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Aegon Bank N.V.

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Aegon Bank N.V.

Rating Score Snapshot

Issuer Credit Rating
A-/Stable/A-2

SACP: bbb- → **Support: +3** → **Additional factors: 0**

Anchor	bbb+	
Business position	Constrained	-3
Capital and earnings	Very strong	+2
Risk position	Moderate	-1
Funding	Moderate	-1
Liquidity	Adequate	
CRA adjustment		+1

ALAC support	0
GRE support	0
Group support	+3
Sovereign support	0

Issuer credit rating
A-/Stable/A-2

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Very strong capitalization, with our expectation of a risk-adjusted capital (RAC) ratio of above 19% over the two-year rating horizon.	Relatively small size, with limited geographical diversification and a focus on a niche segment, Dutch entrepreneurs.
A strong market share in its niche segment.	A funding base mostly comprising less sticky deposits than at traditional banks.
Support from new parent ASR Netherland N.V. (ASR) in case of need, and from synergies in areas such as IT and human resources.	Exposure to short-to-medium term operational risks from the bank's launch of its own lending franchise.

We expect ASR, as Aegon Bank's new parent, to support the bank in case of need. Subsequent to the sale of Aegon Bank, along with Aegon Group's Dutch operations, to ASR, we consider the bank's incorporation within the ASR group as positive for its overall creditworthiness. We expect ASR to support the existing business links between Aegon Bank, Aegon Hypotheken B.V., and Robuust in the coming years. These relationships are of paramount importance for Aegon Bank's mortgage inflows as the bank does not originate mortgages. Furthermore, the bank will continue to benefit from operational links with the other entities that ASR has bought.

Aegon Bank's loan-origination strategy will be beneficial in the medium-to-long term. The bank is progressing with its strategy to reduce its dependence on third parties Aegon Hypotheken and Robuust for mortgage inflows. This year, the bank has launched its own unsecured small-to-midsize enterprise (SME) lending proposition, and we expect it to offer mortgages in 2024. We think that this proprietary lending will form a significant part of total new lending in the long term.

After a significant decrease in net income in 2022, we expect Aegon Bank's profitability to peak in 2023, before normalizing in 2024. We expect a temporary boost in profitability in 2023 thanks to the time lag between the pricing of savings and movements in the interbank rates before the spread normalizes in 2024. At the same time, as the bank is running off or selling its non-Dutch SME and unsecured customer loan portfolios, we expect to see a decrease in gross customer loans, partly offset by the new loan-origination operations that started this year.

Outlook

The stable outlook reflects our expectation that ASR would provide extraordinary support to Aegon Bank in case of need over our two-year rating horizon. In our view, the bank's creditworthiness will also derive support over the next 12-24 months from its robust capital and operational ties with ASR, while the bank focuses on building its own lending franchise and further promotes its Knab brand.

Downside scenario

Although it is not our base case, we could lower the long-term rating on Aegon Bank if we considered that ASR had changed its stance toward the bank, and no longer saw it as a long-term strategic investment. We could also lower our long-term rating on Aegon Bank in the next 12-24 months if the bank failed to demonstrate sustainable profitability and retain its market share while building its own lending franchise, or if we saw its risk appetite increase.

Upside scenario

We view rating upside as remote. An upgrade would require a simultaneous improvement of Aegon Bank's stand-alone credit profile (SACP) and the ASR group's creditworthiness.

Key Metrics

Aegon Bank N.V.--Key ratios and forecasts

	--Fiscal year ended Dec. 31--				
(%)	**2020a**	**2021a**	**2022f**	**2023f**	**2024f**
Growth in operating revenue	11.0	(11.3)	(21.0)	42.0-45.0	(15.0)-(18.0)
Growth in customer loans	9.1	(5.5)	(8.4)	(2.2)-(2.4)	5.8-6.2
Net interest income/average earning assets (NIM)	1.6	1.4	1.5	2.0-2.1	1.4-1.5
Cost-to-income ratio	80.5	66.4	80.5	55.4-58.9	67.4-71.5
Return on assets	(0.2)	0.5	0.2-0.2	0.5-0.6	0.3-0.3
New loan loss provisions/average customer loans	0.7	(0.2)	(0.0)-(0.1)	(0.0)-(0.1)	(0.0)-(0.1)
Gross nonperforming assets/customer loans	1.0	0.7	0.4-0.5	0.4-0.5	0.5-0.6
Risk-adjusted capital ratio	16.9	18.5	19.3-20.3	19.8-20.9	19.0-20.0

All figures are S&P Global Ratings-adjusted. a--Actual. f--Forecast. NIM--Net interest margin.

Anchor: 'bbb+' For Banks Operating Only In The Netherlands

We view the economic risk trend for the Dutch banking sector as stable. Under our base-case scenario, we expect the Netherlands, like other European countries, to feel the repercussions of the Russia-Ukraine war, with GDP growth subdued at 0.7% in 2023 and 1.1% in 2024 (after 4.5% in 2022). After peaking at 11.7% in 2022, we expect inflation to fall to 4.8% in 2023, but to continue putting pressure on households' purchasing power. The labor market remains strong, with unemployment hovering around 4%.

Economic imbalances have not receded because of the very dynamic real estate market, where supply shortages and pent-up demand, combined with favorable demographics, support long-term house-price appreciation. However, we expect a cumulative decline of around 8% in nominal house prices over the next 18-24 months as the pressure from higher interest rates mounts.

We foresee some deterioration in Dutch banks' asset quality metrics as economic and credit growth slows, but expect the pressure to be manageable. Dutch banks' asset quality is structurally supported by fixed-rate long-term mortgages, which represent the largest part of the banks' loan portfolios.

We anticipate that an increase in nonperforming loans will come mostly from lending to corporates and SMEs. We expect that Dutch banks will maintain prudent provisioning, and that credit impairment charges will remain stable at a through-the-cycle level of around 25-30 basis points.

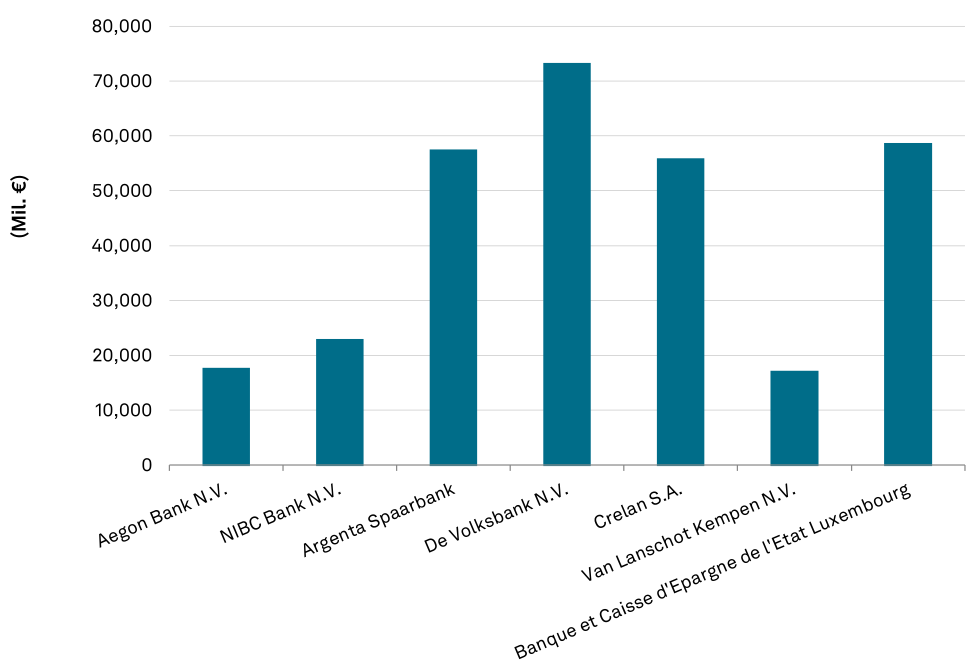
Business Position: Relatively Small Bank With Limited Geographical And Product Diversification

Our assessment of Aegon Bank's business position reflects its small size compared to peers (see chart 1), and its relatively limited geographical and product diversification. Going forward, Aegon Bank will only operate in the Netherlands because it is running off or selling its noncore U.K. exposures. Aegon Bank is a pure online bank focused on domestic mortgages, which represented more than 97% of total net loans at year-end 2022. The bank enjoys a strong market share of around 27% in the niche segment of newly self-employed Dutch customers.

Chart 1

Aegon Bank is one of the smallest among its peers

Assets on the balance sheet as of year-end 2022



Source: S&P Global Ratings.

Aegon Bank provides payment accounts as well as savings, investment, and insurance products, and recently expanded its offerings to include bookkeeping systems. However, Aegon Bank's business proposition appears to be narrower than the propositions of its peers, with less recognition of the Knab brand outside domestic entrepreneurs and their families and businesses.

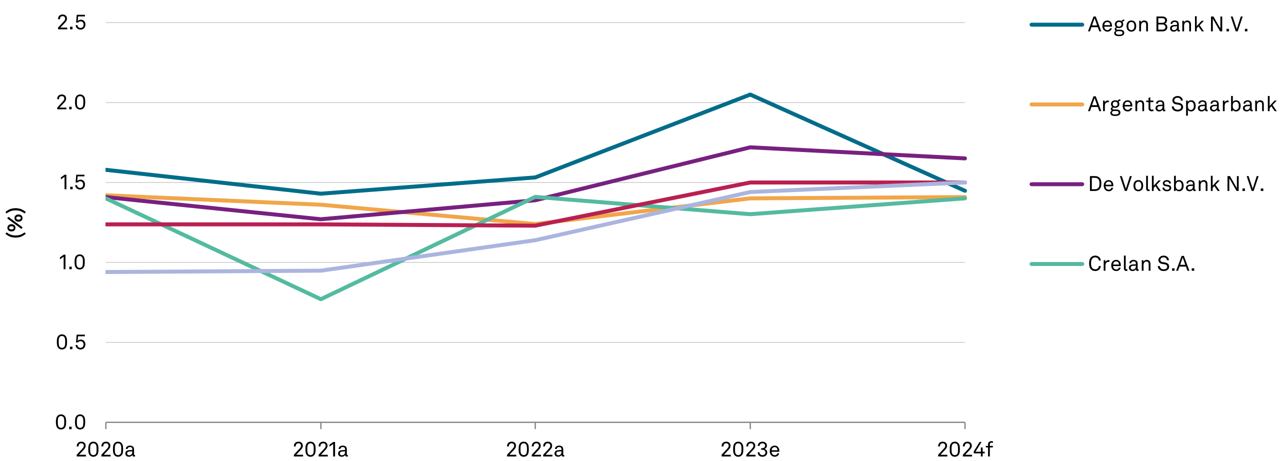
For the time being, Aegon Bank relies entirely on Aegon Hypotheken and Robuust for mortgage origination, making the bank's relationships with these entities crucial for its business. Aegon Hypotheken, which ASR acquired alongside Aegon Bank, is a significant mortgage lender in the Netherlands and plays a key role in enhancing ASR's position as a large domestic mortgage originator. In addition, Aegon Hypotheken has the exclusive right to purchase and distribute mortgages from third-party specialist mortgage provider Robuust. Aegon Bank has control over Robuust's mortgages inflows and can subscribe to different mortgage portfolios.

Recently, Aegon Bank launched its own lending platform, initially offering loans to SMEs, and with its own mortgage lending operations due to start in 2024. We believe that this initiative has growth potential as the bank will be able to offer mortgages and SME loans to its existing customers. This will leverage its customer relationships and enhance the reputation of the Knab brand with the offering of asset-side services. Notably, we think that the bank has significant room to expand its lending to SMEs, as its market share here is virtually nonexistent. However, it will take time for the bank to realize the full benefit from its own lending operations. Over our two-year rating horizon, we expect Aegon Hypotheken and Robuust to maintain their relationships with Aegon Bank and to continue providing the main mortgage inflows for the bank.

The profitability of Aegon Bank's lending operations is broadly in line with that of its peers (see chart 2). We expect a temporary peak in Aegon Bank's net interest margin (NIM) in 2023, as the bank is benefiting from the spread between the Euribor and the savings rates it offers its clients. Consequently, Aegon Bank's net interest income almost doubled to €182 million in the first half of 2023, while its net loans only grew by 3%. This spread benefit will narrow, taking our forecast of the NIM back to normalized levels in 2024.

Chart 2

We expect the net interest margin to remain within the range for the peer group
Net interest income evolution



a--Actual. e--Estimate. f--Forecast. Source: S&P Global Ratings.

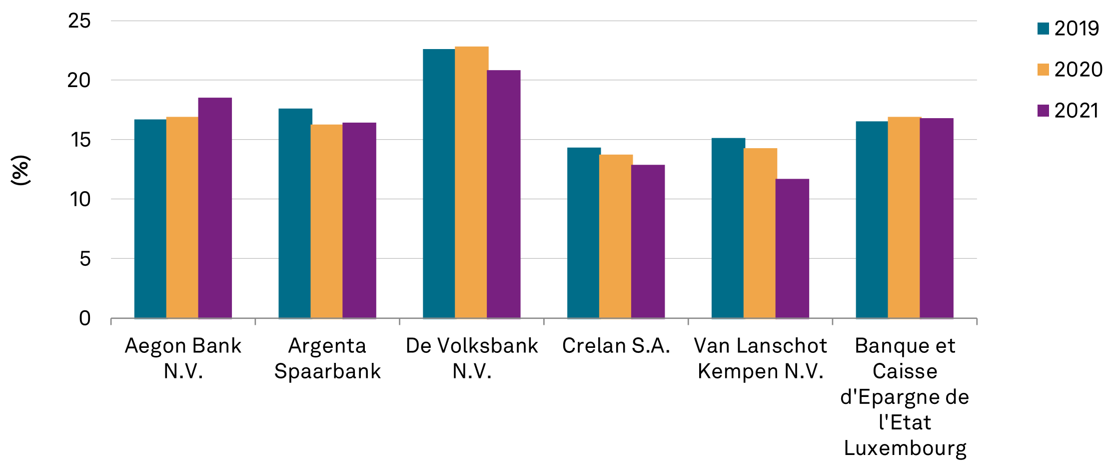
Capital And Earnings: Very Strong Capitalization, With Profitability In Line With That Of Peers

Aegon Bank benefits from very strong capitalization, with a projected RAC ratio before diversification of 19%-21% over 2022-2024, which is in line with peers with major exposures to mortgages like Argenta Spaarbank or de Volksbank (see chart 3). Our view of Aegon Bank's increasing RAC ratio, which stood at 18.5% in 2021, is underpinned by moderate growth in risk-weighted assets in 2022 and 2023, no dividend payment in 2022, and strong profitability in 2023.

Chart 3

Very strong capitalization in line with higher-rated peers

S&P Global Ratings' RAC ratio before diversification



RAC--Risk-adjusted capital. Source: S&P Global Ratings.

While we are yet to see Aegon Bank's future dividend policy, our forecast of a dividend distribution of 50% of earnings in 2023 and 2024 is in line with the 55% distribution that Aegon Bank made to Aegon N.V. in 2021. We consider it unlikely that ASR will undermine Aegon Bank's strong capital position through large capital distributions. This makes it highly probable that Aegon Bank's common equity tier 1 ratio, which rose to 23.2% in the first half of 2023, around twice its capital requirement, will fall below 20.0% over our rating horizon.

On the earnings side, Aegon Bank's profitability sits within the range for its peer group, and we expect interest-related income to represent around 80% of operating revenues in 2024, down from around 100% in 2022. This will be due partly to a normalization of net interest income from 2024; partly to the bank's focus on fee-based services for SME and self-employed customers, who are ready to pay high fees for high-quality services; and partly to new cross-selling opportunities arising from the forthcoming proprietary lending services.

We expect Aegon Bank's return on equity (ROE) to peak at a low double digit at year-end 2023, as the bank benefits from higher rates while the increase in savings rates remains limited. ROE will then fall to a more normal level of about 6.0%-7.0% in 2024.

Risk Position: Solid Asset Quality, Partly Offset By Short-Term Operational Risks From The New Proprietary Lending Franchise

Aegon Bank's NPAs historically stand at around 0.5% of its total lending, with a peak at 1.0% in 2019-2020. These levels of NPAs are in line with or slightly better than those of most of its peers. Furthermore, Aegon Bank has a conservative policy on provisioning, with Stage 3 coverage of around 81% in 2022, significantly above the average for its peers. We expect Aegon Bank's asset quality to remain stable as the bank is running off or divesting its noncore exposures, and although SME lending will gradually increase, we do not expect it to represent more than 5% of the lending book by the end of 2024.

Aegon Bank holds its securities portfolio of €1.1 billion at year-end 2022 for liquidity management. Of these securities, 18% have 'BBB' ratings, 33% 'A' ratings, and the remainder 'AA' and 'AAA' category ratings.

In our view, Aegon Bank's solvency benefits from its very low-risk mortgage portfolio, of which the Dutch National Mortgage Guarantee (NHG) covers about 55%. The bank is actively divesting or running off its small pockets of unsecured consumer and non-Dutch SME exposures.

Meanwhile, Aegon Bank has launched its own lending operations, focusing on SME loans in 2023 and introducing Dutch mortgages in 2024. We regard this development as positive over the long term. However, in the short-to-medium term, the bank's launch of its own lending operations comes with operational risks that are detrimental to its creditworthiness. In particular, the bank faces risks around IT permanence, credit evaluation, and the lending-decision process, and it will also have to develop anti-money-laundering and know-your-customer competencies. The development of new activities such as proprietary lending operations thus comes with short-to-medium term tail risk that we reflect in our assessment of Aegon Bank's risk position.

In the longer term, Aegon Bank's risk appetite for domestic SME loans could increase or present some concentration risk. In addition, a smaller proportion of its newly originated mortgages could have NHG guarantees compared with the existing mortgages on the bank's balance sheet.

Funding And Liquidity: Less Sticky Funding Base Than That Of Peers, Partly Tempered By Adequate Liquidity

We view Aegon Bank's funding profile as weaker than the profiles of its peers, as, being a pure online player, its clients are more likely to withdraw their deposits than a classic retail bank's customer base. This is especially the case for professional clients (e.g., SMEs and entrepreneurs), even if it means a significant administrative burden for them, as they must contact their own clients to change their banking information.

Aegon Bank is mostly funded by deposits, with core deposits representing around 80% of the total funding base. Additionally, less than 20% of deposit accounts were above the €100,000 deposit guarantee scheme threshold in 2022 and 2021. The stable funding ratio stood at 115% in 2022, showing that Aegon Bank's funding sources cover its funding needs. Nevertheless, our stable funding ratio assumptions for deposit runoffs do not take into consideration particular scenarios for pure online clientele. This somewhat reduces the comparability of this metric relative to Aegon Bank's peers.

We consider Aegon Bank's to have sufficient liquidity to withstand an adverse shock. Liquid assets, by our measures, have exceeded uninsured deposits for the past two years, and the bank has €5 billion in unencumbered mortgages that it could pledge to secure additional funding. Furthermore, the bank benefits from a securitization program (SAECURE 19) that it has pledged at the central bank and that could generate up to €1 billion of additional liquidity in case of need.

Aegon Bank's cash and cash equivalents decreased by 21% in the first half of 2023, mainly due to a 4% decrease in savings deposits within our assumptions, as the evolving macroenvironment for interest rates translates into more expensive liquidity and higher competition for customer savings. Accordingly, the liquidity coverage and net stable funding ratios fell to 187% and 148%, respectively, in the first half of 2023, from 223% and 153% at year-end 2022. These metrics remain relatively strong, and we take a favorable view of broad liquid assets representing 15.5% of total assets in 2022 and the low reliance on short-term debt. In light of the bank's entrepreneur-heavy customer base, we consider all these factors to be prerequisites for a neutral assessment of its liquidity profile.

Comparable Ratings Analysis: A One-Notch Uplift Thanks To Mortgage Inflow Support From Group Members

In our view, there are positive holistic elements that support Aegon Bank's creditworthiness and that the risk factors assessment above does not incorporate.

We apply a one-notch positive adjustment to the SACP to reflect the benefits that Aegon Bank will enjoy from its operational links with ASR as a large insurer parent. As such, we expect ASR to support Aegon Bank's strategy and business by providing it with new mortgage inflows if lending growth is lower than it expected, particularly if the Dutch mortgage market declines.

We also base our intrinsic view of Aegon Bank's creditworthiness on our expectation that ASR will maintain operational ties (such as human resources and IT synergies) between Aegon Bank and the other entities that ASR bought from Aegon N.V.

This adjustment also supports Aegon Bank's 'bbb-' SACP at a comparable level with the SACPs of its peers.

Support: Three Notches Of Uplift For Group Support

Our long-term rating on Aegon Bank reflects our expectation of ASR's extraordinary support if needed. Our view that the bank is strategically important to its new parent leads us to apply three notches of uplift to the SACP.

Environmental, Social, And Governance

We consider ESG elements to be neutral to our assessment of Aegon Bank's creditworthiness.

Resolution Counterparty Ratings

We do not assign Aegon Bank a resolution counterparty rating because we consider group support to be our base case in a gone-concern scenario. Thus, Aegon Bank's resolution strategy is inconsequential to our rating on the bank since the three notches of group support are the highest degree of support it can achieve. We understand that Aegon Bank's sale-of-business primary resolution strategy, with the use of a bridge bank as a possible fallback, is backed by the fact that primary account customers make up 58% of its customer base.

Key Statistics

Table 1

Aegon Bank N.V.--Key figures

	--Year ended Dec. 31--				
(Mil. €)	**2022**	**2021**	**2020**	**2019**	**2018**
Adjusted assets	17,563.4	16,150.1	17,137.2	15,918.5	14,140.0
Customer loans (gross)	12,025.4	13,129.9	13,886.7	12,729.7	11,240.5
Adjusted common equity	751.8	723.8	687.6	729.1	627.9
Operating revenues	205.3	259.8	292.9	263.9	190.0
Noninterest expenses	165.3	172.5	235.8	155.6	144.1
Core earnings	32.2	81.6	(31.5)	26.6	5.7

Table 2

Aegon Bank N.V.--Business position

	--Year ended Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Return on average common equity	4.5	11.5	(4.4)	3.9	0.9

Table 3

Aegon Bank N.V.--Capital and earnings

	--Year ended Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Tier 1 capital ratio	22.3	21.0	21.2	20.0	21.9
S&P Global Ratings' RAC ratio before diversification	N/A	18.5	16.9	16.6	N/A
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Cost-to-income ratio	80.5	66.4	80.5	59.0	75.8
Preprovision operating income/average assets	0.2	0.5	0.3	0.7	0.3

N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Aegon Bank N.V.--Risk-adjusted capital framework data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government and central banks	2,707.5	38.8	1.4	52.8	2.0
Of which regional governments and local authorities	68.8	0.4	0.6	2.5	3.7
Institutions and CCPs	799.1	183.9	23.0	179.8	22.5
Corporate	600.6	387.7	64.6	309.8	51.6
Retail	11,980.9	1,947.1	16.3	2,365.6	19.7

Table 4

Aegon Bank N.V.--Risk-adjusted capital framework data (cont.)					
Of which mortgages	11,567.8	1,661.0	14.4	2,038.1	17.6
Securitization§	135.0	5.4	4.0	90.9	67.3
Other assets†	330.7	421.2	127.4	371.5	112.3
Total credit risk	16,553.8	2,984.1	18.0	3,370.5	20.4
Credit valuation adjustment					
Total credit valuation adjustment	--	0.0	--	0.0	--
Market risk					
Equity in the banking book	0.0	0.0	0.0	0.0	0.0
Trading book market risk	--	0.0	--	0.0	--
Total market risk	--	0.0	--	0.0	--
Operational risk					
Total operational risk	--	506.0	--	549.2	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	3,490.1	--	3,919.6	100.0
Total diversification / concentration adjustments	--	--	--	926.2	23.6
RWA after diversification	--	3,490.1	--	4,845.8	123.6
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		733.3	21.0	723.8	18.5
Capital ratio after adjustments‡		733.3	21.1	723.8	14.9

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. CCPs--Central counterparty clearing house. Sources: Company data as of Dec. 31, 2021, S&P Global Ratings.

Table 5

Aegon Bank N.V.--Risk position					
	--Year ended Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Growth in customer loans	(8.4)	(5.5)	9.1	13.2	10.3
New loan loss provisions/average customer loans	(0.0)	(0.2)	0.7	0.6	0.5
Net charge-offs/average customer loans	0.1	0.1	0.1	0.0	0.1
Gross nonperforming assets/customer loans + other real estate owned	0.5	0.7	1.0	1.0	0.5
Loan loss reserves/gross nonperforming assets	81.3	96.3	114.6	90.7	140.8

Table 6

Aegon Bank N.V.--Funding and liquidity

	--Year ended Dec. 31--				
(%)	**2022**	**2021**	**2020**	**2019**	**2018**
Core deposits/funding base	80.0	79.4	82.7	80.8	82.5
Customer loans (net)/customer deposits	99.7	112.6	109.5	109.3	105.4
Long-term funding ratio	96.8	100.0	99.2	95.0	99.9
Stable funding ratio	115.2	110.6	109.4	108.0	113.0
Short-term wholesale funding/funding base	3.3	0.0	0.8	5.2	0.1
Regulatory net stable funding ratio	153.0	142.0	N/A	N/A	N/A
Broad liquid assets/total assets	15.5	13.0	14.9	16.1	14.3
Net broad liquid assets/short-term customer deposits	22.8	23.4	24.2	19.5	23.7
Regulatory liquidity coverage ratio (x)	223.0	202.0	N/A	N/A	N/A
Short-term wholesale funding/total wholesale funding	16.7	0.0	4.5	27.3	0.6

N/A--Not applicable.

Aegon Bank N.V.--Rating component scores

Issuer Credit Rating	**A-/Stable/A-2**
SACP	bbb-
Anchor	bbb+
Economic risk	3
Industry risk	3
Business position	Constrained
Capital and earnings	Very strong
Risk position	Moderate
Funding	Moderate
Liquidity	Adequate
Comparable ratings analysis	+1
Support	+3
ALAC support	0
GRE support	0
Group support	+3
Sovereign support	0
Additional factors	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- ASR Nederland, Core Subsidiaries Ratings Affirmed After Acquisition Of Aegon's Dutch Operations; Outlooks Remain Stable, July 10, 2023
- Dutch Aegon Bank Downgraded To 'A-' On Expected Near-Term Sale To ASR; Outlook Stable, June 2, 2023

Ratings Detail (As Of September 19, 2023)*	
Aegon Bank N.V.	
Issuer Credit Rating	A-/Stable/A-2
Senior Secured	AAA/Stable
Senior Subordinated	BBB+
Issuer Credit Ratings History	
02-Jun-2023	A-/Stable/A-2
27-Oct-2022	A/Watch Neg/A-1
21-Feb-2020	A/Stable/A-1
Sovereign Rating	
Netherlands	AAA/Stable/A-1+
Related Entities	
ASR Levensverzekering N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
ASR Nederland N.V.	
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Junior Subordinated	BB+
Junior Subordinated	BBB-

*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.