

Research Update:

# Dutch Aegon Bank Downgraded To 'A-' On Expected Near-Term Sale To ASR; Outlook Stable

June 2, 2023

## Overview

- Aegon Group is selling its Netherlands-based Aegon Bank to ASR Nederland N.V. (ASR).
- We have updated our view on the potential support that ASR could provide to Aegon Bank N.V. after the conclusion of its acquisition.
- We have assigned Aegon Bank a 'bbb-' stand-alone credit profile (SACP), and determined Aegon Bank to be strategically important to ASR after the acquisition.
- We lowered our long- and short-term issuer credit ratings on Aegon Bank to 'A-/A-2' from 'A/A-1'.
- The stable outlook indicates that we expect Aegon Bank to remain at least strategically important to ASR and that Aegon Bank's creditworthiness will be supported by its robust capital levels and business links with the new parent.

## Rating Action

On June 2, 2023, S&P Global Ratings lowered to 'A-' from 'A' its long-term issuer credit rating on Aegon Bank N.V. The outlook is stable.

We also lowered our short-term issuer credit rating on the bank to 'A-2' from 'A-1' and our issue rating on Aegon Bank's senior subordinated debt to 'BBB+' from 'A-'.

## Rationale

**S&P Global Ratings has updated its view on Aegon Bank's role within the ASR group and considers that Aegon Bank will benefit from group support.** ASR Netherlands is expected to complete its acquisition of Aegon Bank in the second half of 2023. Previously, we had stated that we could lower our rating on Aegon Bank by one or more notches, depending on its post-acquisition status. We now expect ASR to incorporate Aegon Bank into the ASR group, support the existing business links between Aegon Bank, Aegon Hypotheken B.V., and Robuust for

### PRIMARY CREDIT ANALYST

**Clement Collard**  
Paris  
+33 144207213  
clement.collard  
@spglobal.com

### SECONDARY CONTACT

**Anastasia Turdyeva**  
Dublin  
+ (353)1 568 0622  
anastasia.turdyeva  
@spglobal.com

### ADDITIONAL CONTACT

**Laura Jimenez**  
London  
+44 2071760839  
laura.jimenez  
@spglobal.com

mortgage origination; and provide extraordinary support to Aegon Bank, in case of need, following the completion of its acquisition process. We now understand that the group is committed to keep Aegon Bank in the coming years. Consequently, we consider Aegon Bank to be strategically important to ASR upon acquisition completion. In our opinion, this supports both senior preferred and senior nonpreferred debts. In recognition of this extraordinary support, we rate Aegon Bank three notches above its 'bbb-' SACP.

**Aegon Bank's SACP is based on limited diversification and scale, high capitalization, and a relatively weak funding profile.** We consider Aegon Bank's business position to be weaker than that of its peers, because it is concentrated in a single country, has limited size, and focuses on a niche segment (Dutch entrepreneurs). The bank relies entirely on Aegon Hypotheken B.V. and Robuust for mortgage origination. In our view, the relationship between Aegon Bank and the entities that provide it with new mortgage inflows is paramount to Aegon Bank's business since mortgage loans comprise 97% of its net loans book. We anticipate, however, that Aegon Hypotheken and Robuust will maintain their existing relationships with Aegon Bank over our two-year rating horizon. Aegon Bank has a strong market share among Dutch entrepreneurs. It provides them with payment accounts as well as savings, investment, and insurance products, and recently expanded its offering to include bookkeeping systems. It has significant room to expand its lending to small and midsize enterprises (SMEs). Nevertheless, creating its own lending franchise may prove difficult, especially in the SME segment, where its market share is almost nonexistent. In addition, we consider Aegon Bank's concentration on entrepreneurs and SMEs to be negative, from a creditworthiness standpoint, because this group has a more volatile credit risk profile than the general population.

**Although the bank has very strong capitalization levels, these are partly offset by tail risk in its own lending activities.** Nevertheless, we see Aegon Bank's capitalization levels as one of the key strengths for the rating. We expect our risk-adjusted capital (RAC) ratio to remain comfortably above 19% over the next two years. Aegon Bank's solvency benefits from its very low-risk mortgages portfolio, about 55% of which is covered by the Dutch National Mortgage Guarantee (NHG). The bank is actively divesting or running-off its small pockets of unsecured consumer and non-Dutch SME exposures. At the same time, it is launching its own lending operations, which will focus on Dutch mortgage and SME loans. We regard this development of its franchise as positive over the long term. It will also offer opportunities for cross-selling. However, in the short-to-medium term, launching its own lending operation comes with operational risks that are detrimental to the bank's creditworthiness. In the longer term, Aegon Bank's risk appetite for local SME loans could increase and a smaller proportion of its newly originated mortgages could have NHG guarantees compared with the existing mortgages on the bank's balance sheet.

**We consider Aegon Bank's funding to be a relative weakness to the rating, even though it is generally in line with that of peers.** The bank is mostly deposit-funded, with core deposits representing about 80% of its funding base. Less than 20% of deposits were above the €100,000 DGS (Deposit Guarantee Scheme) threshold in 2022 and 2021 and by our measure, Aegon Bank's liquid assets have exceeded uninsured deposits for the past two years. The bank also has about €5 billion in unencumbered mortgages that could be pledged to secure additional funding. Moreover, we view as positive Aegon Bank's retained securitization program (SAECURE 19), which is pledged at the central bank and could generate up to €1 billion of liquidity in case of need. As a pure online player, we believe Aegon Bank's clients are more likely to withdraw their deposits than a classic retail customer base. Online customers are likely to switch in order to benefit from more advantageous conditions, or to meet their financing needs. We consider Aegon Bank's depositor

base to be less sticky in case of stress than those of its peers, which threatens the relative position of the bank's funding.

**Positively, Aegon Bank enjoys relatively strong liquidity metrics.** For example, its liquidity coverage ratio is 223%, and its broad liquid assets represent for 15% of the bank's assets. Aegon Bank also has very low reliance on short-term debts. Given the bank's entrepreneur-heavy customer base, we consider all these factors to be prerequisites for a neutral assessment of its liquidity profile.

**On a stand-alone basis, Aegon Bank will benefit from its operational links with a large insurer parent.** In our view, there are positive holistic elements that support Aegon Bank's creditworthiness and are not incorporated in the risk factor assessments described above. In particular, we expect ASR to support Aegon Bank's strategy and business by providing it with new mortgage inflows if lending growth is lower than expected, particularly if the Dutch mortgage market declines. We also expect ASR to maintain operational ties--such as human resources and IT synergies--between Aegon Bank and the other Aegon entities ASR is acquiring. We reflect this operational benefit to Aegon Bank's creditworthiness by applying a positive one-notch comparable rating adjustment to derive the issuer stand-alone credit profile.

**Aegon Bank's resolution strategy is neutral to our rating on the bank.** We understand Aegon Bank's sale of business primary resolution strategy, with bridge bank as a possible fallback, is backed by its customer base of which 58% are primary customers. 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.

## **Outlook**

The stable outlook is underpinned by our expectation that ASR would provide extraordinary support in case of need over our rating horizon. In our view, the bank's creditworthiness would also be supported over the next 12-24 months by its robust capital and operational ties with ASR, while the bank focuses on building up its own lending franchise and further promotes its Knab brand.

## **Downside scenario**

Although we do not see this as the base case, we could lower the 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 to retain its market share while building up its own franchise, or if we saw its risk appetite increase.

## **Upside scenario**

We view ratings upside as remote. An upgrade would require simultaneous improvement of Aegon Bank's SACP and the ASR group's creditworthiness.

## Environmental, Social, And Governance

### ESG credit indicators: E-2, S-2, G-2

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

### Ratings Score Snapshot

	To	From
<b>Issuer Credit Rating</b>	<b>A-/Stable/A-2</b>	<b>A/Watch Neg/A-1</b>
SACP	bbb-	N/A
Anchor	bbb+	N/A
Business position	Constrained (-3)	N/A
Capital and earnings	Very Strong (+2)	N/A
Risk position	Moderate (-1)	N/A
Funding and liquidity	Moderate and Adequate (-1)	N/A
Comparable ratings analysis	+1	N/A
Support	+3	N/A
ALAC support	0	N/A
GRE support	0	N/A
Group support	+3	N/A
Sovereign support	0	N/A
Additional factors	0	N/A

SACP--Stand-alone credit profile. N/A--Not applicable.

### Related Criteria

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

- Aegon Group Affirmed At 'A+' On Announcement Of 2022 Results; Outlook Negative; Two Subsidiaries Stay On Watch Negative, Feb. 22, 2023
- Aegon Group Holding Company Downgraded; Outlook On Core Subsidiaries Revised To Negative On Sale Of Aegon Nederland, Oct. 28, 2022

## Ratings List

### Downgraded; CreditWatch/Outlook Action

	To	From
<b>AEGON Bank N.V.</b>		
Issuer Credit Rating	A-/Stable/A-2	A/Watch Neg/A-1
<b>AEGON Bank N.V.</b>		
Senior Subordinated	BBB+	A-/Watch Neg

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