AEGON N.V.

Update following rating action

Summary Rating Rationale

The credit profile of Aegon N.V. (rated A3 for senior debt, stable outlook) reflects the aggregate credit strength of its various operating companies as well as its geographically diversified sources of earnings and cash-flows.

Aegon N.V. is the Netherlands-based holding company of the Aegon group (“Aegon” or “the group”). The group is focused on three core markets (the US, the Netherlands and the United Kingdom), where it offers a diversified mix of products including insurance, long-term savings, retirement solutions, banking products and asset management. The group’s main operations are based in the US, comprising two primary life insurance entities which all carry an A1 insurance financial strength rating (IFSR), which accounted for around 40% of the group’s operating results and around 60% of the group’s capital resources in 2021. The second largest market is the Netherlands.

Aegon's ratings are supported by the group’s very good financial flexibility, with recent improvements in leverage and earnings coverage, its very good capitalization, and gradual improvements in its overall risk profile, notably through a focus on fee business. These strengths offset the persistent weak profitability of the group, notwithstanding recent improvements, as well as challenges to grow sales in core businesses, mostly in the US. Aegon's decision to stop some activities, such as selling variable annuities with significant interest sensitive riders in the US, and the challenges to grow other businesses have affected the group’s overall market position in recent years.
Credit Strengths

» Diversified business portfolio, with established positions in the US and top tier positions in the Netherlands and in the UK platform segment

» Strategy focused on low-risk fee business, with a broad product offering including life insurance complemented by pension services, asset management, banking or mortgage origination

» Very good financial flexibility resulting from the group’s deleveraging strategy, very good capitalisation and good liquidity levels at the holding

Credit Challenges

» Execution risks associated to the business transformation, in particular maintaining a good pace in terms of capital generation, earnings mix and cost efficiency programme as the group reallocates its capital to Strategic Assets and growth markets, notably in the US

» Improving profitability levels, pressured by competition and still low interest rates

» Managing the volatility in the capital position and earnings due to the exposure to equity markets, interest rates and unhedged credit risks

Rating Outlook
The stable outlook reflects our expectation that the group will continue to execute its business plan, including continued deleveraging, reduction in risk profile, as well as implementation of cost reduction and growth initiatives to offset margin pressures and reduction in earnings from businesses in run-off.

The stable outlook is in line with the outlook on Aegon USA life’s operations.

What Could Change the Rating - UP
The following factors could lead to an upgrade of Aegon:

» Material improvement in the credit profile of the US insurance operations, as evidenced by an upgrade of Aegon USA life companies’ ratings,

» Significant improvement in profitability, as reflected by a return on capital sustainably above 8%, and

» Enhanced franchise in core segments.

What Could Change the Rating - DOWN
The following factors could lead to a downgrade of Aegon:

» A weakening of the credit profile of the US insurance operations, as evidenced by a downgrade of Aegon USA life companies’ ratings or

» A weaker or more volatile profitability, with for example a return on capital below 4%, or

» An earnings coverage consistently below 6x or an adjusted financial leverage consistently above 30%, or

» A weaker capitalization with for example a Solvency II ratio consistently below 180%.
Key Indicators

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<th>AEGON N.V.</th>
<th>2021</th>
<th>2020</th>
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<td>Total Assets</td>
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<td>Total Shareholders’ Equity</td>
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<td>Net Income (Loss) Attributable to Common Shareholders</td>
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<td>7</td>
<td>1,437</td>
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<tr>
<td>Total Revenue</td>
<td>50,255</td>
<td>48,561</td>
<td>65,352</td>
<td>18,444</td>
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<table>
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<th>Moody’s Adjusted Ratios</th>
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<td>Goodwill &amp; Intangibles % Shareholders’ Equity</td>
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<td>50.8%</td>
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<td>Adjusted Financial Leverage</td>
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</table>

[1] Information based on IFRS financial statements as of the fiscal year ended 31 December. [2] Certain items may have been relabeled and/or reclassified for global consistency.

Credit Profile of Significant Subsidiaries

Aegon USA

Our credit view of the life insurance companies in the Aegon USA Life Group - i.e., Transamerica Life Insurance Company (TLIC, insurance financial strength rating (IFS) A1, stable), and Transamerica Financial Life Insurance Company (TFLIC, IFS A1, stable) is based on its established positions in the US life insurance and asset accumulation businesses including the workplace markets. The rating also reflects the company’s utilization of multiple distribution channels, its diversified earnings that benefit from economies of scale, and a strong capital position as evidenced by a consolidated NAIC company-action level risk-based capital (CAL RBC) ratio of 426% at year-end 2021. On April 5, 2022, Moody’s changed the outlook to stable from negative reflecting the continued execution of the business plan, and the expectation for improved capital generation, and consistent profitability in-line with its rating level.

The company’s strengths are mitigated by the challenges Aegon USA faces in profitably growing its core business in a competitive market, which place downward pressure on profitability, at least in the short-term, tempered by cost reductions, and investments in growth initiatives that will take time to develop. In addition, financial results could be adversely impacted by the challenges of managing and reducing the risks in the company’s run-off in-force long-term care, universal life with secondary guarantees, and variable annuities with significant interest sensitive riders. Aegon USA’s business priorities and focus on growth in its Strategic Assets will make the company more reliant on highly competitive businesses to generate future sales and profits, albeit with less interest rate risk and related earnings volatility. The initial execution and implementation of these strategies which includes improving financial results and lowering its risk profile has experienced good progress, but full execution will take several years to develop.

Aegon The Netherlands

Aegon Levensverzekering N.V. which enjoys a strong brand recognition has one of the leading positions in the Dutch life insurance market. Aegon has also developed a banking business with strong positions in mortgages. It closed for new business its traditional life insurance business (term life, individual deferred annuities and defined benefit group pension) and will focus on pension administration, while growing its workplace solutions, mortgage origination and banking business. Aegon has also expanded its position in the income protection segment. However, the Dutch market remains highly competitive and the company has been focusing on improving customer service while reducing costs.

Operating result is robust and continued to increase in 2021 to €755 million (€665 million in 2020) driven by expense saving benefits, growth in business and improved investment margin in the Life segment of the company’s business, which is the largest contributor to Aegon’s profitability in the Netherlands (69% of the underlying earnings in 2021).

The Solvency II ratio of Aegon Levensverzekering N.V. increased to 186% at year-end 2021 (159% at year-end 2020), driven mainly by the management’s decision to increase its longevity reinsurance in the Netherlands, which significantly reduced required capital, as well
as a positive impact from operating capital generation. This was partly offset by negative market impacts due to higher interest rates and Group remittances.

The capital position benefits from relatively limited exposure to equities and limited sensitivity to interest rates movements as a result of pro-active hedges implemented in the early 2000s. As part of the new strategy, Aegon the Netherlands identified improvements to its internal model that mitigate the volatility caused by the basis risk between the EIOPA VA reference portfolio and its own asset portfolio. The improvements reduced the sensitivities to credit and mortgage spreads movements.

**Aegon UK**

Aegon is present in the UK pensions and savings market and has become the leader in the UK platform segment, following the acquisition of BlackRock’s UK defined contribution business and more importantly the acquisition of Cofunds, which has significantly increased the scale of Aegon’s platform business. Aegon UK managed around £215 billion of assets under administration as of year-end 2021. The company sold its annuities business in 2016 and is now focusing on selected business lines (Retail and Workplace savings).

Aegon UK’s profitability will largely depend on the level of assets under administration that it retains on its platform and the fees it charges its customers. During 2021, assets under administration increased by £29 billion, mostly driven by market appreciation as net inflows accounted for £8.8 billion throughout 2021.

Aegon UK is gradually replacing the earnings from the run-off of its traditional product portfolio by growing its platform business, and by reducing expenses and we expect the company to continue to grow its earnings as the benefits of increasing the functionalities of the platform materialize, although these will be partly offset by pressures on margins.

The Solvency II ratio of Scottish Equitable plc increased to 167% at year-end 2021 (156% at year-end 2020), driven by the management’s decision to reduce equity risk in the own pension plan and the impact of the incoming change in corporate income tax that led to reduced capital requirements.

**Recent developments: new strategy and financial targets for 2021-2023**

In December 2020, Aegon announced a new strategy aimed at improving the group’s operating performance and strengthening its balance sheet. The group has separated its activities in the three core markets in two groups, higher-margin assets (Strategic Assets) and capital-intensive assets (Financial Assets), with the aim of reallocating its capital more efficiently towards Strategic Assets and growth markets (Spain and Portugal, China and Brazil) including its global asset manager.

In each market, Aegon has identified the key products it would like to focus on (see above). Aegon will consider as Financial Assets several of its US products, among them the traditional variable annuities business, the standalone long-term care and fixed annuities (deferred, fixed indexed, and payout). In the Netherlands, Aegon has closed for new business the term life and individual deferred annuities, and defined benefit group pensions. Aegon estimated, based on 2019 underlying earnings before tax, that Strategic Assets and Growth markets represent approximately 53% and 4% of earnings respectively, while Financial Assets account for a sizeable 43%.

Furthermore, the group has announced that it will exit markets in which it has a sub-scale position. In 2021, the group completed the sale of Stonebridge, a UK-based provider of accident insurance products, ceased the funding of GoBear, a digital financial supermarket in Southeast Asia, and sold Transamerica’s portfolio of fintech and insurtech companies. Additionally, Aegon agreed to sell off their insurance, pension and asset management businesses in Hungary, Poland, Romania and Turkey to Vienna Insurance Group AG Wiener Versicherung Gruppe (VIG) for €830 million (€35 million was received in the form of net remittances in 2021).

The group has announced new financial targets for the period 2021-2023 including the achievement of a cumulative free cash flow of €1.4 to €1.6 billion, expense savings for €400 million by 2023 compared with 2019 baseline (representing 13% of the addressable expense base), a dividend per share to around €0.25 over 2023 and a reduction of the gross financial leverage to €5.0-5.5 billion from €6.6 billion at the end of June 2020.

Aegon has also introduced a new capital management policy with operating levels and minimum dividend payment levels for the capital position of each operating entity and an operating range for the cash capital at holding of €0.5-1.5 billion. Early in August 2020, Aegon has also rebased its dividend to €0.12 per share for 2020, a level well covered by free cash flows even in a reasonable stress scenario.
Structural Considerations
Aegon’s A3 senior unsecured debt rating is two notches below the IFSR of its US operations. This narrower notching reflects Aegon’s geographic diversification between its main markets: the US (37% of the Group’s operating result in 2021, excluding Holding and other activities), the Netherlands (36%), the UK (9%), the International businesses (7%) and a growing global asset management (12%). We expect the group’s reliance on the US business would reduce over time with the gradual running off of the US products which are closed for new business and this would result in stronger contribution from the other operations in particular the Netherlands, the UK and the asset management business. A further element in considering narrower notching is that Aegon benefits from regulatory supervision at a group-wide level under Solvency II.

Capital Structure and Liquidity
Aegon’s consolidated group equity increased by €1.4 billion to €26.8 billion at year-end 2021 (€25.5 billion at year-end 2020) driven mainly by the net result of €1.7 billion and favourable impact of currency movements, which more than offset higher interest rates and their negative impact on revaluation reserves.

At year-end 2021, Aegon reported around €8.5 billion of financial debt outstanding, of which €3.9 billion were senior debt, Federal Home Loan Bank (FHLB) borrowings and commercial paper and €4.6 billion were subordinated debt. As of year-end 2021, Aegon also had €5.7 billion of outstanding operating non-recourse debt (e.g. funding of mortgages through RMBS, pass-through covered bonds, revolving loan facilities and senior debt issued by Aegon Bank) that we include neither in financial debt, nor in operational debt in our calculations.

The group’s capital funding borrowings are directly attributable to or guaranteed by Aegon N.V. However since 2016, Aegon’s leverage includes borrowings to the FHLB, issued by some of Aegon’s subsidiaries in the US, which Aegon uses primarily to purchase long-term assets and increase the duration of its assets in its US life subsidiaries. As of year-end 2021, FHLB borrowings accounted for €2.6 billion an increase of €0.5 billion from the level reported at year-end 2020 of €2.1 billion.

We view Aegon N.V.’s financial flexibility in line with a high A-rating and we expect adjusted financial leverage to remain below 30% going forward. At year-end 2021 adjusted financial leverage (excluding operational debts and including the assets backing the group’s Dutch defined benefit plan) declined by 1.5% points to 23.0% (24.5% at year-end 2020) driven by the redemption of the $250 million floating rate perpetual capital securities in September 2021.

One of the group’s priorities under its new CEO is to further deleverage (see section Recent Developments), which we view positively. We expect the financial leverage ratio to further decrease as Aegon continues to deleverage, as evidenced by the announced buy-back of €429 million of subordinated notes on 1 April 2022. The deleveraging will be aided also by the group’s decision to rebase its dividend going forward.

Reduction in debt and associated funding costs from lower interest rates have also supported improvements in earnings coverage to more than 8x in 2021 (from 0.6x in 2020).
Despite improvements in earnings (Aegon’s operating result increased by 11% in 2021 to €1,906 million and its net income increased to €1,701 million from €55 million in 2020), profitability remains a key credit weakness. Aegons’ return on capital (4.8% in 2021, up from 0.1% in 2020), remains low for the group’s rating level.

With regard to capitalization, the group’s consolidated Solvency II ratio remained strong in 2021 and increased to 211% at year-end 2021 compared to year-end 2020 level of 196%. The group maintains a disciplined capital strategy in its main operating companies, while maintaining some excess capital at the holding company, and has reduced the sensitivity of its capital ratio to main financial risks. We estimate that this will ensure the maintenance of a group Solvency II ratio above 180%. Recent management actions aiming at reducing the group’s risk profile, including for example the additional hedging of its variable annuity business in the US, has also strengthened the group’s economic capitalization.

In terms of capital structure under Solvency II, the group’s capital position benefits from a relatively high portion of Tier 1 capital (84% of the eligible own funds at year-end 2021), although a sizeable portion is restricted Tier 1 capital (12%) of which the largest part is represented by grandfathered Tier 1 securities. Tier 2 and Tier 3 capital represents 33% of the solvency capital requirements well within the 50% threshold.

**Liquidity Profile**

At the same time, the amount of liquid assets at the holding Aegon N.V. (i.e. cash and cash equivalents) were €1,204 million at year-end 2021 (excluding collateral received from counterparties and liquidity managed on behalf of affiliated investment funds) and a total balance of €1.3 billion in cash at year-end 2021 (€1.1 billion at year-end 2020) in the centrally managed holding companies comfortably within the operating target range of €0.5 and €1.5 billion. The liquidity position benefitted from €729 million in free cash flow during 2021, as Aegon has improved their operational performance and risk profile. Capital injection to entities amounted to €125 million while divestments brought proceeds of €66 million.

In addition, Aegon maintains a number of banking relationships in the form of bilateral and syndicated committed credit facilities. The main arrangements include a €2 billion syndicated revolving credit facility maturing in 2025 and a $2 billion LOC facility maturing in 2026. No drawdowns had been made on these syndicated revolving credit facility as of 31 December 2021.

Aegon’s liquidity also benefits from the existence of Aegon N.V and Aegon Funding Company LLC’s €2.5 billion commercial paper programs, although there were no drawings under Aegon N.V’s programs as of year-end 2021.
ESG considerations

Environment
Environmental risks are not material rating drivers for Aegon. The group is integrating environmental consideration into investment processes and gradually introducing these criteria in investment solutions for its clients.

Social
Life Insurers have moderate overall exposure to social risks. These financial institutions are highly regulated and the majority of products are distributed through diverse distribution channels. Given this sector’s reliance on handling customer data and privacy, customer relations are important. Human capital risks can be significant, primarily related to the recruitment and retention of key employees. Demographic and societal trends including people living longer and an aging population will affect life insurers in terms of the products that are sold for retirement and estate planning, and the fair pricing of certain life or health risks as insurers manage mortality, longevity, and morbidity risks. Societal trends could also limit the ability of Insurers to share adverse experience through higher premium rate actions on policyholders of life and long-term care insurance. Digital innovations are disrupting distribution patterns for life insurers ranging from the underwriting process to how life insurance and retirement products are purchased.

Like its life insurance peers, Aegon faces social risks through the handling of customer information, the underwriting and business growth implications (positive and negative) of changing demographics, and the impact of changing consumer preferences on distribution channels.

Governance
Like all other corporate credits, the credit quality of Aegon is influenced by a wide range of governance-related issues, relating to financial, managerial, ownership or other factors, all of which can be exacerbated by regulatory oversight and intervention.
Moody's related publications

Rating action:

» Moody's changes to stable the outlooks on AEGON N.V. (A3 senior unsecured debt) and US subsidiaries (April 5, 2022)
» Moody's affirms AEGON N.V.'s A3 senior unsecured debt rating, outlook changed to negative (October 2, 2020)
» Moody's assigns Baa1(hyb) rating to Aegon's guaranteed dated subordinated notes (October 16, 2019)

Issuer comment:

» Aegon N.V. - Sale of CEE business will strengthen capital and financial flexibility (December 7, 2020)
» Aegon N.V. - Weak underlying earnings and large net loss in the US weigh heavily on Aegon's first half results. Still headwinds in H2 (August 17, 2020)
» Aegon N.V. - Weak underlying earnings in the US weigh on Aegon's first quarter results, expect pressures in remainder of 2020 (May 20, 2020)
» Aegon N.V. - US business weighs on underlying earnings results (February 19, 2020)
» Aegon N.V. - Significant decline in 2018 net income driven by US business (February 22, 2019)

Sector comment:

» European Insurance - Solvency ratios only slightly down in the first months of 2022, resilient to current market stress (March 11, 2022)
» Global Insurance - Global insurance regulators increase focus on climate risk (March 10, 2021)
» European Insurance - Solvency II changes would make insurers' regulatory capital ratios more economic (February 1, 2021)
» European Insurance - Solvency ratios more exposed to pandemic related asset risk than underwriting (January 11, 2021)
» European Insurance - European insurers re-leverage to support capital buffers in 2020 (October 13, 2020)

Outlook:

» Insurance - Europe: 2022 Outlook stable for life, negative for P&C (November 17, 2021)
» Insurance - Europe: 2021 Outlook update (December 10, 2020)
» Insurance - Netherlands: 2021 Outlook negative (November 5, 2020)

Methodology:

» Life Insurers Methodology (September 24, 2021)
» Assigning Instrument Ratings for Insurers (January 27, 2022)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.
### Ratings

Exhibit 3

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<tr>
<td>BACKED Senior Unsecured</td>
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Source: Moody’s Investors Service

### Endnotes

1. Variable annuities with significant interest rate sensitive living and death benefits riders.
2. Of the €400 million in savings, Aegon aims to reinvest €150 million in growth initiatives. Associated with the savings initiatives, the group will invest €650 million over the period 2021-2023.
MOODY'S INVESTORS SERVICE
FINANCIAL INSTITUTIONS

20 April 2022

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