S&P Global
Ratings

Research

ASR Nederland 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:
Ami Shah, CRISIL Global Analytical Center, an S&P Global Ratings affiliate, Mumbai

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ASR Nederland N.V.

Anchor	a
Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
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

=

A/Stable/--	Financial strength rating
BBB+/Stable/--	Holding company ICR

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

Credit Highlights

Overview

Key strengths	Key risks
Acquisition of Aegon's Dutch operations will strengthen ASR's market position in the home market.	The acquisition will scale up volume and product diversification in the Netherlands, but business will remain concentrated only in Netherlands, in line with the company's business strategy.
We expect ASR's capital levels 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.	ASR's enlarged balance sheet continues to carry additional risks, mainly related 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, and its significant defined-benefit employee pension scheme.

Acquisition of Aegon's Dutch operations further scales up ASR Nederland N.V.'s (ASR's) market position in life, non-life, and disability insurers in Netherlands. We believe ASR's acquisition of Aegon's Dutch insurance and banking operations 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.

We believe ASR has sufficient cash, earnings, and capital generation to maintain very strong capital adequacy over the rating horizon through 2025. 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 expect ASR will add about €1.7 billion of premiums to the group's current €6.0 billion of premiums after the transaction's close. We expect ASR will generate net income of over €800 million for 2023-2024 at the consolidated level. We expect a net combined ratio (loss and expense) of below 100%, according to our calculations.

Outlook: Stable

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 the 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.

Key Assumptions

- The Netherlands' GDP expected to slow in 2023 to 0.7%, with moderate increase of 1.1% in 2024 and 1.7% in 2025.
- Long-term interest rates in the Netherlands expected to remain high at 2.95% in 2023 and more than 3% in 2024-2025.
- Dutch unemployment levels expected to remain on an average at 3.5% in 2023-2025.

ASR Nederland N.V.--Key metrics

	2024f*	2023f*	2022A	2021	2020	2019
S&P Global Ratings capital adequacy	Very Strong	Strong	Excellent	Excellent	Excellent	Excellent
Gross premiums written	>7,800	>7,800	6,041	5859	5276	4666
Net income (attributable to all shareholders)	>800	>800	725	939	656	972

ASR Nederland N.V.--Key metrics (cont.)

	2024f*	2023f*	2022A	2021	2020	2019
Return on shareholders' equity (%)	7-8	7-8	12.0	16.1	12.6	20.3
P/C: net combined ratio (%)	<100	<100	98.4	95.7	97.8	97.5
EBITDA fixed-charge coverage (x)	>5	>5	7.7	10.1	6.9	9.8
Financial leverage adjusted including pension deficit as debt (%)	<35	<35	34.8	24.8	28.3	29.2

f--S&P Global Ratings forecast. * Forecast based on IFRS4; including acquired Aegon Netherland business

Business Risk Profile: Strong

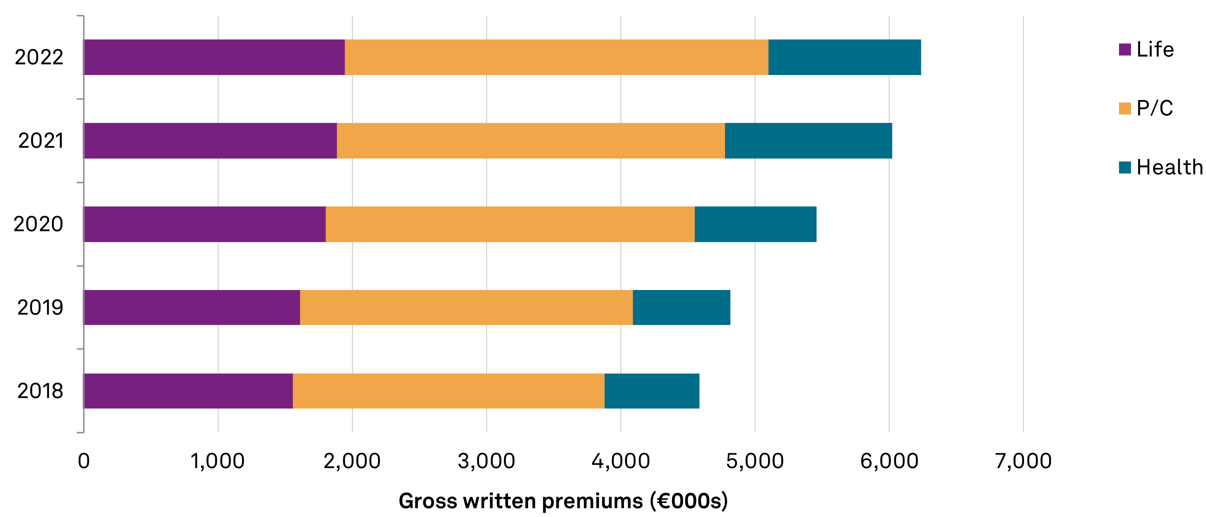
In line with ASR's business strategy to have meaningful market shares in home market Netherlands where it operates, ASR acquired Aegon Group's Netherlands-based insurance and banking operations for €4.9 billion through a combination of cash, debt, and equity. With this acquisition, we expect ASR to add about €1.7 billion of additional premiums to group's €6.0 billion of existing premiums.

With acquisition ASR will be second largest Dutch insurer in the Netherlands after NN Group, with a leading position in pension and disability business. Similarly, its market share in the property and casualty (P/C) business will also improve.

The newly acquired insurance business is closely aligned to the 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.

Chart 1

ASR Nederland--Share of P/C and health business is rising alongside growth in all segments



Source: S&P Global Ratings.

The Netherlands' insurance market is a highly concentrated market with the top three players covering more than two-thirds of market share.

Given ASR has already completed a large acquisition we don't expect any similar or major acquisition to happen over the rating horizon. We believe this focused approach and build-up of local expertise will enable ASR to deliver above-average growth in the saturated and highly competitive Dutch insurance market. At year-end 2022, ASR's non-life business expanded 9%, demonstrating continued strong growth in P/C and disability insurance. Health earned premiums reflecting pricing discipline and the pursuit of value over volume in a more competitive environment but continued contributing 30% of overall non-life earned premiums.

In life insurance, ASR will be the largest insurer in the Netherlands with an increase in market share of 25% from the existing 15% after acquisition of Aegon's Dutch operations. We expect additional life premiums of €1.3 billion from Aegon's Dutch operations combined with the group's life premiums after consolidation. At year-end 2022, ASR's life premiums grew by 3% to €1.9 billion. ASR has successfully shifted its new life insurance business toward less-interest-rate-sensitive products with lower capital requirements. Since 2016, new life insurance business drastically decreased for defined benefit solutions and ASR is focusing on defined contribution plans, which will gradually reduce the interest sensitivity of the life insurance back book. Therefore, we expect its risk/return profile to improve further.

Historically, ASR has, in our opinion, demonstrated stable performance with strong profitability outperforming its Dutch peers in a challenging market environment with an return on equity (ROE) of 12% at year-end 2022. With the increase in the balance sheet's size after the acquisition of Aegon's Dutch operations, we expect ASR's ROE to decline and will remain of 7%-8% for 2023-2024.

Despite premium diversification within the Netherlands, the group's earnings are less diversified than those of higher-rated peers, in terms of geographic presence. The group also generates about 20% of premiums from health insurance business, which faces indirect political pressure and intense competition, leading to volatile earnings.

Financial Risk Profile: Strong

In 2023, we believe ASR's capitalization will decline from current capital levels, reflecting cash payout of about €2.25 billion to fund the cash consideration related to the acquisition cost of €4.9 billion, but we expect ASR's capital to improve to very strong capital adequacy over the forecast period through 2025, with sufficient cash, earnings, and capital generation. Furthermore, it has a strong track record of accessing capital markets to issue restricted tier 1 and tier 2 hybrids.

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.

ASR's Solvency II ratio is resilient to interest rates and credit spreads, as reflected in a solid 222% at year-end 2022, compared with 196% at year-end 2021. We expect that strong retained earnings will continue to support the group's capital adequacy, while financing organic and inorganic growth and expected dividend payouts to grow 4%-9% annually until 2025.

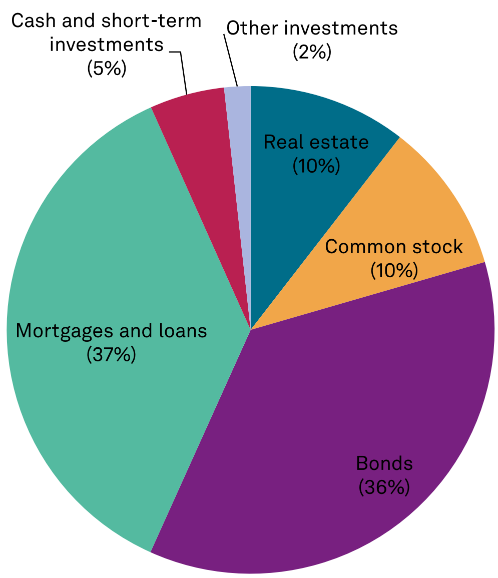
We expect that ASR will generate net income of over €800 million and ROE of 7%-8% for 2023-2024. We expect a net combined ratio of below 100%, according to our calculations.

We do not expect the overall risk profile of the investment portfolio to change materially. In particular, we do not expect material increases in allocations to equities and real estate. 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.

Chart 2

ASR investment break down at year-end 2022

Based on general account invested assets



Source: S&P Global Ratings.

As of year-end 2022, financial leverage increased to 35%, reflecting additional €1 billion of subordinated tier 2 notes issued in November 2022 to finance the acquisition and we expect it to remain less than 40% for 2023-2024. ASR's coverage ratio was around 7.6x thanks to the strong underlying earnings. We expect fixed-charge coverage to remain more than 5x.

Other Key Credit Considerations

Governance

ASR's management and governance is supported by its progress in executing strategic plans, which are, in our opinion, generally very transparently communicated. The company also has a highly experienced management team that complements its operational needs. At this stage, we do not anticipate a material change in risk appetite or financial strategy. In our opinion, ASR has demonstrated a clear path, focusing on its key areas, and has successfully implemented strategic initiatives, particularly in terms of building up its strong position in the Dutch insurance market.

Liquidity

We regard ASR's liquidity as exceptional. Although the company has material real estate and equity exposures, it maintains significant liquidity in the form of large cash holdings and a highly rated bond portfolio, which provide a buffer against liquidity stresses.

Factors specific to the holding company

We rate ASR Nederland N.V. two notches below the core companies of the ASR group. This reflects our view of structural subordination, since the holding company does not generate any operating cash flows.

Environmental, social, and governance

ESG factors have no material influence on our credit rating analysis of ASR Nederland.

Group support

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.

Accounting considerations

ASR does not publicly report embedded value. However, we give credit for the present value of future profits on a market-consistent embedded-value basis in our assessment of total adjusted capital. ASR makes extensive use of shadow accounting in its IFRS reporting. As such, it is able to minimize volatility to the profit and loss account resulting from movements in interest rates, where its assets and liabilities are sufficiently well matched. The capital model is adjusted for this accounting treatment.

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
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group 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

Appendix

ASR Nederland N.V.--Credit key metrics

Ratio/Metric	2022	2021	2020	2019
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent
Total invested assets	57,221	66,112	65,371	60,923
Total shareholder equity	5,749	6,381	5,309	5,089
Gross premiums written	6,041	5,859	5,276	4,666
Net premiums written	5,927	5,760	5,176	4,551
Net premiums earned	5,923	5,777	5,200	4,625
Reinsurance utilization (%)	1.9	1.7	1.9	2.5
EBIT	1,019	1,292	918	1,284
Net income (attributable to all shareholders)	725	939	656	972
Return on shareholders' equity (%)	12.0	16.1	12.6	20.3
P/C: net combined ratio (%)	98.4	95.7	97.8	97.5
P/C: net expense ratio (%)	20.8	20.1	21.9	23.6
P/C: return on revenue (%)	5.9	7.5	5.8	6.1
Life: Net expense ratio (%)	10.3	10.2	10.3	13.7
EBITDA fixed-charge coverage (x)	7.7	10.1	6.9	9.8
Financial obligations / EBITDA adjusted (x)	2.9	1.6	2.2	1.6
Financial leverage adjusted including pension deficit as debt (%)	34.8	24.8	28.3	29.2
Net investment yield (%)	3.7	3.0	2.8	3.1
Net investment yield including investment gains/(losses) (%)	3.0	4.1	3.2	3.7

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 September 8, 2023)*	
ASR Nederland N.V.	
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Junior Subordinated	BB+
Junior Subordinated	BBB-
Related Entities	
ASR Levensverzekering N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
ASR Schadeverzekering N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
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.