S&P Global
Ratings

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Aegon N.V.

Primary Credit Analyst:
Taos D Fudji, Milan (39) 02-72111-276; taos.fudji@spglobal.com

Secondary Contact:
Silke Longoni, Frankfurt (49) 69-33-999-195; silke.longoni@spglobal.com

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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/A-2
Holding company ICR

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

Credit Highlights

Overview

Strengths	Risks
A globally diversified insurance group operating across the U.S. and in international markets, aided with 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 compared with that of 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 the U.S. and 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 5 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 of business lines.

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 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, standing under our model at the 'AA' level at year-end 2019, and at 208% of Solvency II capital requirements as of March 31, 2020, albeit positively supported by a higher European Insurance and Occupational Pensions Authority (EIOPA) volatility adjustment. 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, are likely to reduce the volatility in capital adequacy in the current environment. However, high reliance on softer forms of capital such as profits and hybrid debt weakens the quality of Aegon's capital.

The group will sustain its sound funding structure through the forecast period. At end-2019, Aegon's financial leverage ratio stood at 27%, which is in line with the average for global multiline insurers. We forecast financial leverage will remain less than 30% over 2020-2022.

Outlook: Stable

The stable outlooks reflect our expectation that the group will continue to benefit from a strong market share in the U.S. and Dutch pension and life insurance and services market. It further reflects the group's profitable operations growth in the U.K., Spain, and Asia, and robust capital and earnings, supported by a regulatory Solvency II ratio remaining at about 200%.

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 reduces the diversity and scope of its operations through material divestments, impairing its competitive position.

Upside scenario

Although unlikely at this stage, we could raise the rating over the next 12-24 months if we believe Aegon is 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 positons in the U.S. and the Netherlands.

Key Assumptions

- Global economy in recession for 2020, which is likely to weaken corporate asset quality and lower demand for insurance products
- Ten-year treasury yields in the U.S. at an average 1.1% in 2020 and 1.5% through 2021
- U.S.: GDP decline of 5.2% in 2020 and growth of more than 6% in 2021
- Eurozone: GDP decline of 7.3% in 2020 and growth of 5.6% in 2021

Table 1

Aegon N.V.--Key Metrics					
	2021F	**2020F**	**2019**	**2018**	**2017**
S&P Global Ratings capital adequacy	Very Strong	Very Strong	Very Strong*	Very Strong	Excellent
Gross premium written (mil. €)	>16,000	>16,000	18,138	19,316	22,826
Net income (mil. €)	1100	1,200	1528	744	2,361
Return on shareholders' equity (%)	>4.5%	>4.5%	6.4	3.1	9.6
Financial leverage	< 30%	< 30%	26.9	29.3	29.2
Fixed charge coverage	> 4x	> 4x	7.9	3.9	9.7

*Estimated capital adequacy. F--S&P Global Ratings Forecast.

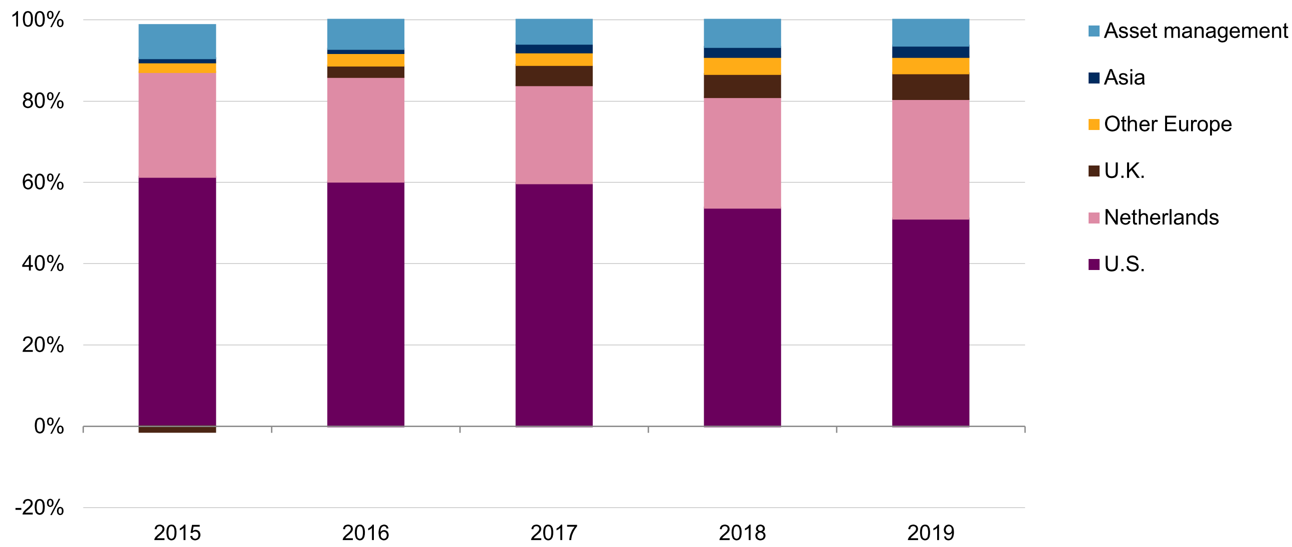
Business Risk Profile: Very Strong

Netherlands-based Aegon is one of the world's largest insurance companies, writing gross premiums of €18.1 billion in 2019. The group's operations are dominated by life business with a small presence in nonlife business and a growing asset management business. Aegon's sound reputation for life and pension products underpins its distribution power. We think the group benefits from its widely known brand in the U.S. and internationally, as well as its diverse market position in the U.S. and several European markets, notably the Netherlands and U.K. Transamerica, the U.S. arm, maintains a top 10 position in variable annuities, universal life, and term life products.

The U.S remains highest earning contributor (see chart 1) with half of the pretax underlying earning coming from the region. The Netherlands is the second-largest earnings generator for Aegon. The group is among the top 5 distributors of life and pension and saving 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 it market position in the U.K. as a digital solution provider. We believe earning contribution from U.K. will continue to increase as well.

Chart 1

Aegon N.V.--Underlying Earning Contribution From Diversified Locations

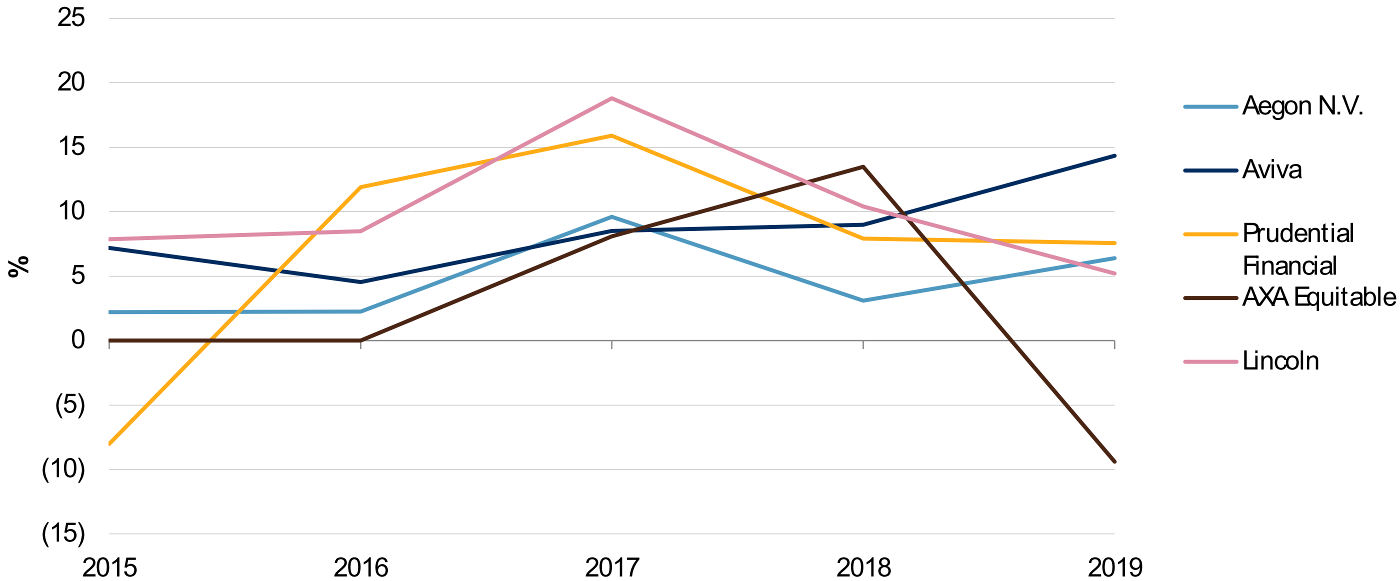


Source: S&P Global Ratings.

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 (see chart 2) due to stagnant business volumes, high ongoing restructuring costs and hedging effects, and intensifying competition from larger competitors. We expect record-low interest rates and market turbulence from COVID-19 will dampen profitability by lowering investment yields, impairing equity investments, and increasing the costs of guarantees.

Chart 2

Aegon N.V.--Lower Operating Performance Compared With That Of Peers



Source: S&P Global Ratings data.

Financial Risk Profile: Strong

We expect Aegon will maintain very strong capital adequacy under our model as well as Solvency 2 ratio will remain at higher end of target between 150%-200%. The group's recent longevity reinsurance contract also supports Aegon, as does the S-II ratio for the Netherlands' operations. We think that the group's revised focus on capital-light and fee-based business are 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 also see the group's very strong capitalization can absorb unexpected shocks induced by COVID-19.

In 2019, Aegon's net income of €1.5 billion was in line with our forecasts, but the group's underlying earnings failed to exceed €2.0 billion, contrary to our expectations. The gap between underlying earnings and net income closed in 2019, but this was mainly the result of one-off gains in the U.S. and Netherlands, a release of a pension provision, and a lower impairment level thanks to good market conditions. In our view, these positive items will not recur on the same scale. We believe continuing record-low interest rates and the market turbulence from the spread of COVID-19 will dampen profitability by lowered investment yields, adverse revaluation reserves, higher impairments, and increased costs of guarantees. 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 €1.2 billion for 2020 and €1.1 billion for 2021.

The insurer's first-quarter 2020 net income of €1.27 billion equals more than 80% of the €1.53 billion net income posted in 2019, and its regulatory Solvency II ratio of 208% is up from 201% at year-end 2019 as it benefited from a higher EIOPA volatility adjustment. The bulk of profits came from the decrease in the value of Dutch life insurance liabilities brought by an increase in illiquidity premiums (€1.1 billion benefit), as well as net gains on hedges of about €300 million. The underlying earnings, excluding one-off items, stood at €366 million, in line with the run rate of the prior year and our base-case earnings expectation.

First-quarter 2020's bottom line result continues to support our forecasts for the group's 2020 net income, which might be offset by COVID-19 fallout and the recessionary environment expected in the coming quarters. Aegon could also revise down its assumption on long-term interest rates in the U.S. converging to 4.25% over 10 years, which would constrain results. Mortality claims on the company's life insurance policies could increase because of COVID-19-related deaths, particularly in the U.S., where the insurer is a relatively large underwriter. Finally, credit impairments could increase from the €58 million booked in first-quarter 2020. Still, any increase is likely to be muted because speculative-grade bonds (rated below 'BBB-') only represent 4% of Aegon's corporate and structured asset portfolio.

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. Outside this exposure, Aegon has extensive interest rate and equity hedge programs to mitigate risk in its variable annuities products in the U.S., and guaranteed products in its Dutch business. 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 equity portfolio is less than 2% of general accounts assets.

Our measure of Aegon's financial leverage stood at 27.0% as of year-end 2019. We anticipate that the group will maintain a financial leverage of less than 30% in 2020-2021. The improvement put Aegon in line with the average for global multiline insurers. Fixed-charge coverage based on EBIT improved to 7.6x in 2019 compared with a relatively thin 4.0x in 2018. We expect coverage ratio to continue to surpass the 4.0x threshold in 2020-2021.

Other Key Credit Considerations

Environmental, social, and governance (ESG)

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 multi-line 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 property/casualty (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, as 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.

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 €1.2 billion at end-2019. In addition, the Solvency 2 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, as demonstrated by the issuance of restricted Tier 1 and a long-dated Tier 2 hybrid instruments in 2019.

Accounting considerations

We base our analysis primarily on audited financial data prepared in accordance with International Financial Reporting Standards (IFRS) 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: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014

- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Appendix

Table 2

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	387,732	344,193	344,024
Total group shareholder equity	25,048	22,885	24,387
Gross premiums written	18,138	19,316	22,826
Net premiums written	15,704	16,653	19,395
Reinsurance utilization (%)	13.4	13.8	15
EBIT	2,008	925	2,554
Net income (attributable to all shareholders)	1,528	744	2,361
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

*S&P Global Ratings' estimate.

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 July 30, 2020)*	
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/--
Blue Square Re 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
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+

Ratings Detail (As Of July 30, 2020)*(cont.)	
Transamerica Premier 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.