S&P Global Ratings

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Aegon Group

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Aegon Group

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

=

Financial strength rating	Holding company ICR
A+/Stable/--	**A-/Stable/A-2**

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 by a well-recognized brand.	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.

After performance recovered in 2021, S&P Global Ratings expects Aegon Group (Aegon) to post sound results in 2022 as it undertakes 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, potentially affected by fair value adjustments and other charges. Historically, market-derived factors and one-time items have created a material difference between net operating result and net result. The group has made strategic divestments 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 that of 'AA-' rated peers, in our view.

Aegon will continue to benefit from its widely known brand in its core markets internationally, as well as its wide product diversification. Aegon is one of the world's largest insurance companies, with a top-10 position in the U.S. via the Transamerica brand, and among the top five distributors of life, pension, and saving business in the Netherlands, where it is also a leading mortgage originator. We expect that the group will continue to enjoy its sound diversification--both geographically and in terms of business lines. However, with the group's new operating strategy aimed at streamlining operations and narrowing its focus, we expect product diversification will reduce and market share in products defined as nonstrategic will decline for its U.S. operations.

As per our risk-based model, Aegon's capital adequacy improved in 2020, however softer forms of capital weaken the overall quality. We expect Aegon will at least maintain very strong capital adequacy under our model and its Solvency II ratio will 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, are likely to reduce capital adequacy volatility in the current environment. However, high reliance on softer forms of capital such as value-in-force and hybrid debt weakens Aegon's capital quality, in our opinion.

We expect the group to sustain 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 at less than 27% over 2022-2024, given the deleveraging activities Aegon will follow under its new operating strategy and debt reduction schemes.

Outlook: Stable

The stable outlook reflects our expectation that the group will continue to benefit from leading market positions in the Dutch pension and life insurance and services industries, and a diversified product range in the U.S., even if market shares decline. It further reflects the group's profitable operations growth in the U.K., Spain, and Asia, and robust capital and earnings, supported by capital adequacy comfortably above the 'AA' level.

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, or a materially lower earnings contribution from its core markets, both impairing its competitiveness.

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 sustaining relevant market positions in the U.S. and Netherlands.

Key Assumptions

- Global GDP growth of 5.6% in 2021 helped underpin broadly favorable credit conditions. Due to the Russia-Ukraine conflict, this will drop to 3.4% in 2022.
- U.S. 10-year treasury yields gradually recovered to 1.7% in 2021, with 2.4% expected in 2022 (0.9% in 2020).
- U.S. GDP growth of 5.5% in 2021, followed by 3.2% in 2022, reflecting the Russia-Ukraine conflict.
- Eurozone GDP growth of 5.1% in 2021, followed by 3.2% in 2022, reflecting the Russia-Ukraine conflict.

Source: S&P Global Economics, Oxford Economics

Aegon Group N.V.--Key Metrics

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

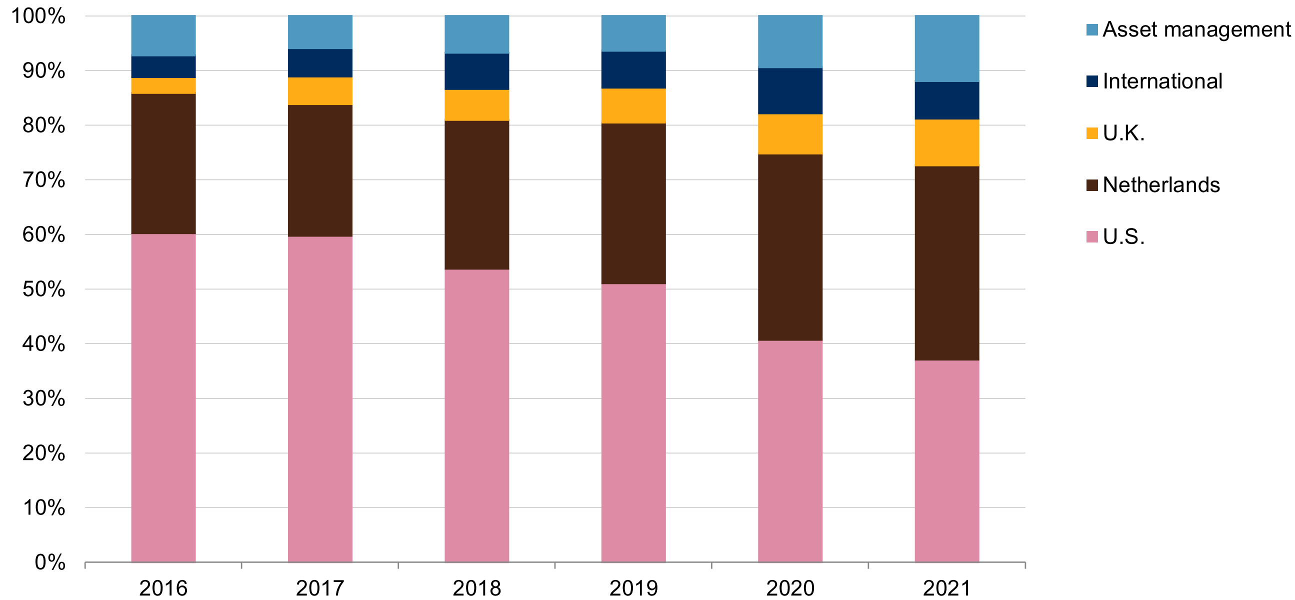
f--S&P Global Ratings forecast; *S&P Global Ratings' estimate

Business Risk Profile: Very Strong

Netherlands-based Aegon is one of the world's largest insurance companies, writing gross premiums of €15.4 billion in 2021. The group's operations are dominated by life business with a small presence in property/casualty (P/C) and an expanding asset management business. Aegon's sound reputation for life and pension products underpins its distribution power. The group is streamlining its operational strategy and progressing toward its goals, which include focusing on three 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 especially affect the U.S. business model, the group still benefits from its widely known brand in the country and internationally, as well as its diverse position in several European markets, notably the Netherlands and U.K. For Transamerica, the U.S. arm, we expect sliding market shares in products defined as nonstrategic following the new strategy and narrower focus, with 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 The U.S. Is Declining



Source: S&P Global Ratings.

The U.S. remains the highest earnings contributor, accounting for half of the pretax operating result, followed by the Netherlands. The group is among the top five distributors of life and pension and savings business in the Netherlands and has a top-five position as a mortgage originator. In the past few years, Aegon has made significant investments to transform its market position in the U.K. as a digital solution provider. We believe earnings contribution from the U.K. will continue to increase as well. 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 was completed recently.

In the past, Aegon has been unable to convert its widely diversified market position into consistently strong earnings commensurate with its ostensible market strength. As expected, 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. We expect this pressure to remain, especially from low interest rates, but see some positive signs in the past year from Aegon's planned actions to stabilize the balance sheet. We believe Aegon's strategic initiatives like its cost-saving program, introduction of new products, widening distribution, and improving customer satisfaction, will bear fruit in the future. At year-end 2021, Aegon achieved 60% of the €400 million in cost savings it targets by year-end 2023, compared with 2019 base costs.

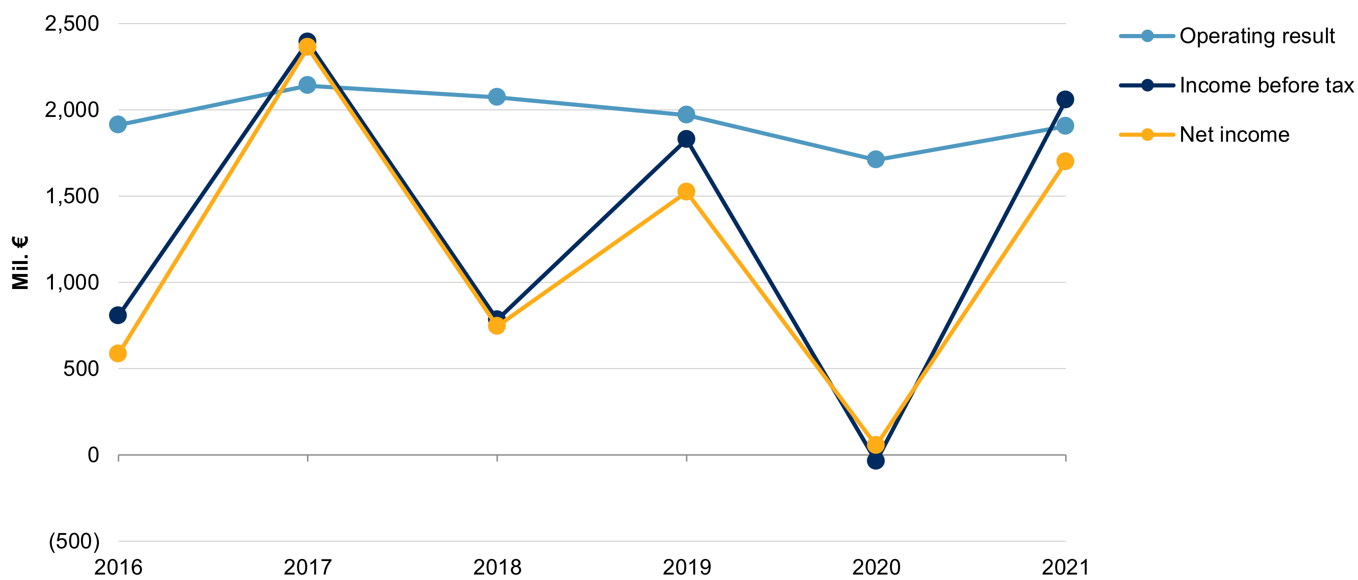
Financial Risk Profile: Strong

Aegon's capital adequacy under our risk-based capital model was above our expectations in 2020, spurred by a reduction in capital requirements due to a lower exposure to assets with relatively high capital charges. We expect Aegon will maintain capital adequacy at the 'AA' level as per our model, and its Solvency II ratio will 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. 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 shareholders' equity. We believe the group's very strong capitalization would absorb unexpected shocks similar to the ones we saw during the pandemic.

For year-end 2021, Aegon reported a strong recovery with net income of €1.7 billion, compared with €55 million reported at year-end 2020. Net earnings for 2021 benefited from positive variance between operating earnings and net income. The increase in nonoperating income mainly comes from external macroeconomic factors like changes in fair value and realized gains on investments. This is well above our forecast for net income of about €0.7 billion for 2022 and €0.9 billion for 2023. Certainly for 2022, it is very much dependent on the development of macroeconomic factors. Aegon's operating earnings also improved 11% to €1.9 billion, reflecting cost savings and increased fees income. Moreover, despite adverse mortality experience in the U.S., Aegon's Solvency II ratio improved to 211% at Dec. 31, 2021.

Chart 2

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



Source: S&P Global Ratings.

For 2022, we believe continuing record-low interest rates and market volatility due to the Russia-Ukraine conflict will dampen profitability. We also believe ongoing costs associated with the group's hedging program and restructuring expenses will likely continue to 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 in the recent past. Interest rate risk is also present in the remaining general account book. Both for general account products and for products outside the general account with guarantees (variable annuities in the U.S.), Aegon has extensive interest rate and equity hedge programs to mitigate this risk. 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 the equity portfolio is less than 2% of general account assets.

Our measure of Aegon's financial leverage was about 24% at year-end 2021. We anticipate that the group will maintain financial leverage of less than 27% in 2022-2024, following deleveraging activities within the new strategy, such as the recently announced debt tender offer. The improvement puts Aegon in line with the average for GMIs. Fixed-charge coverage improved to about 10.0x in 2021 compared with 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 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 also reflects Aegon's diverse dividend stream coming from different and uncorrelated markets and regulatory jurisdictions, in particular the U.S., Netherlands, U.K., and Asian markets. Although the U.S. provides about 60% of Aegon's total dividends, we believe the holding company could largely cover all its fixed charges, even without U.S. contributions, thanks to its gradually declining financial leverage and significant cash capital at the holding level of €1.3 billion at year-end 2021. In addition, the Solvency II framework does not allow for double leverage, unlike for holding companies of U.S. life insurance peers. We note Aegon's track record in gradually reducing financial leverage, for which it has set a target, and its debt issuance capacity.

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 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

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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

Appendix

Aegon Group N.V.--Credit Metrics History

Ratio/Metric	2021	2020	2019	2018
S&P Global Ratings capital adequacy	Very Strong*	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
EBITDA fixed-charge coverage (x)	10.04	0.84	7.93	3.93
EBIT fixed-charge coverage (x)	9.59	0.39	7.6	3.61
Financial obligations / EBITDA adjusted	3.1	40.7	3.95	8.05
Financial leverage including pension deficit as debt (%)	22.18%	25.32%	26.94%	29.27%

Aegon Group N.V.--Credit Metrics History

Ratio/Metric	2021	2020	2019	2018
Net investment yield (%)	4.13	4.33	4.84	4.69

**Excluding hybrids included in equity. *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 March 24, 2022)*

AEGON N.V.	
Issuer Credit Rating	A-/Stable/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 Secured	AAA/Stable
Senior Subordinated	A-
AEGON Levensverzekering 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/--

Ratings Detail (As Of March 24, 2022)*(cont.)	
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+
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.