

Research Update:

ASR Nederland, Core Subsidiaries Ratings Affirmed After Acquisition Of Aegon's Dutch Operations; Outlooks Remain Stable

July 10, 2023

Overview

- ASR Nederland N.V. completed its €4.9 billion acquisition of Aegon's Dutch insurance and banking operations on July 4, 2023, using a combination of cash, debt, and equity.
- We expect ASR's capital levels to decline in 2023, but to remain very strong over the forecast period through 2025, 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.
- We assigned core group status to Aegon Levensverzekering N.V., which is closely aligned to ASR group post acquisition.
- The stable outlooks reflect our view that ASR will sustain its competitiveness and maintain very strong capitalization.

Rating Action

On July 10, 2023, 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 including the newly acquired Aegon Levensverzekering N.V. We also affirmed at 'A-/A-2' the issuer credit ratings on newly acquired Aegon Bank.

The outlooks on ASR and its subsidiaries remain stable.

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

Rationale

The affirmation reflects our view that the group's creditworthiness will not be affected by the acquisition of Aegon Group's Dutch insurance and banking business at a purchase price of about

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€4.9 billion.

We believe that the transaction adds scale and enhances ASR's business position in the Netherlands, although business will remain concentrated in its home market, in line with the company's business strategy. With the acquisition, 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. We see cost-saving synergies from the transaction, but only after three years.

ASR will use €1 billion of subordinated Tier 2 notes issued in November 2022, capital of €594 million raised through an accelerated bookbuild offer, and cash of about €650 million to fund the cash consideration of about €2.25 billion. The balance will be paid through an equity stake in the consolidated entity. After closing of the transaction, we believe ASR will maintain very strong capital adequacy over our two-year rating horizon, with sufficient cash, earnings, and capital generation. That said, the group's acquisition of a large life book in the current difficult market conditions will weigh on our view of ASR's capital adequacy. The equity portion of the acquisition and the negative goodwill will limit the deterioration of capital adequacy under our risk-based methodology. Furthermore, we consider the risk of further capital-consuming acquisitions as limited.

We see Aegon Bank as an additional potential source of capital volatility in the current macroeconomic environment. As per our criteria, we exclude all banking activities from our risk-based capital model. ASR's enlarged balance sheet continues to carry additional risk from exposure to an illiquid Dutch mortgage loan book as well as significant defined-benefit employee pension schemes.

We expect ASR will add about €1.7 billion of premiums to the group's current €5.9 billion of premiums after closing of the transaction. We expect that ASR will generate net income of over €500 million on a stand-alone basis for 2023 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.

The newly acquired insurance business is closely aligned to ASR group's business, in our view, and we expect it will be an integral part after integration of the business is completed, which could take two to three years.

We consider newly acquired Aegon Bank to be strategically important for ASR after the acquisition. In our opinion, this supports both senior preferred and senior nonpreferred liabilities. We therefore add three notches to Aegon Bank's stand-alone credit profile of 'bbb-' to reflect this extraordinary support.

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. We forecast ASR will maintain capital adequacy at least at the 'AA' level after acquisition.

Downside scenario

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

- Unexpected integration risks occurred.
- ASR was unable to maintain its capital position at least at the 'AA' level in our model.

- Aegon Bank added capital volatility in the current volatile capital markets environment and created an unexpected profit loss impact or continued financing cost.
- ASR's profitability did 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 acquisition. Nevertheless, we could raise the ratings if we were 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 diminished.

Ratings Score Snapshot

	To	From
Financial strength rating	A/Stable	A/Stable
Anchor	a	a
Business risk	Strong	Strong
IICRA	Intermediate Risk	Intermediate Risk
Competitive position	Strong	Strong
Financial risk	Strong	Strong
Capital and earnings	Very Strong	Very Strong
Risk exposure	Moderately High	Moderately High
Funding structure	Neutral	Neutral
Modifiers		
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
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- 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
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- 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

Ratings Affirmed

AEGON Bank N.V.

Issuer Credit Rating	A-/Stable/A-2
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AEGON Levensverzekering N.V.

Issuer Credit Rating	
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Local Currency	A/Stable/--
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Financial Strength Rating	
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Local Currency	A/Stable/--
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AEGON Bank N.V.

Senior Subordinated	BBB+
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Ratings Affirmed

ASR Nederland N.V.

Issuer Credit Rating	
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Local Currency	BBB+/Stable/--
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ASR Levensverzekering N.V.

ASR Schadeverzekering N.V.

Issuer Credit Rating	
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Local Currency	A/Stable/--
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Financial Strength Rating	
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Local Currency	A/Stable/--
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ASR Nederland N.V.

Junior Subordinated	BB+
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Junior Subordinated	BBB-
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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