MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms AEGON N.V.'s A3 senior unsecured debt rating, outlook changed to negative

2 October 2020

London, October 2, 2020 – Moody's Investors Service (Moody's) has today affirmed AEGON N.V.'s ("Aegon" or "Group") A3 long-term issuer and senior unsecured debt ratings, Baa1(hyb) subordinate and junior subordinate debt ratings and Baa3(hyb) preferred stock non-cumulative rating. At the same time, Moody's affirmed the A1 insurance financial strength ratings (IFSRs) of Transamerica Life Insurance Company (TLIC), Transamerica Premier Life Insurance Company (TPLIC) and Transamerica Financial Life Insurance Company (TFLIC) (collectively Aegon USA). The outlooks have been changed to negative from stable for all entities.

Please click on this link https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1000003520 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

AEGON N.V.

The change in outlook to negative for AEGON N.V. reflects the Group's weak underlying earnings over the last 18 months driven by the dominant US business for which trading conditions will continue to be challenging. Furthermore, Aegon's net income remains very volatile and continues to subdue the Group's return on capital and earnings coverage. More positively, the earnings of the Group's other businesses are resilient and the balance sheet remains strong with leverage reducing and the Group's Solvency II ratio at the top end of its target range (195% as at H1 20).

Following a 5% decrease in 2019, Aegon's pre-tax underlying earnings reduced further by 31% (to €700 million) for the first half 2020. This underperformance continues to be driven by the US business, the Group's main earnings contributor and capital generator, which reported a 54% reduction in earnings driven by adverse mortality and persistency and the implications of the continued lower interest rate environment. The US business continues to face profitability headwinds, exacerbated by the coronavirus, and we expect its profitability in the second half of this year to remain constrained. Aegon has withdrawn its Group 2019-2021 financial targets in light of the uncertain economic outlook.

Aegon's net income in the first half of 2020 also declined significantly by 67% to €202 million, again driven by the US business which incurred substantial "below the line" losses reflecting, among others, assumption changes in interest rates. This decline is symptomatic of the net income volatility Aegon has displayed over the last years, and weak net income has led to five year (2019-2015) average return on capital and earnings coverage of only 2.3% and 3.3x respectively.

More positively from an earnings perspective, the smaller European, International and asset management businesses have been resilient, recording a collective 3% and 4% increase in pre-tax underlying earnings in 2019 and first half 2020 respectively. The Dutch business has averaged c. €574 million of pre-tax underlying earnings from 2019-2015 and is expected to remain a solid contributor to the Group's underlying earnings even if its net income is now more sensitive to credit spread movements.

The affirmation of AEGON N.V.'s ratings reflects: (i) the aggregate credit strength of its various operating companies, in particular its main US operations (A1 IFSR affirmed); (ii) good and gradually improved geographic diversification which Moody's expects to be maintained; and (iii) reduced financial leverage.

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 (51%/33% of the Group's underlying earnings before tax at YE19/H1 20), the Netherlands (30%/40%), the UK (6%/10%) and a growing global asset management business (6%/9%). The Group's reliance on the US business, which at YE17 represented 60% of underlying earnings, has reduced although this has been partially driven by relatively lower US earnings. A further element in considering narrower notching is that Aegon benefits from regulatory supervision at a group-wide level under Solvency II. Moody's expects the Group's good level of geographic diversification to be maintained.

The rating affirmation also reflects Moody’s expectation that the Group’s adjusted financial leverage remains below 30%. Leverage, on a Moody’s basis, declined in 2019 by a material 5.9% points to 25.4% (YE2018: 31.2%), driven by the reduction in borrowings and the increase in shareholders' equity, and Moody’s views positively the Group's priority to further delever under its new CEO. This will be aided by the Group’s decision to cancel the H2 2019 dividend and re-base the H1 2020 dividend, and Aegon intends to not refinance $500 million senior debt maturing in December 2020.

With regard to capitalization, the Group's Solvency II ratio declined only slightly to 195% at H1 20 (YE 2019: 201%) due to COVID-related adverse market impacts but positively remains at the top end of the target range of 150%-200%. More negatively, the weakening of the US business’s capital generation will make it harder to counter the relatively high sensitivity of the Group solvency to financial market movements. Overall, Aegon believes that the volatility of its capital ratios is too high and will take action to improve the company's risk profile, which is credit positive. In the meantime, the US business will not pay its planned dividend to the Group for H2 2020, to protect its balance sheet amidst the uncertain economic outlook during the pandemic.

AEGON USA

The negative outlook for AEGON USA reflects Moody's expectation that the coronavirus-related economic disruption will continue to weigh on earnings because of the impact from lower interest rates, unfavorable mortality experience, as well as elevated defaults and ratings migration. Aegon’s business is adversely impacted by the ultralow interest rate environment, which over time reduces the company's investment returns supporting the credited rates on its life insurance, long-term care and annuity business.

Moody's will consider the performance of the businesses, level of reserves and capital including the quality of capital in the US, credit fundamentals in its investment portfolio, and its mortality experience. Moody's believes the ultra-low interest rates, economic disruption, and pandemic-driven restrictions on movement of the population will stress most aspects of life insurers' financials, including those of Aegon USA. These factors impact new business, profitability, capital adequacy, and the investment portfolio's performance.

Moody's said the ratings affirmations of Aegon USA’s ratings is based on the company's well-established positions in the US life insurance and asset accumulation businesses including individual and employee 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 good capital position. Aegon USA continues to emphasize its individual and workplace businesses while investing in administrative efficiencies and product development capability.

Moody's also said for TLIC, the P-1 Short-term IFSR, is likely to remain unchanged, if Moody's were to downgrade the A1 IFSR of the company one notch.

These strengths are partially mitigated by lower than expected profitability for its rating level and a business profile with a concentration on the liability side of a legacy portfolio of long-term care (LTC) business and variable annuities (VA) with guaranteed benefits. The recent decline in market interest rates and the possibility of prolonged low interest rates could place pressure on the company's earnings and capital. Deterioration in the investment portfolio would also compound the pressure In addition, the company's level premium term life (”XXX”) and no-lapse universal life insurance (”AXXX”) business, which was written before the introduction of principle based reserving, uses captives and other structured insurance transactions, which weakens the quality of reserves, asset quality, and regulatory capital on a consolidated basis.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

AEGON N.V.

The following factors could lead to a downgrade of Aegon: 1) Further weakening of the credit profile of Aegon USA, as evidenced by a downgrade of its ratings; 2) reduction in underlying earnings and/or significant net income volatility; 3) adjusted financial leverage consistently above 30% and earnings coverage consistently below 4x; 4) reduced geographic diversification that would lead to a reduction in the notching differential between the IFSR of Aegon USA's entities and the senior unsecured debt rating of Aegon.

Given the negative outlook, there is limited upward pressure on Aegon's ratings at present, however the following factors could stabilise the outlook: 1) improvement in the credit profile of the US insurance operations, as evidenced by a stabilisation of the outlook; 2) adjusted financial remaining below 30% and earnings coverage consistently above 5x.

AEGON N.V.'s PERPETUAL RESTRICTED TIER 1 CONTINGENT CONVERTIBLE NOTES

The key drivers of the notes' Baa3(hyb) rating are the level of the Group's Solvency II ratio and the A1 IFSR of Aegon's US operations. Negative rating action on the notes could occur if the Group's Solvency II ratio is consistently below 165% and/or the A1 IFSR of Aegon's US operations is downgraded.

Given the negative outlook, there is limited upward pressure on this rating at present, however the outlook could be stabilised if the Group's Solvency II ratio is consistently above 180% and/or if the outlook on Aegon's US operations is stabilised.

AEGON USA

Factors that could lead to a downgrade of the ratings: 1) ROC of the US operations consistently below 4%; 2) combined NAIC RBC ratio of less than 350% (CAL), after adjustment for intercompany loans and reinsurance captives or a reduction in capital of more than 10% over a 12 month period; 3) consolidated group financial leverage at Aegon group sustainably above 30% and earnings coverage consistently below 4x; and 4) modest success in the implementation of the US business plan during Aegon's strategic review affecting business operations and financial performance.

Given the negative outlook, there is limited upward pressure on Aegon USA ratings. A combination of the following drivers could return Aegon USA's outlook to stable: 1) return on statutory capital

(ROC) of the US operations consistently above 6% with a sustained reduction in volatility; 2) materially less reliance on reinsurance captives and reserve financing structures from current levels in the US (as measured by total reserve credit and modco reserves); 3) consolidated total leverage at Aegon group below 30% and earnings coverage consistently above 5x; 4) improved organic capital generation; and 5) successful execution of the US business plan during Aegon's strategic review, reflected by improving business operations and financial performance.

SUMMARY PROFILE OF AFFECTED GROUP

AEGON N.V. is the Netherlands-based holding company of the Aegon insurance group which primarily offers life insurance and pension products with its main operations based in the US. The group, which is present in over 20 other countries worldwide, also has significant and well-established operations in the Netherlands and the UK. For 2019, the group reported premium income of €18.1 billion and total equity of €25 billion.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Life Insurers Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1187348. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings.

Please click on this link https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1000003520 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

• Endorsement

• Rating Solicitation

• Issuer Participation

• Participation: Access to Management

• Participation: Access to Internal Documents

• Disclosure to Rated Entity

• Lead Analyst

• Releasing Office

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at www.moodys.com, for each of the ratings covered, Moody's disclosures on the lead rating analyst and the Moody's legal entity that has issued the ratings.

The person who approved AEGON N.V., AEGON Funding Company LLC and Commonwealth General Corporation credit ratings is Antonello Aquino, Associate Managing Director, Financial Institutions Group, JOURNALISTS: 44 20 7772 5456, Client Service: 44 20 7772 5454. The person who approved Transamerica Financial Life Insurance Company, Transamerica Premier Life Insurance Company, Monumental Global Funding Limited, Transamerica Life Insurance Company and Transamerica Capital II and Transamerica Capital III credit ratings is Scott Robinson, CFA, Associate Managing Director, Financial Institutions Group, JOURNALISTS : 1 212 553 0376, Client Service : 1 212 553 1653.

The relevant office for each credit rating is identified in "Debt/deal box" on the Ratings tab in the Debt/Deal List section of each issuer/entity page of the website.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Dominic Simpson
VP-Sr Credit Officer
Financial Institutions Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf

London
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Antonello Aquino
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London, E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454