

Research Update:

Aegon Group Holding Company Downgraded; Outlook On Core Subsidiaries Revised To Negative On Sale Of Aegon Nederland

October 28, 2022

(Editor's Note: On Oct. 28, 2022, we republished this rating action article, originally published Oct. 27, 2022, to include four subsidiaries at the end of the ratings list that were inadvertently omitted.)

Overview

- Aegon Group (Aegon) intends to sell its Netherlands-based insurance and banking operations to ASR Nederland N.V. for €4.9 billion through a combination of cash and equity shares in ASR.
- We believe the divestment weakens Aegon's business profile because it is no longer supported by the group's second-largest profit contributor.
- While the sale will reduce Aegon's risks, Aegon will likely pay out most of the cash proceeds of the transaction, and it will be challenging to keep robust earnings and capital at least in the 'AA' range in light of current market volatility.
- We revised our outlook on Aegon Group's core subsidiaries in the U.S. and U.K. to negative from stable while affirming the ratings.
- We now consider Aegon Levensverzekering N.V. and Aegon Bank N.V. to have a non-strategic group status. We placed the ratings on these entities on CreditWatch with negative implications.
- We also downgraded the holding company, Aegon N.V., to 'BBB+' from 'A-'; the outlook is negative.
- The negative outlook indicates the challenges from uncertain economy and potential volatility from Aegon Group's equity holding in ASR and the implications of keeping robust earnings and capital at least in the 'AA' range.

Rating Action

On Oct. 27, 2022, S&P Global Ratings revised its outlook on Aegon Group's core subsidiaries to negative from stable. We affirmed our 'A+' long-term insurer financial strength and issuer credit

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ratings on the core subsidiaries.

We lowered our issuer credit rating on the holding company, Aegon N.V., to 'BBB+' from A-. The outlook is negative. Consequently, we lowered the ratings on the debt issued by the holding company by one notch.

We also placed our ratings on subsidiaries-- AEGON Levensverzekering N.V. and AEGON Bank N.V.--on CreditWatch with negative implications.

Rationale

The outlook revision follows Aegon's announcement that it will sell its Netherlands-based operation to ASR Nederland N.V. for a total consideration of €4.9 billion. We understand that the proceeds of the transaction are paid through cash and a 29.99% equity stake in ASR Nederland N.V. We expect the transaction to close in the second half of 2023. As of year-end 2021, Aegon is likely to lose about €1.7 billion of premiums from the group's current €15.4 billion of premiums.

In our view, Aegon's sale of the Netherlands operation to ASR weakens its overall market position and geographic diversity. If Aegon receives the regulatory approval and the transaction is completed, it could increase the group's overall business risk. As a result, we lowered our business risk profile assessment because most of the group's business is now concentrated in the U.S., and earnings from Europe are limited to the U.K., Spain, and the Dutch asset managing business and equity stake in ASR.

For the same reason, our ratings on the holding company are now three notches below the ratings on the operating entities. For the holding company, about 50% of earnings are upstreamed from the U.S. entities. We expect this portion to increase after the transaction because of reduced earnings from the Netherlands, only partly offset by the dividends from the equity stake in ASR.

Because of the forecast reduction in capital requirements of the Dutch operation, we expect solid 'AAA' redundancy under our risk-based capital model. This improves our financial risk assessment. Aegon announced that a significant part of the cash proceeds will be payouts to shareholders and a reduction in hybrid capital, which will lower the excess available capital. In addition, we view the high reliance on soft forms of capital as a limitation. The deleveraging will however benefit the financial leverage ratio.

Also, the rated subsidiaries--Aegon Levensverzekering and Aegon Bank--lost their core and highly strategic group status, respectively. We now view them as nonstrategic owing to the planned sale of their businesses to ASR Nederland N.V.

Outlook

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

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 in 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 are convinced that the potential for weaker capital adequacy has reduced sustainably.

CreditWatch

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

We may lower the ratings on Aegon Levensverzekering N.V. by one or more notches based on the future group status of the company to ASR Nederland, with a potential one-notch downgrade in case of a core status to ASR group and a two-notch downgrade in case of a highly strategic status to ASR group. We may lower the ratings on Aegon Bank N.V. by multiple notches based on the bank's potential stand-alone credit profile and future group support from ASR.

We may affirm the ratings on Aegon Levensverzekering N.V. and Aegon Bank N.V. if we assess their stand-alone credit profiles as in line with the current ratings.

Ratings Score Snapshot

	To	From
Financial strength rating (on the core subsidiaries)	A+	A+
Anchor	A+	A+
Business risk	Strong	Very Strong
IICRA	Low	Low
Competitive position	Strong	Very Strong
Financial risk	Very Strong	Strong
Capital and earnings	Very Strong	Strong
Risk exposure	Moderately Low	Moderately Low
Funding structure	Neutral	Neutral
Modifiers	0	0
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0
Support	0	0
Group support	0	0
Government support	0	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
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers 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.*****

Downgraded

	To	From
AEGON N.V.		
Senior Unsecured	BBB+	A-
Subordinated	BBB-	BBB
Junior Subordinated	BBB-	BBB
Junior Subordinated	BB+	BBB-

AEGON Funding Co. LLC

Subordinated	BBB-	BBB
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Downgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
AEGON N.V.		
Issuer Credit Rating	BBB+/Negative/A-2	A-/Stable/A-2

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
AEGON Bank N.V.		
Issuer Credit Rating	A/Watch Neg/A-1	A/Stable/A-1

AEGON Levensverzekering N.V.

Issuer Credit Rating		
Local Currency	A+/Watch Neg/--	A+/Stable/--
Financial Strength Rating		

Local Currency	A+/Watch Neg/--	A+/Stable/--
AEGON Bank N.V.		
Senior Subordinated	A-/Watch Neg	A-
Ratings Affirmed; CreditWatch/Outlook Action		
	To	From
Transamerica Financial Life Insurance Co.		
Transamerica Life (Bermuda) Ltd.		
Issuer Credit Rating		
Local Currency	A+/Negative/--	A+/Stable/--
Financial Strength Rating		
Local Currency	A+/Negative/--	A+/Stable/--
Transamerica Life Insurance Co.		
Issuer Credit Rating		
Local Currency	A+/Negative/A-1+	A+/Stable/A-1+
Financial Strength Rating		
Local Currency	A+/Negative/--	A+/Stable/--
Scottish Equitable PLC		
Issuer Credit Rating		
Local Currency	A+/Negative/--	A+/Stable/--
Financial Strength Rating		
Local Currency	A+/Negative/--	A+/Stable/--

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