S&P Global
Ratings

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AEGON N.V.

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Anchor	a+
Business Risk	**Very Strong**
Competitive position	Very strong
IICRA	Low
Financial Risk	**Strong**
Capital and earnings	Strong
Risk exposure	Moderately low
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a+

+

Support	0
Group support	0
Government support	0

=

A+/Stable/--
Financial strength rating

A-/Stable/A-2
Holding company ICR

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
A globally diversified insurance group operating across the U.S. and in international markets, aided by a well-recognized brand	Historically material difference between net underlying earnings and bottom line profitability, due to restructuring costs and one-off items
Very strong capital position under our capital model, accompanied by solid solvency ratios	Weaker operating performance than peers
Extensive hedging program and declining general account investments, increasing resilience to market shocks	High reliance on softer forms of capital such as future profits and hybrid debt

Aegon N.V. will continue to benefit from its widely known brand in its core markets internationally, as well as its wide product diversification. As one of the world's largest insurance companies, Aegon holds a top 10 position in the U.S. with its brand Transamerica; and is among the top five distributors of life, pension, and saving business in the Netherlands, where it is also a leading mortgage originator. S&P Global Ratings expects that the group will continue to enjoy its sound diversification--both geographically and in terms of business lines. However, with the new operating strategy aimed at streamlining operations and narrowing the strategic focus, we expect product diversification will be limited and market share will decline for the U.S. operations.

Aegon's earnings will remain sensitive to the market environment, potentially affected by fair value adjustments and restructuring costs. Historically, market-derived factors and one-time items have created a marked difference between net underlying earnings and net income. The group has made strategic divestments and is implementing restructuring plans and risk management initiatives to overcome weak earnings. We believe bottom-line performance is still a relative weakness compared with that of 'AA-' rated peers, and this drives our choice of selecting the lower of the two possible anchors of 'a+' and 'aa-' for Aegon.

The group will remain very strongly capitalized. Aegon's capitalization remains very strong, estimated under our model at the 'AA' level, and at 196% of Solvency II capital requirements as of Dec. 31, 2020. The group's gradual shift to capital-light products and fee-based business, as well as the support of the group's hedging program supplemented by longevity reinsurance, is likely to reduce the volatility in capital adequacy in the current environment. However, high reliance on softer forms of capital such as value-in-force and hybrid debt weakens the quality of Aegon's capital.

The group will sustain its sound funding structure through the forecast period. At end-2020, Aegon's financial leverage ratio stood at 25%, which is in line with the average for global multiline insurers. We forecast financial leverage will remain less than 27% over 2021-2023, given the deleveraging activities Aegon will follow under its new operating strategy.

Outlook: Stable

The stable outlook reflects our expectation that the group will continue to benefit from a leading market position in Dutch pension and life insurance and services and a diversified product range in the U.S., even if market shares decline. It further reflects the group's profitable operations growth in the U.K., Spain, and Asia, and robust capital and earnings, supported by a S&P capital adequacy comfortably above the 'AA' level.

Downside scenario

We view a downgrade as unlikely over the next two years, because we believe management's actions would support Aegon's very strong capital adequacy in the case of unexpected shocks. However, we would consider lowering the ratings if the group significantly reduced the diversity and scope of its operations through material divestments, or through a materially lower earnings contribution from its core markets, both impairing its competitiveness.

Upside scenario

Although unlikely at this stage, we could raise the rating over the next 12-24 months if we believed Aegon was likely to materially and consistently improve its profitability, matching the performance of its peer group, through positive trends in sales volumes and margins and declining operating expenses and restructuring costs. At the same time, the group would have to maintain the current level of capital adequacy and continue to expand its international operations while maintaining relevant market positions in the U.S. and the Netherlands.

Key Assumptions

- After the global economy being in recession in 2020, we expect GDP to rise again in 2021.
- Ten-year treasury yields in the U.S. lowered to 0.9% in 2020, with a gradual recovery to 1.4% in 2021 and 1.7% in 2022.
- U.S.: GDP decline of 3.9% in 2020 and growth of 4.2% in 2021 and 3% in 2022.
- Eurozone: GDP decline of 7.2% in 2020 and growth of 4.8% in 2021 and 3.9% in 2022.

Source: S&P Global Economics, Oxford Economics.

Aegon N.V.--Key Metrics

(Mil. €)	2022f	2021f	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Very Strong	Very Strong	Very Strong*	Very Strong	Very Strong	Excellent
Gross premium written	>16,000	>16,000	16,099.1	18,138.0	19,316.0	22,826.0
Net income	~900	~700	55.0	1,528.0	744.0	2,361.0
Return on shareholders' equity (%)	3-4%	3-4%	0.0	6.4	3.1	9.6
Financial leverage	25-27	25-27	25.2	26.9	29.3	29.2
Fixed charge coverage (x)	~4x	~4x	0.8	7.9	3.9	9.7

*Estimated capital adequacy. f--Forecast.

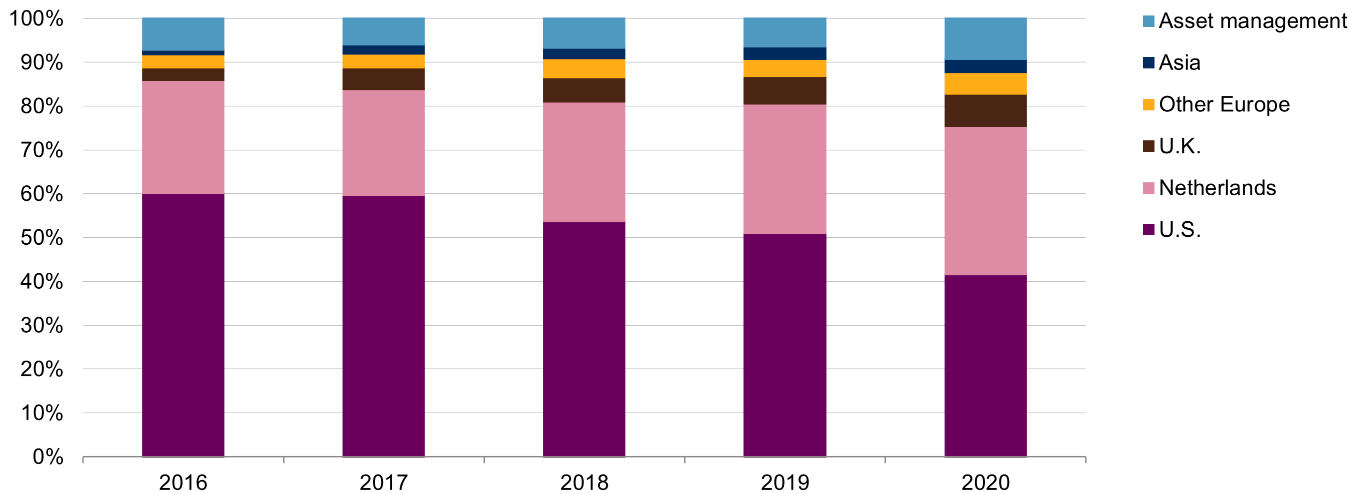
Business Risk Profile: Very Strong

Netherlands-based Aegon is one of the world's largest insurance companies, writing gross premiums of €16.1 billion in 2020. The group's operations are dominated by life business with a small presence in property/casualty (P/C) business and a growing asset management business. Aegon's sound reputation for life and pension products underpins its distribution power. Aegon recently announced a streamlined operational strategy, including limiting its global geographic footprint to three core markets, three growth markets, and one global asset manager. Within the core markets, higher-margin strategic assets would be separated from capital-intense financial assets. Another goal of the new strategy is cost-saving initiatives. Although the strategic moves especially affect the U.S. business model, the group still benefits from its widely known brand in the U.S. and internationally, as well as its diverse market position in several European markets, notably the Netherlands and the U.K. For Transamerica, the U.S. arm, we expect sliding market shares following the new strategy, with a reduced focus on variable annuities with significant interest-rate-sensitive living and death benefit riders, individual long-term care, and fixed annuities, all of which are classified as financial assets.

The U.S. remains the highest earnings contributor, with half of the pretax underlying earnings coming from the region. The Netherlands is the second-largest earnings generator for Aegon. The group is among the top five distributors of life and pension and savings business in the country and has a top-five position as a pension distributor and mortgage originator. In the past few years, Aegon has made significant investments to transform its market position in the U.K. as a digital solution provider. We believe earnings contribution from the U.K. will continue to increase as well. Aegon completed its sale of Stonebridge, a U.K.-based provider of accident insurance products, in 2021. Furthermore, Aegon agreed to sell its Central and Eastern European business to VIG. This transaction is expected to close in the second half of 2021.

Chart 1

Aegon N.V.--The Underlying Earnings Contribution From U.S. Operations Is Declining



Source: S&P Global Ratings.

In the past two years, Aegon has been unable to convert its widely diversified market position into consistently strong earnings commensurate with its ostensible market strength. We believe the group's profitability has declined more than that of peers in the past two years, due to stagnant business volumes, high ongoing restructuring costs and hedging effects, and intensifying competition from larger competitors. As expected, record-low interest rates and market turbulence from COVID-19 dampened profitability by lowering investment yields, impairing equity investments, and increasing the costs of guarantees. We expect this pressure to remain, especially from low interest rates, but see some positive signs from Aegon's planned actions to stabilize the balance sheet.

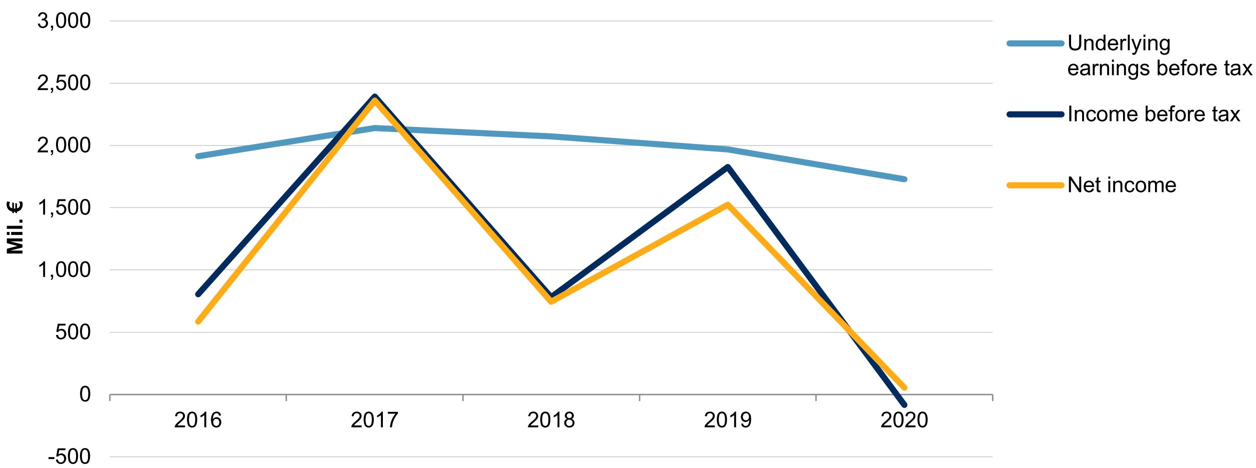
Financial Risk Profile: Strong

We expect Aegon will maintain very strong capital adequacy under our model and its Solvency II ratio will remain at the higher end of the 150%-200% range. The group's longevity reinsurance contract also supports both the Solvency-II ratio for the Netherlands' operations as well as that of the Group. We think that the group's revised focus on capital-light and fee-based business is likely to moderate future volatility in capital adequacy. However, we continue to limit our capital assessment due to Aegon's high reliance on softer forms of capital, such as the present value of future profits and hybrid debt, which we consider more volatile than core shareholder's equity. We believe the group's very strong capitalization would absorb unexpected shocks induced by COVID-19.

In 2020, Aegon's net income of €55 million was below our forecasts. The gap between underlying earnings and net income widened again in 2020, but this was mainly the result of long- term interest rate assumption and certain non-economic assumption changes in the U.S. (already reported in first-half 2020). In our view, these negative items will not recur on the same scale. We believe continuing record-low interest rates will still dampen profitability by lowered investment yields. We also believe ongoing costs associated with the group's hedging program and restructuring expenses will likely continue to weigh negatively on profitability. We expect net income forecast to about €0.7 billion for 2021 and €0.9 billion for 2022.

Chart 2

Aegon N.V.--A Wide Gap Between Underlying Earnings And Net Income Makes Operating Earnings Volatile Compared With Peers



Source: S&P Global Ratings.

Aegon has managed its investment portfolio conservatively. Sector concentration is balanced and exposures to individual counterparties are based on the rating on the counterparty. We assess the weighted-average quality of the fixed income portfolio in the 'A' range. However, the group's material obligations under its staff pension scheme create the potential for capital volatility. Interest rate risk is also present in the remaining general account book. Both for general account products and for products outside the general account with guarantees (e.g. variable annuities in the U.S.), Aegon has extensive interest rate and equity hedge programs to mitigate this risk. We also consider the foreign exchange risk low and limited primarily to translation risk in the income statement and balance sheet. The group's exposure in the equity portfolio is less than 2% of general accounts assets.

Our measure of Aegon's financial leverage stood at 25.2% as of year-end 2020. We anticipate that the group will maintain financial leverage of less than 27% in 2020-2021, following deleveraging activities within the new strategy. The improvement puts Aegon in line with the average for global multiline insurers. Fixed-charge coverage based on EBIT decreased to 0.8x in 2020 compared with a relatively high 7.9x in 2019. We expect the coverage ratio to again surpass the 4.0x threshold in 2021-2022.

Other Key Credit Considerations

Liquidity

We consider liquidity well managed. The group manages its liquidity position by applying severe stress tests. Aegon also operates with a large cash balance and highly liquid treasuries/agencies securities in the U.S. to meet its liability requirements. In addition, Aegon maintains backup liquidity facilities in the form of committed credit lines.

Factors specific to the holding company

The 'A-' long-term issuer credit rating on the holding company, Aegon N.V., reflects a two-notch difference between the ratings on the core operating entities and holding company. It reflects Aegon's diverse dividend stream coming from different and uncorrelated markets and regulatory jurisdictions, in particular U.S., Dutch, U.K., and Asian markets. While the U.S. provides about 60% of Aegon N.V's total dividend remittances, we believe the holding company could largely cover all its fixed charges, even without contribution from the U.S., thanks to its gradually declining financial leverage and significant excess cash at the holding level of €1.1 billion at end-2020. In addition, the Solvency II framework does not allow for double leverage, unlike for holding companies of U.S. life insurance peers. We note Aegon N.V.'s track record in gradually reducing financial leverage, and its debt issuance capacity.

Environmental, social, and governance

We consider Aegon's exposure to environmental and social risks in line with the insurance sector globally, but more concentrated in social risks than its global multiline insurance (GMI) peers, such as Allianz or Zurich. The company's liabilities could rise due to increased longevity and chronic illness caused by lifestyle changes in its core markets. Aegon's P/C business is proportionally smaller and more retail-oriented than its GMI peers'. As a result, its main exposure to environmental risk is through its investment portfolio, where changes in policy or public opinion regarding climate change could cause greater asset valuation volatility. Aegon's exposure to longevity trends is moderate overall, since the group has mitigated its risks through longevity reinsurance contracts. We also view positively Aegon's strong track record of identifying, modelling, and managing this risk. We value the group's capacity to manage asset-liability mismatch risks, which allows the group to anticipate, model, and pre-emptively include how social trends will affect its guaranteed life business and variable annuities. Aegon's life and pension insurance activity in the U.K. and the Netherlands is gradually running off. This limits its exposure to social factors, given that provisions and longevity reinsurance contracts already incorporate assumptions on social trends. Governance factors are consistent with what we see across the Netherlands and the U.S. We believe that the group's governance results in well-constructed financial policies and clear strategic priorities. Aegon has comprehensive financial standards and a broad-ranging, sophisticated set of risk-appetite statements.

Accounting considerations

We base our analysis primarily on audited financial data prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS-EU) as well as the Netherlands civil code. Aegon has opted for temporary exemption for IFRS 9 implementation until such time as IFRS 17 is implemented, currently expected for January 2023. Although the full impact of IFRS 17 is not yet clear, we expect it will significantly change the disclosure of group shareholders' equity, income, and other comprehensive income.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Appendix

Aegon N.V.--Credit Metrics History

Ratio/Metric	2019	2018	2017
S&P Global Ratings capital adequacy	Very Strong	Very Strong	Excellent
Total invested assets (mil. €)	387,732.0	344,193.0	344,024.0
Total group shareholder equity (mil. €)	25,048.0	22,885.0	24,387.0
Gross premiums written (mil. €)	18,138.0	19,316.0	22,826.0
Net premiums written (mil. €)	15,704.0	16,653.0	19,395.0
Reinsurance utilization (%)	13.4	13.8	15.0
EBIT (mil. €)	2,008.0	925.0	2,554.0
Net income (attributable to all shareholders) (mil. €)	1,528.0	744.0	2,361.0
Return on revenue (%)	7.7	3.5	8.5
Return on assets (including investment gains/losses) (%)	0.5	0.3	0.7
Return on group shareholders equity (reported) (%)	6.4	3.1	9.6
Life: Net expense ratio (%)	37.0	35.1	29.7
EBITDA fixed-charge coverage (x)	7.9	3.9	9.7
Financial leverage including pension deficit as debt (%)	26.9	29.3	29.2
Net investment yield (%)	4.8	4.7	4.6

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	**Strong**	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	**aa-/a+**	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of March 10, 2021)*

AEGON N.V.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Foreign Currency	A-2
Junior Subordinated	BBB
Junior Subordinated	BBB-
Senior Unsecured	A-
Subordinated	BBB
Related Entities	
AEGON Bank N.V.	
Issuer Credit Rating	A/Stable/A-1
Senior Subordinated	A-
AEGON Levensverzekering N.V.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Scottish Equitable PLC	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Transamerica Financial Life Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Stable/NR
Issuer Credit Rating	
Local Currency	A+/Stable/NR

Ratings Detail (As Of March 10, 2021)*(cont.)	
Transamerica Life (Bermuda) Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Transamerica Life Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Stable/NR
Issuer Credit Rating	
Local Currency	A+/Stable/A-1+
Domicile	Netherlands

*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.