S&P Global
Ratings

RatingsDirect®

Aegon N.V.

Primary Credit Analyst:
Silke Sacha, Frankfurt + 49 693 399 9195; silke.sacha@spglobal.com

Secondary Contact:
Mark D Nicholson, London + 44 20 7176 7991; mark.nicholson@spglobal.com

Research Contributor:
Nadeem Shaikh, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Table Of Contents

Aegon N.V.

Anchor	a+
Business Risk	**Strong**
Competitive position	Strong
IICRA	Low
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

=

SACP	a+

\+

Support	0
Group support	0
Government support	0

=

A+/Negative/--
Financial strength rating

BBB+/Negative/A-2
Holding company ICR

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

Credit Highlights

Overview

Key strengths	Key risks
Strong presence in the U.S. aided by a well-recognized brand and complemented by a growing presence in international markets.	Historically material difference between operating result after tax and net result, 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 to peers.
Extensive hedging program, reinsurance transactions, and declining general account investments, with increasing resilience to market shocks.	High reliance on softer forms of capital such as future profits and hybrid debt.

S&P Global Ratings expects that pressure on Aegon Group's 2022 results will be somewhat offset by strategic actions to overcome weak and volatile earnings. We believe Aegon's earnings will remain sensitive to the volatile market environment due to the Russia-Ukraine conflict, rising interest rates, and persistent inflation, which affect fair value adjustments and other charges (€1.77 billion up to the end of the third quarter in 2022). The group has made strategic changes, most recently in the Netherlands, and is implementing restructuring plans and risk management initiatives to improve its operational performance and strengthen its balance sheet. Bottom-line performance is still a relative weakness compared with the company's 'AA-' rated peers, in our view.

Aegon will continue to benefit from its strong brand in its core markets and its wide product diversification, though its geographic diversity has weakened. Aegon holds a top-10 position in the U.S., via the Transamerica brand. We consider that Aegon's announced sale of much of its Netherlands operation to ASR will weaken its market position and geographic diversity. The planned sale could also result in increased overall business risk because most of the group's business will be concentrated in the U.S., while earnings from Europe will be limited to the U.K., Spain, an asset management business, and an equity stake in ASR. Aegon Nederland however is among the Netherland's top five distributors of life, pension, and savings products, and a leading mortgage originator. The group's new business strategy aims to streamline operations and narrow its focus, meaning we expect product diversification will reduce, while market share in products defined as nonstrategic will decline for its U.S. operations.

Aegon's capital adequacy should remain extremely strong over the remainder of 2022 and 2023, though softer forms of capital weaken overall capital quality. A forecast reduction in capital requirements at the group's Dutch operations means we expect solid 'AAA' redundancy under our risk-based capital model. Its Solvency II ratio we expect to remain at the higher end of the 150%-200% range, or even above, for 2022-2023. Aegon'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 on the Dutch business, are likely to reduce capital adequacy volatility in the current environment. Aegon announced that a significant part of the cash proceeds from the sale will be payouts to shareholders and a reduction in financial leverage, which will lower the excess available capital. In addition, we view the high reliance on soft forms of capital as a limitation.

We expect the group to maintain its sound funding structure through the forecast period. At year-end 2021, Aegon's financial leverage stood at about 24%, which is in line with the average for global multiline insurers (GMIs). We forecast financial leverage will remain below 27% over 2022-2024, given the deleveraging activities Aegon will pursue under its new operating strategy and debt reduction schemes although increased interest rates will reduce revaluation reserves and therefore put upwards pressure on the ratio.

Outlook: Negative

The negative outlook is indicative of our expectation that Aegon will face challenges keeping robust earnings and capital at least in the 'AA' range in the next 12-24 months. This is because of market volatility due to the uncertain economy and the potential volatility of Aegon's equity holding in ASR. The negative outlook also reflects uncertainty over the group's future strategic direction.

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 ASR's ownership.

We may lower the ratings on Aegon Levensverzekering N.V. by one or more notches based on the future group's status at 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 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 are in line with the current ratings.

Assumptions

- Global GDP growth of 3.1% in 2022, down from 6.1% in 2021, as the Russia-Ukraine conflict erodes conditions that underpinned broadly favorable credit environment.
- U.S. 10-year treasury yields at a forecast 2.8% in 2022, continuing a gradualincrease from 1.4% in 2021, and 0.9% in 2020.
- U.S. GDP growth of 1.6% in 2022, down from 5.7% in 2021, reflecting the Russia-Ukraine conflict.
- Eurozone GDP growth of 3.1% in 2022, down from 5.0% in 2021, reflecting the Russia-Ukraine conflict.

Aegon Group N.V.--Key Metrics

	2023f	2022f	9M-2022**	2021	2020	2019	2018
Gross premiums written (mil. €)	>16,000	>15,700	11,184	15,444	16,099	18,138	19,316
Net income (mil. €)	~900	~700	(141)	1,701	55	1,525	744
Return on shareholders' equity (%)	3-4%	3-4%	(0.8)	7.2	0.2	7.3	3.7
S&P capital adequacy	Excellent	Excellent	Very strong*	Excellent	Excellent	Very strong	Very strong
Fixed charge coverage	>8x	>7x	>7x*	10.0	0.8	7.9	3.9
Financial leverage (%)	22-24	22-24	22-24*	22.2	25.3	26.9	29.3

f--S&P Global Ratings' forecast. *S&P Global Ratings' estimate. **Nine months to end 3Q2022.

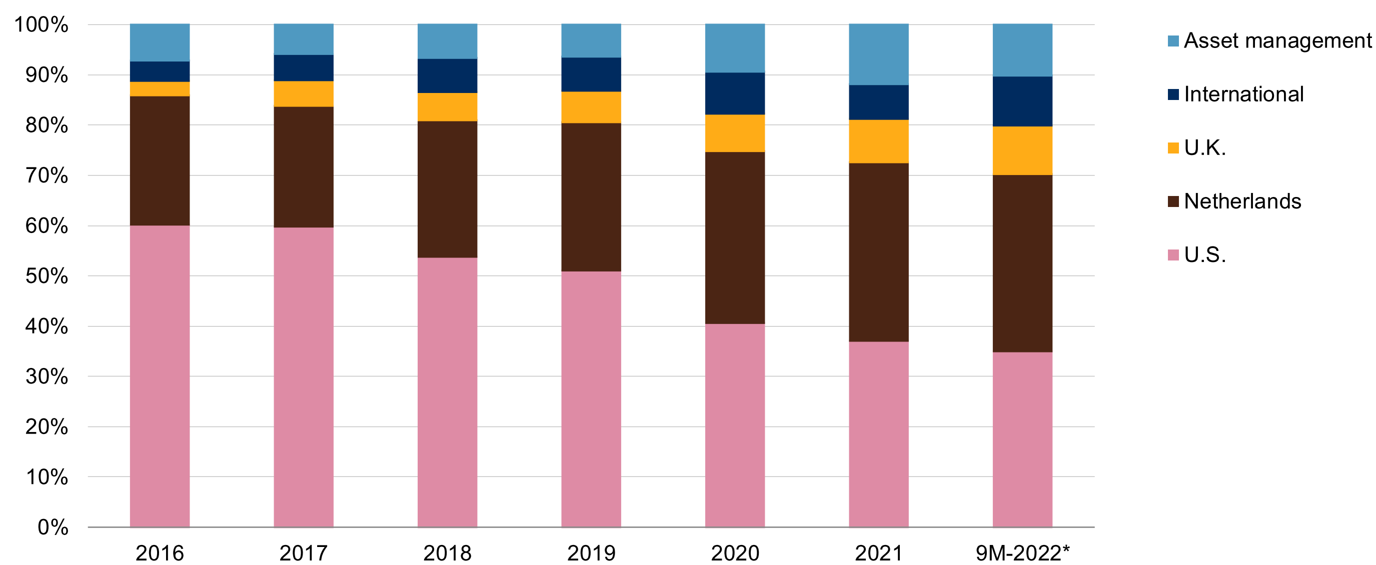
Business Risk Profile: Strong

Netherlands-based Aegon is one of the world's largest insurance companies, writing gross premiums of €11.2 billion over the first three quarters of 2022. The group's operations are dominated by life business with a small presence in property/casualty (P/C) and an expanding asset management business. Its sound reputation for life and pension products underpins its distribution power.

Aegon recently announced 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 will be paid in cash and a 29.99% equity stake in ASR Nederland N.V. We expect the transaction to close in the second half of 2023. The sale is likely to mean that Aegon's premiums will fall by 11%, or €1.7 billion, from the year-end 2021 level of €15.4 billion. The sale of the Dutch business is part of a strategic goal to streamline operations and focus on two core markets, three growth markets, and one global asset manager. Within the core markets, higher-margin strategic assets have been separated from capital-intense financial assets. Another goal of the new strategy is cost-saving initiatives. Although the strategic moves affect the U.S. business model, the group still benefits in that country, and internationally, from its widely recognized brand. For Transamerica, the U.S. arm, we expect falling market shares in products defined as nonstrategic, in line with the new strategy's narrower focus. This includes the company's exit from 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.

Chart 1

Aegon N.V.--The Operating Result Contribution From U.S. Operations Is Declining



*Nine months to end 3Q2022.. Source: S&P Global Ratings.

The U.S. remained a high earnings contributor during the first three quarters of 2022, accounting for 35% of Aegon's pretax operating result, equal to the contribution from the Netherlands. The completion of Aegon's sale of its Dutch business to ASR could increase the group's overall business risk by increasing its operational concentration in the U.S., while earnings from Europe will be limited to the U.K., Spain, the asset management business, and an equity stake in ASR. Aegon, pre-disposal of the Dutch business, is among the top five distributors of life and pension and savings products in the Netherlands and has a top-five position as a mortgage originator.

In recent years, Aegon has made significant investments to transform its market position in the U.K. to that of a digital solution provider. We believe earnings contribution from the U.K. will continue to increase. Aegon completed its sale of Stonebridge, a U.K.-based provider of accident insurance products, in 2021. Furthermore, the sale of its Central and Eastern European business to Vienna Insurance Group AG is almost completed.

In the past, Aegon has been unable to convert its widely diversified market position into consistently strong earnings commensurate with its ostensible market strength. Previously, 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. However, recent increase in interest rates are expected to mitigate the strain on the company's profitability over the long term, while management has also taken action to stabilize the balance sheet. Moreover, we believe Aegon's strategic initiatives, including a cost-saving program, introduction of new products, widening distribution, and improving customer satisfaction, will bear fruit. At year-end 2021, Aegon had achieved 63% of a target of €400 million in cost savings by year-end 2023 (as measured against a 2019 cost base).

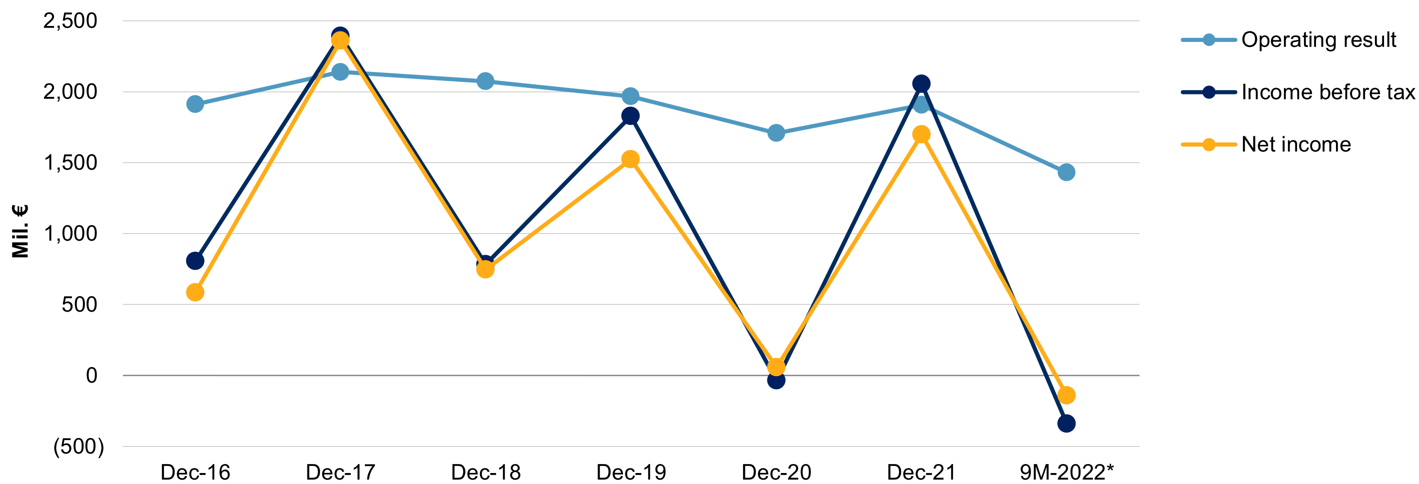
Financial Risk Profile: Very Strong

Aegon's capital adequacy under our risk-based capital model was above our expectations in 2021, spurred by a reduction in capital requirements due to a lower exposure to assets with relatively high capital charges. Because of the forecast reduction in capital requirements of the Dutch operation, we expect solid 'AAA' redundancy under our risk-based capital model, and Aegon's Solvency II ratio to remain at the higher end of the 150%-200% range, or even above. We think that the group's revised focus on capital-light and fee-based business is likely to moderate capital adequacy volatility. Aegon announced that a significant part of the cash proceeds from the sale of the Dutch business will fund payouts to shareholders and a reduction in financial leverage, which will lower excess available capital. We continue to limit our capital assessment due to Aegon's significant reliance on softer forms of capital, such as the present value of future profits and hybrid debt, which we consider more volatile than core shareholders' equity. We believe the group's very strong capitalization would absorb unexpected shocks similar to the ones we saw during the pandemic.

For the year to the end of the third quarter of 2022, Aegon reported a net loss of €141 million, down from net income of €1.18 billion in the same period in 2021. The significant dip was mainly caused by losses on fair value items and realized losses on investments in the first three quarters of 2022, due to the volatile market environment and increasing interest rates, amplified by an accounting mismatch between interest rate hedges and the liabilities which are being hedged. Further profitability in 2022 will depend on macroeconomic developments. We forecast a net loss for 2022, rising to a net income of €900 million for 2023. Aegon's operating result remain stable at €1.43 billion over the first three quarters of 2022, compared with about €1.44 billion over the same period in 2021. This was due to improved operating results in U.K., and international markets, though those gains were partly offset by lower operating results in the Americas and in Aegon's asset management businesses. Aegon's Solvency II ratio improved slightly to 212% as of Sept. 30, 2022, up from 211% on Dec. 31, 2021.

Chart 2

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



*Nine months to end 3Q2022. Source: S&P Global Ratings.

We believe 2022 profitability will be constrained by continuing market volatility due to the Russia-Ukraine conflict and the persistent inflationary environment. We also believe ongoing costs associated with the group's hedging program and restructuring expenses will likely weigh negatively on profitability.

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. The group's material obligations under its staff pension scheme, which create the potential for capital volatility, have been substantially de-risked. Interest rate risk is present in the remaining general account book. Aegon has extensive interest rate and equity hedge programs to mitigate risk relating to general account products and products outside the general account with guarantees (such as variable annuities in the U.S.). We consider the foreign exchange risk low and to be 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 account assets.

We calculated Aegon's financial leverage to be about 24% at year-end 2021. We anticipate that the group will maintain financial leverage of less than 27% over 2022-2024, due to deleveraging activities within the new strategy, including the recently announced debt tender offer and the plans for proceeds from the transaction with ASR, although higher interest rates will reduce revaluation reserves and put upwards pressure on the ratio. The change puts Aegon in line with the average for GMIs. Fixed-charge coverage improved to about 10.0x in 2021, up from a relatively low 0.8x in 2020, spurred by good net income recovery. We expect the coverage ratio will remain above the 5.0x threshold in

2022-2023.

Other Key Credit Considerations

Liquidity

We consider Aegon's liquidity to be 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 'BBB+' long-term issuer credit rating on the holding company, Aegon N.V., reflects a three-notch difference between the ratings on the core operating entities and the holding company. It also reflects Aegon's diverse dividend stream coming from different and uncorrelated markets and regulatory jurisdictions, in particular the U.S., U.K., and Asian markets. The U.S. already provides about 50% of Aegon's total earnings and we expect this portion to increase after the transaction with ASR, which will reduce earnings from the Netherlands that will only partly be offset by dividends from the equity stake in ASR. Hence, we believe the holding company might not be able to cover all its fixed charges without U.S. contributions. We note Aegon's track record in gradually reducing financial leverage, where it has set a target, and its debt issuance capacity.

Group status

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.

Environmental, social, and governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

We consider Aegon's exposure to environmental and social risks to be in line with the insurance sector globally, but more concentrated in social risks than its GMI peers, such as Allianz or Zurich. The group'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 for its Dutch longevity exposure. We also view positively Aegon's strong track record of identifying, modeling, and managing this risk.

We value the group's capacity to manage asset-liability mismatch risks, which allows it 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 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 from 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

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10,2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 02, 2022
- 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 Group N.V.--Credit Metrics History

Ratio/Metric	2021	2020	2019	2018
S&P Global Ratings capital adequacy	Excellent	Excellent	Very strong	Very strong
Total invested assets	419,337	392,779	387,733	344,193
Total shareholder equity*	24,478	22,890	22,469	19,540
Gross premiums written	15,444	16,099	18,138	19,316
Net premiums written	11,926	13,396	15,704	16,653
Reinsurance utilization (%)	22.78	16.79	13.42	13.79
EBIT	2,152	90	2,008	925
Net income (attributable to all shareholders)	1,701	55	1,525	744
Return on revenue (%)	9.88	0.39	7.74	3.52
Return on assets (including investment gains/losses) (%)	0.49	0.02	0.51	0.25
Return on shareholders' equity (reported) (%)	7.18	0.24	7.26	3.71
Life: Net expense ratio (%)	47.38	40.99	37.02	35.06

Aegon Group N.V.--Credit Metrics History (cont.)

Ratio/Metric	2021	2020	2019	2018
EBITDA fixed-charge coverage (x)	10.04	0.84	7.93	3.93
EBIT fixed-charge coverage (x)	9.59	0.39	7.60	3.61
Financial obligations / EBITDA adjusted	3.10	40.70	3.95	8.05
Financial leverage including pension deficit as debt (%)	22.18%	25.32%	26.94%	29.27%
Net investment yield (%)	4.13	4.33	4.84	4.69

*Excluding hybrids included in equity.

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 December 8, 2022)*

AEGON N.V.	
Issuer Credit Rating	BBB+/Negative/A-2
Junior Subordinated	BBB-
Junior Subordinated	BB+
Senior Unsecured	BBB+
Subordinated	BBB-
Related Entities	
AEGON Bank N.V.	
Issuer Credit Rating	A/Watch Neg/A-1
Senior Secured	AAA/Stable
Senior Subordinated	A-/Watch Neg
AEGON Levensverzekering N.V.	
Financial Strength Rating	
Local Currency	A+/Watch Neg/--
Issuer Credit Rating	
Local Currency	A+/Watch Neg/--

Ratings Detail (As Of December 8, 2022)*(cont.)	
Scottish Equitable PLC	
Financial Strength Rating	
Local Currency	A+/Negative/--
Issuer Credit Rating	
Local Currency	A+/Negative/--
Transamerica Financial Life Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Negative/NR
Issuer Credit Rating	
Local Currency	A+/Negative/NR
Transamerica Life (Bermuda) Ltd.	
Financial Strength Rating	
Local Currency	A+/Negative/--
Issuer Credit Rating	
Local Currency	A+/Negative/--
Transamerica Life Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Negative/NR
Issuer Credit Rating	
Local Currency	A+/Negative/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.