

Research Update:

# Ratings On ASR Nederland And Core Subsidiaries Affirmed On Acquisition News; Outlooks Remain Stable

October 27, 2022

## Overview

- ASR Nederland N.V. (ASR) intends to acquire Aegon Group's Netherland-based operations for €4.9 billion through a combination of cash, debt, and equity.
- We expect ASR's capital and earnings will remain very strong after the acquisition, thanks to partial equity funding, negative goodwill on the acquisition, and a reduced appetite for additional acquisitions.
- Therefore, we affirmed all our ratings on ASR and its related core subsidiaries.
- The stable outlooks reflect our view that ASR will sustain its competitiveness and maintain very strong capitalization.

## Rating Action

On Oct. 27, 2022, S&P Global Ratings affirmed its 'BBB+' long-term issuer credit rating on ASR Nederland N.V. (ASR) and 'A' long-term financial strength and issuer credit ratings on the group's core subsidiaries. The outlooks on ASR and its core subsidiaries remain stable.

We also affirmed all our issue ratings on the group's debt.

## Rationale

**The affirmation follows ASR's announcement that it plans to acquire Aegon Group's Netherland-based operations for €4.9 billion.** The transaction will be financed through a mix of cash, long-dated debt instruments, and balance through equity. The group expects to complete the transaction in second-half 2023.

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**We believe the acquisition of Aegon Nederland will strengthen ASR's market position in The Netherlands.** ASR will become the second-largest Dutch insurer with a leading position in pension and disability business. Its market share in the property and casualty business will also improve. The acquisition will scale up volume and product diversification in the Netherlands, however business will remain concentrated in its home market, in line with company's business strategy.

**Currently, we believe ASR has sufficient cash, earnings, and capital generation to maintain very strong capital adequacy over the rating horizon.** That said, acquiring a large life book in the current difficult market conditions will weigh on our view of ASR's capital adequacy. However, the significant negative goodwill alongside the equity portion of the acquisition will limit the deterioration of capital adequacy under our risk-based methodology to the 'AA' range after closure of the transaction. We see cost-saving synergies from the transaction, but only after three years. As such, we consider the risk of further capital-consuming acquisitions has greatly diminished.

**The acquisition carries near-term financing risk.** We also see Aegon Bank as an additional potential source of capital volatility in current macroeconomic environment. As per our criteria, we exclude all banking activities from our risk-based capital model.

**In our view, ASR's enlarged balance sheet continues to carry additional risks not fully captured in our capital adequacy assessment.** These risk mainly relate to a large and illiquid Dutch mortgage loan book, the market risks linked to managing the interest-rate exposure of the ASR and Aegon life operations, as well its significant defined-benefit employee pension scheme.

**We expect ASR will add about €1.7 billion of premiums to the group's current €5.9 billion of premiums after closure of the transaction.** We expect that ASR will generate net income of over €500 million on stand-alone basis for 2022 and over €800 million after closure of the transaction at the consolidated level. We expect a net combined ratio of below 100%, according to our calculations.

## Outlook

The stable outlook reflects our expectation that ASR will maintain its strong competitive position in Dutch life and non-life insurance, along with resilient capitalization over the next 12-24 months. Despite near-term financing risk in the current capital market environment, we forecast ASR will maintain capital adequacy at least at the 'AA' level.

## Downside scenario

We could lower the ratings over the next 12-24 months if at least one of the below materialized:

- Unexpected integration risks from Aegon NL occurred.
- Near-term financing cannot be executed according to plans and ASR is unable to maintain its capital position at least at the 'AA' level in our model.
- Aegon Bank would put additional capital volatility in the current volatile capital markets environment and create an unexpected profit loss impact or continued financing cost.
- ASR's profitability does not meet our expectations for a prolonged period.

## Upside scenario

An upgrade is unlikely over the next 12-24 months given the financing pressures related to the planned acquisition. Nevertheless, we could raise the ratings if we are convinced that capital adequacy would materially improve into the 'AAA' range or if investment risks, employee pension scheme risks, and the market risks linked to the combined ASR and Aegon life operations materially diminish.

## Ratings Score Snapshot

### Core Subsidiaries Of ASR Nederland N.V. -- Rating Score Snapshot

Financial strength rating	A/Stable/--
Anchor	a
Business risk	Strong
IICRA	Intermediate
Competitive position	Strong
Financial risk	Strong
Capital and earnings	Very strong
Risk exposure	Moderately high
Funding structure	Neutral
Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
SACP	a
Support	0
Group support	0
Government support	0

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

## 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: 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

### Ratings Affirmed

#### ASR Nederland N.V.

Issuer Credit Rating	
Local Currency	BBB+/Stable/--

#### ASR Levensverzekering N.V.

#### ASR Schadeverzekering N.V.

Issuer Credit Rating	
Local Currency	A/Stable/--
Financial Strength Rating	
Local Currency	A/Stable/--

#### ASR Nederland N.V.

Junior Subordinated	BB+
Junior Subordinated	BBB-

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