

Research Update:

Aegon Group Affirmed At 'A+' On Announcement Of 2022 Results; Outlook Negative; Two Subsidiaries Stay On Watch Negative

February 22, 2023

Overview

- In October 2022, Aegon N.V. announced its intention to sell its Netherlands-based pension, life and non-life insurance, banking and mortgage origination activities to ASR Nederland N.V. for a combination of cash and equity shares.
- While operating earnings are solid, the group posted a €2.5 billion loss in 2022 including a €1.8 billion impairment on the book value of Aegon the Netherlands.
- We affirmed all our ratings on Aegon Group and its related subsidiaries because we expect the group to continue to benefit from a diversified product range in the U.S. but with declining market shares, and from profitable operations in the U.K., Spain, and Asia.
- The negative outlook reflects our expectation that, after the sale of its Dutch business, Aegon Group will find it harder to maintain robust earnings and capital at least in the 'AA' range. This reflects further market volatility amid economic uncertainty, potential volatility of its equity holding in ASR, and the lack of clarity about the group's future shape including loss of control over the Dutch income stream.

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Rating Action

On Feb. 22, 2023, S&P Global Ratings affirmed its long-term issuer credit and financial strength ratings on Aegon Group and its core subsidiaries at 'A+'. The outlook on the ratings is negative.

We affirmed our 'BBB+' ratings on holding company Aegon N.V. The outlook is negative.

We extended the CreditWatch negative on rated subsidiaries Aegon Levensverzekering N.V. and Aegon Bank N.V., which are part of the ASR Nederland transaction. We treat the subsidiaries as non-strategic to the group.

Rationale

In October 2022, Aegon Group announced its intention to sell its Netherlands-based pension, life and non-life insurance, banking, and mortgage origination activities to ASR Nederland for €4.9 billion. The proceeds of the transaction will be paid through cash and a 29.99% equity stake in ASR Nederland. The transaction is expected to complete in the second half of 2023.

Aegon Group recognized a net loss of €2.5 billion for 2022. This resulted from an impairment loss from classifying the Netherlands business as held-for-sale following the announcement of the transaction with ASR, as well as overall market volatility. The group's operating income for 2022 was €1.9 billion, which was stable compared with the previous year.

In our view, Aegon Group's sale of its Netherlands operation to ASR weakens its overall market position and geographic diversity. The completion of the transaction will weigh on the group's overall business risk profile over our rating horizon. Most of business will then be concentrated in the U.S. and earnings from Europe will be limited to the U.K., Spain, Portugal, and the Dutch asset managing business and the equity stake in ASR.

Aegon Group showed a solid 'AAA' redundancy under our risk-based capital model based on its 2021 balance sheet, but with some limitation because of the higher reliance on soft forms of capital. However, we would regard a reduced buffer at the 'AAA' level over time as reflecting further market volatility amid economic uncertainty, potential volatility of its equity holding in ASR, and the lack of clarity about the group's future shape including loss of control over the Dutch income stream. We will overlook the decrease in capital in 2022, which was related to timing differences in the accounting of the ASR transaction.

Outlook

The negative outlook indicates our expectation that Aegon will face further challenges maintaining robust earnings and capital at least in the 'AA' range in the next 12-24 months. This is in light of further market volatility and potential volatility of its equity holding in ASR. The negative outlook also reflects uncertainty over the group's future structure.

Downside scenario

We could lower the ratings over the next 12-24 months if:

- Aegon is unable to maintain its capital position at least at the 'AA' level under our model; or
- Aegon's profitability does not meet our expectations for a prolonged period, possibly highlighting reduced competitiveness.

Upside scenario

We could revise the outlook to stable over the next 12-24 months if we observe that the potential for weaker capital adequacy has reduced sustainably.

CreditWatch

We aim to resolve the negative CreditWatch placement on Aegon Levensverzekering and Aegon Bank after we have more clarity about their stand-alone characteristics and how they will likely operate under ASR ownership.

We could lower the ratings on Aegon Levensverzekering by one or more notches based on its future status vis-à-vis ASR Nederland, with a potential one-notch downgrade if we deemed it a core entity within the ASR group and a two-notch downgrade if we view it as highly strategic. We could lower the ratings on Aegon Bank by multiple notches depending on the bank's potential stand-alone credit profile (SACP) and future group support from ASR.

We could affirm the ratings on Aegon Levensverzekering and Aegon Bank if we assess their SACPs as being in line with the current ratings.

Ratings Score Snapshot

Financial strength rating (on the core subsidiaries)	A+
Anchor	A+
Business risk	Strong
IICRA	Low
Competitive position	Strong
Financial risk	Very Strong
Capital and earnings	Very Strong
Risk exposure	Moderately Low
Funding structure	Neutral
Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment.

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

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- Criteria | Insurance | General: Insurers Rating Methodology, 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

Ratings List

***** AEGON N.V. *****

Ratings Affirmed

AEGON Bank N.V.

Issuer Credit Rating	A/Watch Neg/A-1
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AEGON N.V.

Issuer Credit Rating	BBB+/Negative/A-2
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AEGON Levensverzekering N.V.

Issuer Credit Rating	
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Local Currency	A+/Watch Neg/--
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Financial Strength Rating	
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Local Currency	A+/Watch Neg/--
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Scottish Equitable PLC

Transamerica Life (Bermuda) Ltd.

Issuer Credit Rating	
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Local Currency	A+/Negative/--
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Financial Strength Rating	
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Local Currency	A+/Negative/--
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Transamerica Financial Life Insurance Co.

Issuer Credit Rating	
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Local Currency	A+/Negative/NR
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Transamerica Financial Life Insurance Co.

Transamerica Life Insurance Co.

Financial Strength Rating	
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Local Currency	A+/Negative/NR
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Transamerica Life Insurance Co.

Issuer Credit Rating	
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Local Currency	A+/Negative/A-1+
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AEGON Bank N.V.

Senior Subordinated	A-/Watch Neg
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***** AEGON N.V. *****

Ratings Affirmed

AEGON N.V.

Senior Unsecured	BBB+
Subordinated	BBB-
Junior Subordinated	BB+
Junior Subordinated	BBB-

AEGON Funding Co. LLC

Subordinated	BBB-
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