosure frequency and loss severity by its percentage of the total pool balance. The product of this weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS) estimates the required loss protection, assuming all other factors remain unchanged.

As of March 31, 2022, we estimate a WAFF of 6.57% and a WALS of 8.39%. Compared with our previous analysis, the WAFF has decreased from 8.15% mainly due to the cover pool being concentrated in relatively lower LTV buckets and due to the higher seasoning of the portfolio. The WALS has remained stable (being 8.29% last year) given that the cover pool's lower indexed LTV ratio distribution is offset by the lower share of loans benefitting from an NHG guarantee and relatively higher share of loans backed by jumbo valuations.

Our analysis of the covered bonds' payment structure shows that cash flows from the cover pool assets would be sufficient, at the given rating, to make timely payment of interest and ultimate principal to the covered bond on its legal final maturity. We have performed our cash-flow analysis as of March 2022.

The issued covered bond is exposed to refinancing risk because asset and liability maturity mismatches are not addressed by structural features, such as pass-through liabilities. In order 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 involved no swap at closing that would mitigate the interest rate risk. We have thus modeled interest rate risk in our cash flow analysis. With a weighted-average interest rate of 2.9% on the assets, the program currently benefits from relatively high excess spread. However, it is uncertain to what interest rates the mortgages in the cover pool would be reset 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 observed historical rates of the residential mortgages in the balance sheet of the originators. In the program, this risk is currently partially mitigated by the relatively long time to reset of the mortgages in the portfolio (about 13.6 years), and by the fact that the bond pays a fixed interest rate up to the scheduled maturity. The program documentation allows the CBC to enter into a portfolio or interest rate swap after closing.

In our cash flow analysis we have modeled additional interest rate scenarios apart from standard up and down curves, in order to capture the sensitivity of the structure to the mortgages resetting at different levels. We have run additional interest rate curves following up/down and down/up paths.

We also sized two months' worth of collection loss in our cash flow model because they are at risk of being amortized out of the portfolio without benefiting the bondholders. Borrowers do not redirect their payment if the ACT is breached, and by the time the CBC can benefit from the asset proceeds (the second time the ACT is failed) the pool will have depleted. All borrowers pay on the same date, which is the first day of the month. As the ACT takes place on the business day closest to the 24th of the month and is based on the previous month's cut-off, there could be two payments made and not swept into the CBC account between the last successful ACT and the second failed one. Furthermore, we also sized commingling risk in our cash flow model because a replacement framework in the program's structure does not mitigate this risk (see "Counterparty risk"). As a result, we sized three months of collection loss in our analysis--two due to the frequency in which the ACT is assessed and two due to commingling risk. As the second month at risk due to the ACT overlaps with the first month of commingling risk, we have sized three months in total.

Lastly, when our model derives the required credit enhancement levels, it does so 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 of liquidity risk are covered and whether there is or not an overcollateralization commitment. 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 that is commensurate with the current rating. Therefore, the maximum collateral uplift remains at four notches.

By applying our credit and cash flow stresses, we calculate a target credit enhancement (TCE) of 2.50%, below the available credit enhancement of 11.77%, allowing for the full four notches of collateral-based uplift. With a JRL of 'aaa', the program only requires covering 'AAA' credit risk stresses to attain a 'AAA' rating. The TCE has slightly decreased since our previous review (at 2.82%) mainly due to the slightly lower credit losses from the cover pool.

The overcollateralization commensurate with the rating is therefore 2.50% (which corresponds to 'AAA' credit risk).

Table 8

Collateral Uplift Metrics*

	As of March 31, 2022	As of June 9, 2021
Asset WAM (years)	23.35	23.97
Liability WAM (years)	14.2 (extendible to 15.2)	15 (extendible to 16)
Available credit enhancement (%)	11.77	22.11

Table 8

Collateral Uplift Metrics* (cont.)

	As of March 31, 2022	As of June 9, 2021
Required credit enhancement for first notch of collateral uplift (%)	2.50	2.50
Required credit enhancement for second notch of collateral uplift (%)	2.50	2.52
Required credit enhancement for third notch of collateral uplift (%)	2.50	2.67
Target credit enhancement for maximum uplift (%)	2.50	2.82
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

*WAM--Weighted-average maturity.

Counterparty risk

We have identified several counterparty risks to which the covered bonds are exposed. However, as these are either structurally mitigated in line with our counterparty criteria or taken into account 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 the insolvency of the issuer, 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. This is 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 took this risk into account in our analysis by assuming that two months of collections are lost.

Following a breach of the ACT or the insolvency of the issuer, 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.

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	**S-1**	S-2	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5
- N/A					- Social capital					- N/A				

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021. N/A--Not applicable.

We view environmental and governance factors in AEGON Bank's soft-bullet covered bond program to be aligned with those of its Dutch peers. 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 that we size in our analysis. On the other hand, certain features of the Dutch tax system have incentivized the origination of high LTV and interest-only loans, which we consider as credit negative in our analysis. Furthermore, resetting interest loans with no pre-established rules to determine the new reset interest rates are common in the Netherlands. Although this introduces uncertainty regarding future cash inflows from the cover pool, the risk is partially mitigated by bond paying a fixed interest rate. AEGON Bank commits to a level of overcollateralization 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

- Global Covered Bond Insights Q2 2022, June 8, 2022
- ESG Credit Indicator Report Card: Covered Bonds, April 7, 2022
- S&P Global Ratings Definitions, Nov. 10, 2021
- Dutch Covered Bond Market Insights 2021, Nov. 8, 2021
- Glossary Of Covered Bond Terms, April 27, 2018