

AEGON Group

Primary Credit Analyst:

Marc-Philippe Juilliard, Paris +(33) 1-4075-2510; m-philippe.juilliard@spglobal.com

Secondary Contact:

Ali Karakuyu, London (44) 20-7176-7301; ali.karakuyu@spglobal.com

Research Contributor:

Ami Shah, CRISIL Global Analytical Center, an S&P Global Ratings affiliate, Mumbai

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SACP* Assessments				SACP*		Support		Ratings	
Anchor	aa-	+	Modifiers	0	=	aa-	+	0	=
Business Risk			ERM and Management	0		Liquidity	0	Group Support	0
Very Strong			Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0
Financial Risk									
Strong									
Financial Strength Rating AA-/Negative/--									
Holding Company Rating A-/Negative/A-2									

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> A globally diversified insurance group operating across U.S. and international markets. Highly recognized brands, Transamerica in the U.S., and Aegon globally. Likely to remain well capitalized under S&P Global Ratings' capital model at the 'AA' level. 	<ul style="list-style-type: none"> High earning sensitivity to changes in long-term interest rates, credit spreads, and trends in mortality and longevity, which may lead to volatile earnings. High reliance of solvency on softer forms of capital such as future profits and hybrid debt. Operating performance is a relative weakness compared with global peers.

Rationale

The ratings on Aegon group and its operating subsidiaries reflect the group's diversified business profile and S&P Global Ratings' positive view on Aegon's widely recognized brands, Transamerica in the U.S., and Aegon globally. However, we consider operating performance a relative weakness compared with its peers because of historical volatility. Furthermore, the rating on Aegon reflects our view that the group will remain well capitalized (at the 'AA' level according to our risk-based capital model) even considering the volatile earnings and higher reliance on softer forms of capital such as future profits and hybrid debts.

Aegon is primarily a life insurance and pension business focused on the U.S. market (54% of total assets at end-2017) and the Netherlands (24%). Given that a material part is in the form of general account business, it is particularly sensitive to changes in long-term interest rates, credit spreads, and trends in mortality and longevity.

Outlook

Following our revision of the ratings' outlook to negative in February 2017, we are concerned that Aegon group's profitability could remain volatile over the next 12 months. This could come from either sustained margin pressure, exceptional items, or the need to further adjust its models or assumptions.

Downside scenario

We could lower the ratings on Aegon group over the next 12 months if:

- Further margin pressure or negative one-off items hurt the group's profitability, resulting in the group's underlying earnings before tax being lower than €2 billion or its net income being below €1.5 billion in 2018;
- We observe deterioration in the group's risk profile, either in terms of product risks or investment risks; or
- We consider that the group's prospective capital adequacy has weakened to below the current 'AA' level, according to our risk-based capital model.

Upside scenario

We could revise the outlook on Aegon group to stable over the next 12 months if profitability meets or exceeds our expectations and prospective capital adequacy remains sustainably at least at the current 'AA' level according to our risk-based capital model. We would also have to see no deterioration of the group's business risk profile, risk position, or financial flexibility resulting from any potential adverse development of the financial environment or management action.

Base-Case Scenario

Macroeconomic Assumptions

- 10-year treasury yields in the U.S. rising to 3.1% in 2018 and 3.4% by year-end 2019.
- U.S. GDP growth of 2.9% in 2018 and 2.6% in 2019.
- Netherlands' GDP increasing by 2.8% in 2018 and 2.2% in 2019.
- U.K. GDP increasing by 1.3% in 2018 and 1.5% in 2019.

Key Metrics

	2019F	2018F	2017	2016	2015	2014
Underlying earnings (mil. €)	> 2,000	> 2,000	2,103	1,913	1,939	1,865
Net income (mil. €)	> 1,500	> 1,500	2,361	586	619	1,186
Return on equity (%)*	> 8.0	> 8.0	8.9	8.0	8.3	8.1
S&P Global Ratings' capital adequacy	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong	Very Strong
Financial leverage (%)	< 30.0	< 30.0	30.8	32.2	28.4	30.4
Fixed charge cover (x)	>7.0	>7.0	8.0	7.0	6.7	6.5

*Based on post-tax underlying earnings. F--S&P Global Ratings' forecast.

Business Risk Profile

Netherlands-based Aegon is one of the 15 largest insurance companies in the world, writing gross premiums of €22.8 billion in 2017. It is highly geographically diversified, with a presence in the U.S., the Netherlands, U.K. and a number of less significant operations across Europe and Asia. We consider Aegon has a strong market position in the U.S., which generates more than two-thirds of its total underlying earnings. Aegon has a strong competitive position in the Netherlands as well, which is the second-largest earnings generator. Aegon is among the top-five distributors of group pension and individual life business in the Netherlands.

We see volatile operating performance as a relative weakness for the group's competitive position. Over the past three to four years, low interest rates have weighed on the group's profitability. In addition, mortality trends in Aegon's U.S. operations have been volatile. The group has therefore had to adjust its models and revise assumptions, which has sometimes led to the impairment of certain intangible assets--which in several cases has negatively affected profitability. Lastly, the group has taken strategic actions over the past five years, including the sale of some noncore operations in the U.S., Canada, and the U.K., as well as capital infusion to recapitalize its Dutch operations. Despite the group's significant actions, we expect Aegon's earnings could remain volatile since they are highly sensitive to changes in long-term interest rates, credit spreads, and mortality and longevity risks.

Financial Risk Profile

Our assessment of the group's financial risk profile reflects our opinion that, although capital adequacy is diminishing, the group should consistently maintain very strong capital adequacy according to our prospective model. We expect retained earnings will be more than sufficient to cover limited growth in capital requirements as the business continues to transition to a lower-risk profile. However, reliance on softer forms of capital such as future profits and hybrid debt typically increases capital volatility and therefore we continue to assess the group's capital and earnings as strong rather than very strong.

Aegon reported consolidated underlying earnings before tax of €2.1 billion in 2017. We expect this metric to remain at €2.0 billion in 2018 and 2019 and net income to be €1.5 billion or higher. That said, net income may be reduced by one-off items such as impairments, fair value adjustments, or other items.

Aegon conservatively manages its investment portfolio, with balanced sector concentration and exposures to individual counterparties based on the rating on the counterparty. We assess the weighted average quality of the fixed income portfolio in the 'A' range. Aegon's material obligations under its staff pension scheme create earning and capital volatility. Other than the pension scheme, 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 as low and limited primarily to translation risk in the income statement and balance sheet.

At end-2017, Aegon's financial leverage was around 31% and fixed charge coverage was 8.1x. Around 15% of its outstanding debt either matures or is callable in the next three years. We expect Aegon's fixed-charge coverage ratios will remain above 7x through 2020 and financial leverage will gradually drop below 30%.

Other Assessments

We consider Aegon's enterprise risk management (ERM) to be strong. Aegon is a well-diversified business with widespread geographic coverage and we consider the importance of ERM to our rating as high. The group's transparent and disciplined compensation structure tied to risk profile, its program to reduce financial market risks, and its strong strategic risk management support our view of ERM.

We view Aegon's management and governance as satisfactory. This largely reflects Aegon's well-constructed financial policies and clear strategic priorities. Aegon has comprehensive financial standards and a broad-ranging, sophisticated set of risk-appetite statements. We consider Aegon to have a low appetite for financial market risk, as its low direct exposure to unhedged equities suggests. That said, the company retains material exposure to credit risk and interest rate risk.

We consider liquidity to be well-managed at Aegon. We continue to view the liquidity position at the holding company as robust. Aegon manages its liquidity position by applying very severe stress tests. Aegon continues to operate with a large cash balance and highly liquid treasuries/agencies securities in the U.S. to meet its liability requirements.

Factors Specific To The Holding Company

The long-term issuer credit rating on the holding company Aegon N.V. reflects its position as the holding company of the Aegon insurance group. The 'A-' rating is three notches below the ratings on the core operating entities, which are rated 'AA-'. This reflects that the majority of the holding company's cash flows and earnings come from the U.S., and under our criteria holding companies of U.S. insurance businesses tend to be rated three notches below the operating entities, not two notches, as would typically be the case for other European holding companies.

The holding company's liquidity is adequate, in our view. We expect a steady stream of cash flows from the operating units, especially in the U.S., to be sufficient to enable the holding company to meet its obligations.

Accounting Considerations

Our analysis is based 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 January 2021. Although the full impact of the IFRS 9 is not yet clear, we expect it will have a significant impact on shareholders' equity, income and/or other comprehensive income and disclosures.

Aegon Group -- Rating Score Snapshot

Financial Strength Rating	AA-
Anchor	aa-
Business Risk Profile	Very Strong
IICRA*	Low Risk
Competitive Position	Very Strong
Financial Risk Profile	Strong
Capital & Earnings	Strong
Risk Position	Intermediate Risk
Financial Flexibility	Strong
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Strong
Management & Governance	Satisfactory
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

*Insurance Industry and Country Risk Assessment.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

- Criteria - Insurance - Life: Methodology: Treatment Of U.S. Life Insurance Reserves And Reserve Financing Transactions, March 12, 2015
- Criteria - Insurance - General: Methodology For Assessing Capital Charges For U.S. RMBS And CMBS Securities Held By Insurance Companies, Aug. 29, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: Methodology For Assessing Capital Charges For Commercial Mortgage Loans Held By U.S. Insurance Companies, May 31, 2012
- Criteria - Insurance - General: Methodology For Calculating The Convexity Risk In U.S. Insurance Risk-Based Capital Model, April 27, 2011
- 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
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of June 11, 2018)

Holding Company: AEGON N.V.

Issuer Credit Rating	A-/Negative/A-2
Commercial Paper	A-2
Junior Subordinated	BBB
Senior Unsecured	A-
Subordinated	BBB

Operating Companies Covered By This Report

AEGON Levensverzekering N.V.

Financial Strength Rating	
<i>Local Currency</i>	AA-/Negative/--
Counterparty Credit Rating	
<i>Local Currency</i>	AA-/Negative/--

Transamerica Advisors Life Insurance Co.

Financial Strength Rating	
<i>Local Currency</i>	AA-/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Negative/--
Senior Unsecured	AA-

Transamerica Financial Life Insurance Co.

Financial Strength Rating	
<i>Local Currency</i>	AA-/Negative/NR

Ratings Detail (As Of June 11, 2018) (cont.)

Issuer Credit Rating	
<i>Local Currency</i>	AA-/Negative/NR
Transamerica Life (Bermuda) Ltd.	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Negative/--
Transamerica Life Insurance Co.	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Negative/NR
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Negative/A-1+
Transamerica Premier Life Insurance Co	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Negative/NR
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Negative/A-1+
Related Entities	
AEGON Bank N.V.	
Issuer Credit Rating	A+/Negative/A-1+
Blue Square Re N.V.	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Negative/--
Scottish Equitable PLC	
Financial Strength Rating	
<i>Local Currency</i>	A+/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	A+/Negative/--
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.

Additional Contact:

Insurance Ratings Europe; insurance_interactive_europe@spglobal.com

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