FitchRatings

Insurance
Life Insurers
North America

Aegon Americas

And North American Subsidiaries of Aegon N.V.

Key Rating Drivers

Economic Fallout Pressure: In 1Q20, Aegon Americas' NAIC RBC ratio declined 94 percentage points to 376%, reflecting adverse market movements coupled with credit spreads widening, but remains above the lower end of the target range of 350%. Fitch's pro forma rating case analysis reflecting the coronavirus economic fallout suggests deterioration in capital metrics below recent historical periods primarily due to investment losses and increased variable annuity (VA) reserves. Aegon Americas' 2019 Prism score of 'Very Strong' is in line with 2018.

Profitability Below Rating Expectations: Aegon Americas' profitability metrics declined in 2019, reversing their improving trend due to lower interest rates, adverse mortality experience, net outflows and fee compression. Earnings were down in 1Q20 compared with the prior year, and Fitch expects a decline for the full year due to the economic fallout. Improvement in returns, along with a continued convergence between underlying earnings and net income, would be viewed favorably.

Moderate Business Profile: Compared with all other U.S. life insurers, Fitch Ratings assesses Aegon America's business profile as moderate. This reflects the company's significant operating scale, leading market positions, breadth of product offerings and diversification across business lines, which are offset by its moderate risk profile due to its legacy long-term care (LTC) insurance exposure, universal life (UL) with secondary guarantees exposure and above-average exposure to VAs. Fitch views the company's LTC exposure as moderate and its reserve adequacy as below average compared with peers.

Diversified Investment Portfolio: Aegon Americas' portfolio is viewed as having below-average risk exposure compared with the industry. The portfolio consists of predominantly fixed-income assets, primarily investment-grade bonds and mortgage loans. Favorably, the mortgage loan portfolio is underweight in the retail and office sectors. Fitch's rating case expectation is a material increase in impairments over the next one to two years, though losses are expected to generally be below peers and the industry.

Ownership Uplifts Ratings: Fitch considers Aegon N.V.'s rated U.S. entities as Core due to Aegon Americas' scale, operating performance and market position in chosen markets. Aegon Americas comprises a material portion of the group's revenue and earnings. Its ratings are one notch higher than they would be on a standalone basis.

Rating Sensitivities

Pandemic Impact: Aegon N.V.'s ratings could be downgraded if Fitch's coronavirus pro forma rating case materializes as downgrade sensitivities would be met. A positive rating action is prefaced by a material positive change in Fitch's rating assumptions with respect to the coronavirus impact.

Downgrade Sensitivities: Aegon N.V.'s ratings could be downgraded if over a sustained period, the financial leverage ratio rises above 30% or if the Prism score falls to below the 'Very Strong' category. The ratings could also be downgraded if net income ROE weakens below 3%.

Positive Rating Action: A revision in the Outlook to Stable could result from Aegon N.V. maintaining its balance sheet strength and capitalization that are in line with its targets without material declines in profitability. An upgrade is unlikely over the near term, but longer term could result from a net income ROE in excess of 7% for a sustained period with the Prism factor-based model score remaining at least 'Very Strong'.

Ratings

Transamerica Life Insurance Co.

Insurer Financial Strength (IFS)	A+
Short-Term IFS	F1+

Transamerica Financial Life Insurance Co.

Transamerica Premier Life Insurance Co.

IFS	A+

Outlook

Negative

Financial Data

Aegon Americas

($ Mil.)	2018	2019
Underlying Earnings Before Tax	1,437	1,258
Net Income	61	1,324
Return on Capital — Underlying Earnings (%)	9.4	8.3
Total Adjusted Capital	9,343	9,954
RBC (%)	465	470

Note: Earnings metrics are reported on an IFRS basis, while capital metrics are based upon U.S. statutory data.
Source: Fitch Ratings, Aegon Americas.

Applicable Criteria

Insurance Rating Criteria (March 2020)

Related Research

Rating Outlook for U.S. Life Insurance Industry Revised to Negative (March 2020)

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Latest Developments

- Aegon Americas' Rating Outlook was revised to Negative from Stable in May 2020, reflecting the economic fallout and potential erosion of its balance sheet strength based on its above-average exposure to market-sensitive liabilities, along with its legacy LTC exposure.

Industry Profile and Operating Environment (IPOE)

Click here for a link to a report that summarizes the main factors driving the above IPOE score.

Business Profile

Moderate Business Profile

Fitch ranks Aegon Americas' business profile in the moderate category of the North American life insurance industry. This reflects the company's significant operating scale, leading market positions, breadth of product offerings and diversification across business lines, which are offset by its moderate risk profile due to its legacy LTC insurance and above-average exposure to VAs. Given this ranking, Fitch scores Aegon Americas' business profile at 'a+' under its credit factor scoring guidelines.

Aegon N.V. is an international life insurance, retirement savings and asset management company that does business in more than 20 markets in the Americas, Europe and Asia. The company's main operations are in the U.S., Netherlands and UK. Aegon Americas is the largest segment, representing nearly 60% of annual earnings. Fitch views Aegon Americas' competitive positioning as favorable, driven by its significant operating scale and strong market positions in core markets. The company has a top-10 position in the not-for-profit defined contribution retirement market, as well as in the sale of individual life products, including a top-five position in indexed UL insurance.

In 2018, Aegon Americas signed a multiyear agreement with Tata Consultancy Services (TCS) to administer its life and annuity and supplemental health business lines. In addition to cost savings, the agreement is aimed at improving customer experience through a better digital platform. With this agreement, about 2,000 of Aegon Americas' operational staff became employees of TCS and service over 10 million policies. This is TCS' entry into the U.S. insurance sector and will serve as its flagship for future growth.

At YE 2019, Aegon Americas had $5.9 billion and $6.3 billion in LTC reserves on an IFRS and U.S. statutory basis, respectively. Statutory LTC reserves represented approximately 65% of total adjusted capital, which Fitch considers moderate exposure relative to LTC peers. Fitch views LTC insurance as one of the riskiest products sold by U.S. life insurers due to above-average underwriting and pricing risk, high reserve and capital requirements, and exposure to low interest rates, which has been exacerbated by the coronavirus economic fallout.

While the LTC product is written on a guaranteed renewable basis, which allows the insurer to increase premium rates on in-force business based on emerging claims experience, premium rate increases are subject to regulatory approval. Favorably, Aegon Americas achieved approval on 85% of its most recent $1.1 billion requested rate increases. Fitch expects the company to continue to seek rate increases on underperforming business.

Over the years, Aegon Americas increased LTC reserves to reflect adverse experience as well as changes in assumptions. Fitch believes there is the potential for future reserve increases for companies with legacy LTC blocks, including Aegon Americas. The company's IFRS reserves reflect the assumption of a 1.5% per annum improvement in LTC claims incidence over the next 15 years, and the removal of this assumption would have an adverse impact of approximately $700 million pretax. The company also assumes mortality improvement of 1.5% per year grading to 0% over 40 years on an IFRS basis and the elimination of this assumption would have a positive impact of approximately $100 million pretax.

Favorably, Aegon Americas' reinvestment risk is offset by its forward-starting swap program, which was initiated in 2002, and drives an LTC portfolio yield in excess of 7%. Fitch notes that on an IFRS basis, which reflects best-estimate assumptions, the company's actual to expected results were tracking near 100% over recent years.

Ownership Is Positive to Rating

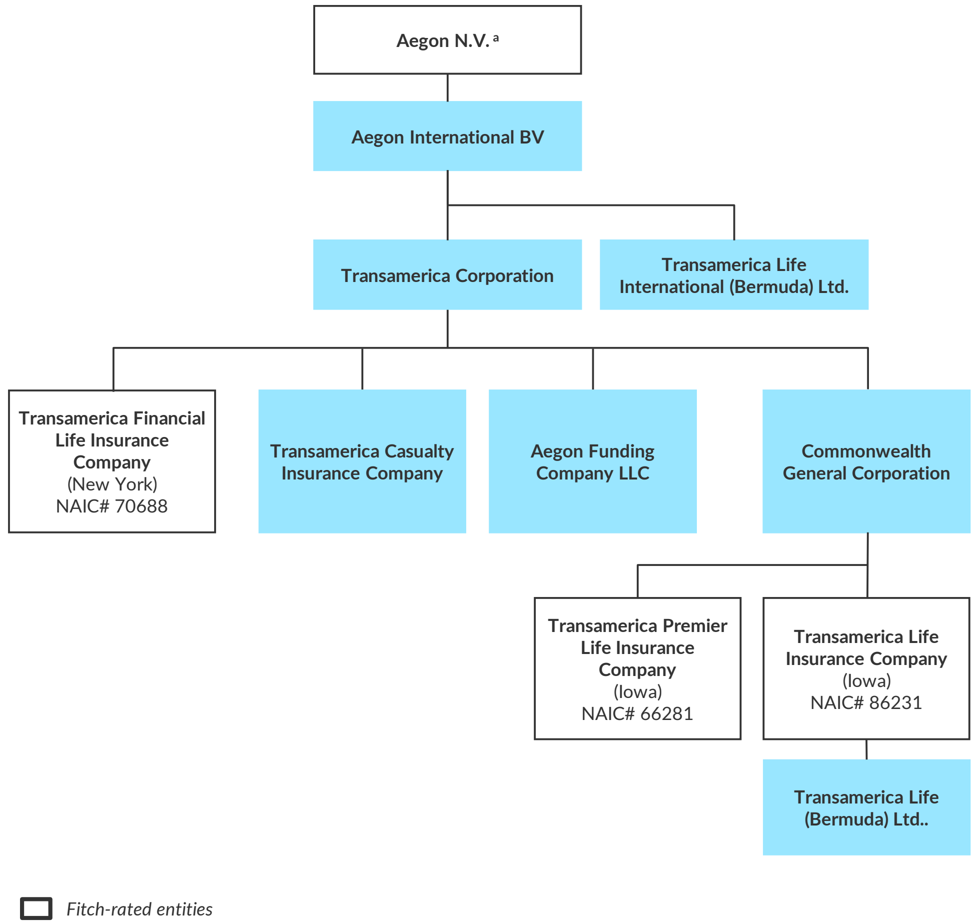
Aegon N.V. is a Netherlands-based holding company that was founded in 1983 with the merger of two Dutch companies. The company's core business is insurance with a primary focus on three markets: life insurance, pensions and asset management.

Aegon N.V.'s U.S.-based operations comprise three separate U.S. life insurance companies, led by Transamerica Life Insurance Company. Ultimate ownership is by parent, Aegon N.V., while direct ownership of the U.S. operating companies is by holding company Transamerica Corporation.

Aegon Americas could be rated as much as one notch lower than its current level, absent a continued commitment from the parent. The ratings reflect Aegon Americas' position as a Core operation of Aegon N.V., which serves as the ultimate source of support for Aegon Americas' capitalization levels. Aegon N.V. provided significant capital to the U.S. operations through the years.

Aegon Americas is the largest operating division in terms of revenue-producing assets and earnings, and is likely to remain so for the foreseeable future. As such, Aegon Americas has a material effect on Aegon N.V's performance and ratings.

Simplified Organizational Chart — Aegon Americas



[a]Vereniging Aegon is shareholder of Aegon N.V and owns 14% of the company.
Source: Fitch Ratings, Aegon Group U.S. operations.

Capitalization and Leverage

Very Strong Operating Company Capitalization

Fitch views Aegon Americas' risk-adjusted capital and combined group capital position as key ratings strengths. The company's 2019 Prism score of 'Very Strong' is consistent with the prior year. In 1Q20, Aegon Americas' NAIC RBC ratio declined 94 percentage points to 376%, reflecting adverse market movements, coupled with credit spreads widening affecting its VA business, but remains above the bottom end of the target range of 350%. Favorably, equity markets subsequently rebounded.

Fitch's rating case pro-forma analysis surrounding the coronavirus economic fallout suggests deterioration in capital metrics below recent historical periods driven by investment losses and increased VA reserves. The U.S. operation has been generally self-funding in capital needed to support the business and Aegon N.V. has been flexible in its dividend requirements.

Fitch notes that Aegon Americas' reported risk-adjusted capital measures improved in recent years with the transfer of reserves to third-party and captive reinsurers. These transactions are primarily used to manage statutory reserves and capital requirements associated with its term and UL with no-lapse guarantee products. At YE 2019, the company's operating subsidiaries recognized $11 billion in credit, or 110% of Aegon Americas' year-end statutory capital, for XXX and AXXX excess reserves ceded to special-purpose captive reinsurers. This is among the highest in Fitch's rated universe. Favorably, the company simplified its captive structure through mergers and reinsurance over recent years.

Aegon Americas' total financing commitment (TFC) ratio is high compared with the life insurance industry average and above many large U.S. stock- and foreign-owned peers. The above-average ratio is driven by Aegon Americas' use of XXX and AXXX funding, security lending and Federal Home Loan Bank (FHLB) borrowings. Fitch notes that the company's FHLB borrowings were approximately half of the prior year at $2 billion as of YE 2019. Aegon Americas' TFC ratio of 1.1x at YE 2019 remains in excess of the life industry average of 0.6x.

Fitch Expectations

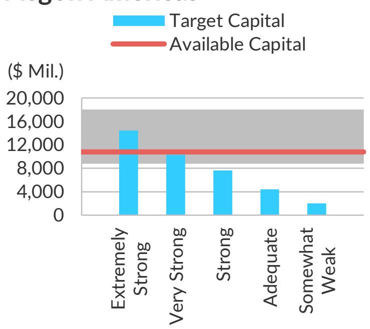
- RBC is expected to be around 400%, exceeding the bottom end of the company's target range of 350%.
- Aegon Americas' Prism score is expected to trend downwards towards the 'Strong' category.
- Nonrisk-based capital metrics are expected to deteriorate slightly.

Financial Highlights

($ Mil.)	2018	2019
Total Adjusted Capital	9,343	9,954
RBC (%)	465	470
Asset Leverage (x)	22	22
Operating Leverage (x)	8	7

Note: Reported on a U.S. statutory basis.
Source: Fitch Ratings, Aegon Americas.

2019 Prism Score — Aegon Americas



Note: Red line is available capital (AC) base; shaded area represents the high and low of AC due primarily to unrealized bond gains/(losses).
Source: Fitch Ratings, S&P Global Market Intelligence.

Financial Performance and Earnings

Underlying Profitability Remains Below Rating Expectations

Aegon Americas' IFRS operating profitability is viewed as below both peers and rating expectations. Over recent years, while absolute earnings level declined, profitability metrics improved, benefiting from the disposition of runoff liabilities and subsequently reduced capital. Profitability metrics declined in 2019, reversing their improving trend due to lower interest rates, adverse mortality experience, net outflows and fee compression.

Historically, net income exhibited volatility due to fair value items and one-time items, including model updates. Favorably, in 2019, Aegon Americas' net income exceeded underlying earnings. Further improvement in profitability, along with a continued convergence between underlying earnings and net income, would be viewed favorably.

Underlying earnings were down in 1Q20 compared with the prior year, reflecting higher VA reserves due to the adverse market conditions as well as lower fees on retirement plans. Mortality experience was adverse, which was partially offset by the favorable impact on LTC reserves. Net income was down materially due to losses on fair value items, including hedge losses on unhedged risk.

Financial Highlights

($ Mil.)	2018	2019
Net Underlying Earnings	1,276	1,083
Net Income	61	1,324
ROA (%)	0.6	0.5
Return on Capital (%)	9.4	8.3
Asset Growth (%)	(8)	6

Note: Reported on an IFRS basis.
Source: Fitch Ratings, Aegon Americas.

Fitch Expectations

- Earnings metrics are expected to deteriorate in 2020 due to the coronavirus economic fallout.
- The return on capital is expected to remain below 9% over the next 12–24 months.

Investment and Asset Risk

Conservative Investment Portfolio

Aegon Americas portfolio is viewed as diversified and having below-average risk exposure compared with the industry. The portfolio consists of predominantly fixed-income assets, primarily investment-grade bonds and mortgage loans. Additionally, the portfolio is overweight in cash, U.S. Treasury securities and federal agency-backed securities. The company utilizes FHLB advances to invest in long-duration Treasurys and reduce its duration mismatch.

Exposure to non-agency structured securities is approximately 11% of invested assets and is diversified and of good credit quality. Favorably, exposure to collateralized loan obligations is immaterial and of high credit quality.

Aegon Americas' reported net credit recoveries of $16 million in 2019. Fitch's rating case pro forma expectation is a material increase in impairments over the next one to two years, though losses are expected to generally be below peers and the industry due to the below-average investment risk.

Mortgage exposure is in line with the industry and performance has been good with low delinquencies and foreclosures, and strong loan-to-value and debt service coverage metrics. Favorably, Aegon Americas' retail and office exposure are both below the industry average, and the company has no exposure to the hotel industry. These subsectors are expected to be particularly challenged by the economic fallout. Aegon Americas' portfolio is overweight in multifamily loans, which will be pressured, but potentially to a lesser extent. Fitch notes that Aegon Americas has an above-average exposure to interest-only loans, though the exposure is predominately partial interest-only loans with below-average exposure to full-term interest-only loans.

Financial Highlights

($ Mil.)	2018	2019
Cash and Invested Assets	75,540	74,427
Below-Investment-Grade Bonds/ TAC (%)	36	28
Risky Assets Ratio (%)	65	64
Investment Yield (%)	4.2	4.2

TAC – Total adjusted capital. Note: Reported on a U.S. statutory basis.
Source: Fitch Ratings, Aegon Americas.

Fitch Expectations

- Impairments will increase materially due to the pandemic and resulting economic fallout.
- Investment yields will trend down due to the decline in treasury rates.

Asset Liability and Liquidity Management

Sound Asset/Liability and Liquidity Management

Aegon Americas' asset/liability and liquidity management are viewed as strong. Interest rate risk is viewed as above average, largely driven by the company's legacy LTC exposure. VA exposure is considered above average, but hedging is viewed as generally effective.

Aegon Americas has significant exposure to VA benefit guarantees, which leads to inherent reserve and capital volatility due to the difficulty in hedging uncertain policyholder behavior. The VAs continue to experience negative net flows as the company's runoff and core blocks of VAs mature.

Aegon Americas manages the risk to statutory capital from large equity market declines through a macro equity hedge strategy and de-risking of living benefit guarantees on new business that intended to limit the impact on the RBC ratio to 25 points in a 25% equity market decline and 40 points in a 40% equity market decline. While these hedges generally performed in line with expectations, in 1Q20, the material capital impact resulted from lower interest rates coupled with the widening of credit spreads.

Aegon Americas also has dynamic hedges in place for risk variables delta, rho, gamma and vega. The company manages its hedge targets across three frameworks: IFRS, statutory and economic risk. For its hedges without an IFRS accounting match, the focus is on the protection of capital.

Fitch views Aegon Americas' duration mismatch as modestly wider than the life industry average, driven partly by its legacy products, particularly LTC. Aegon Americas conducts cash flow testing for each legal entity using the "New York 7" interest rate scenarios as well as other deterministic stresses. For YE 2019, the company had positive surplus under all scenarios despite pressure from the legacy LTC and legacy life liabilities. The company is not holding any LTC-related asset adequacy testing reserves.

Aegon Americas' liquidity is in line with the industry. The liquid asset ratio was stable compared with the prior year and fairly consistent with the life industry. Aegon Americas has ample backup liquidity, including bank lines through parent Aegon N.V., FHLB borrowing capacity and committed rate-linked liquidity facilities in repo agreements. The company's solid liquidity position remains a mitigant against its above-average disintermediation risk. Surrender charge protection is below-average compared with the industry.

Fitch Expectations

- Asset/liability management practices are generally expected to remain consistent, though there will be some hedge retooling in order to offset capital impacts.
- Liquidity is expected to remain generally stable with a liquid asset ratio above 60%.

Financial Highlights

	2018	2019
Liquid Asset Ratio (%)	66	62
Operating Cash Flow Coverage (x)	1.0	1.1
Total Adjusted Liabilities and Deposits ($ Mil.)	190,871	203,331

Note: Reported on a U.S. statutory basis.
Source: Fitch Ratings, Aegon Americas.

Appendix A: Peer Analysis

Profitability Below Most Peers; Balance Sheet Compares Well

Fitch views Aegon Americas' market positions and retail franchise as generally comparable with its similarly rated peers. As mentioned previously, Aegon Americas benefits from being part of the global Aegon N.V. group. While some of its peers also have LTC blocks, Fitch views Aegon's risk as higher based on the relative size of the block and its below-average reserve adequacy.

Aegon Americas' profitability, which is based on IFRS accounting and unlevered unlike its peers, remains at the lower end of this peer group, but the diversity of earnings is strong. The company's balance sheet metrics compare favorably with peers in terms of operating leverage and asset leverage, while its capitalization, measured by its RBC ratio, is at the high end of the peer group. Aegon Americas' investment portfolio is viewed as very strong, and its risky assets ratio is below all peers, with the exception of Lincoln National Corporation.

Peer Comparison

($ Mil., as of YE 2019)	IFS Rating	RBC (%)	TAC	Assets/ TAC (x)	Operating Leverage (x)	Risky Assets/ TAC (%)	Financial Leverage Ratio (%)	ROA (%)	ROE (%)
Aegon Americas	A+	470	9,954	22	7	64	25	0.5	8
Principal Financial	AA–	410	6,436	33	12	85	24	0.7	12
Prudential Financial	AA–	426	20,624	31	15	72	28	0.7	12
MetLife, Inc.	AA–	365	16,395	25	20	163	26	0.9	14
Lincoln National	A+	439	9,733	29	12	51	28	0.5	10
Voya Financial	A	490	5,126	29	13	79	33	0.4	8

IFS – Insurer Financial Strength. TAC – Total adjusted capital. Note: Financial leverage ratios are for parent holding company. Profitability metrics for Aegon Americas are based on IFRS, whereas other companies are based on U.S. GAAP. ROE for Aegon Americas reflects return on capital (unlevered ROE). RBC is for Aegon Americas consolidated, including Transamerica Life (Bermuda) Ltd. All other Aegon Americas numbers are for U.S. entities only.
Source: Fitch Ratings, company financials.

Appendix B: Other Ratings Considerations

Below is a summary of additional ratings considerations that are part of Fitch's ratings criteria.

Group Insurer Financial Strength (IFS) Rating Approach

All of Aegon Americas' operating companies are considered Core subsidiaries of their parent, Aegon N.V., under Fitch's group rating methodology, and the rating is based on a group assessment. This assessment is supported by Aegon Americas' scale, operating performance and position in its chosen markets. Aegon Americas comprises a material portion of the group's revenue and earnings. Fitch believes Aegon N.V.'s management views Aegon Americas as a core operation and a material part of its global footprint. There is a track record of mutual support in terms of capital contributions, upstream dividends and capital market transactions supporting the Core status.

Notching

For notching purposes, the regulatory environment of the U.S., UK and Netherlands is assessed by Fitch as being Effective. The UK and Netherlands are classified as using a Group Solvency approach. The U.S. is classified as using a Ring-Fencing approach.

Notching Summary

IFS Ratings

A baseline recovery assumption of Good applies to the IFS rating, and standard notching was used from the IFS "anchor" rating to the implied operating company IDR.

Holding Company IDR

Notching between the implied insurance operating company and holding company IDRs was expanded by one notch relative to standard notching for a group solvency regulatory environment due to Aegon N.V.'s foreign earnings and/or capital being greater than 30% of consolidated group totals.

Holding Company Debt

A baseline recovery assumption of Below Average for a holding company issuer was used, which is standard notching. The debt issued by U.S. holding companies are guaranteed by Aegon N.V.

Hybrids

Fitch does not rate any hybrids issued by Aegon Americas.

IFS – Insurer Financial Strength. IDR – Issuer Default Rating.

Short-Term Ratings

Transamerica Life Insurance Company's short-term IFS rating was notched using standard long-term and short-term ratings equivalencies, per Fitch criteria. The 'F1+' rating considers Transamerica Life's short-term debt service coverage and financial flexibility score of 'aa' and short-term asset liability and liquidity management score of 'aa', reflecting its very strong operating company liquidity profile consisting of operating company cash, investment-grade public bonds, unused FHLB borrowing capacity and cash flow from operations. The short-term IFS rating is in support of the company's short-term funding agreement-backed notes.

Hybrid — Equity/Debt Treatment

Hybrids Treatment

Hybrid	Amount ($ Mil.)	CAR Fitch (%)	CAR Reg. Override (%)	FLR Debt (%)
Transamerica Capital II	87	0	0	100
Transamerica Capital III	46	0	0	100

CAR – Capitalization ratio: FLR – Financial leverage ratio. Note: CAR % shows portion of hybrid value included as available capital, both before (Fitch %) and the regulatory override. FLR % shows portion of hybrid value included as debt in numerator of leverage ratio.
Source: Fitch Ratings.

Corporate Governance and Management

Corporate governance and management are viewed as effective and adequate and neutral to the rating.

Transfer and Convertibility Risk (Country Ceiling)

None

Criteria Variations

None

Appendix C: Environmental, Social and Governance Considerations

ESG Considerations

Unless otherwise disclosed in this section, the highest level of Environmental, Social and Governance (ESG) credit relevance is a score of 3 — ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.