Aegon N.V. and Subsidiaries

Full Rating Report

Ratings

Aegon N.V.

Long-Term Foreign-Currency IDR	A-
Short-Term Foreign-Currency IDR	F2
Senior Unsecured Notes	BBB+
Subordinated Notes	BBB−
Commercial Paper	F2

Rated Operating Entities[a]

Insurer Financial Strength Rating	A+

[a] See additional Ratings on page 13

Sovereign Risk

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable
Insurer Financial Strength Ratings	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Financial Data

Aegon N.V. and Subsidiaries

	2017	2016
Total assets (EURbn)[a]	396	426
Group equity (EURbn)[a]	21	21
Premium income (EURbn)	23	23
Net income (EURm)	2,361	586
Net income ROE (%)[b]	11	3
Net underlying earnings (EURm)	1,543	1,483

[a] As per 31 December.
[b] Fitch calculated.
Source: Aegon

Related Research

2018 Outlook: U.S. Life Insurance (December 2017)

Dutch Insurance – 2017 Results Dashboard (April 2018)

Analysts

Willem Loots
+44 20 3530 1808
willem.loots@fitchratings.com

Harish Gohil
+44 20 3530 1257
harish.gohil@fitchratings.com

Key Rating Drivers

Very Strong Business Profile: Aegon is a large, international insurer with a wide range of products and distribution channels. It has a leading position in its main markets – the US, the Netherlands and the UK – with top-10 positions in most of its chosen market segments.

Corporate Action Supports Strategy: Aegon is shifting its business mix to lower-margin, capital-light fee-based business from high-margin but capital-intensive spread-based business. Fitch Ratings views this strategy positively from a rating standpoint, but it results in a compression of margins for the group. Recent actions include divestitures of US payout annuity book, US corporate-owned/bank-owned life insurance block and Aegon Ireland.

Strong Capitalisation: The group's capital strength is supported by a score of 'Extremely Strong' in Fitch's Prism Factor-Based Model (Prism FBM) at end-2017. The Prism score changed from 'Very Strong' (end-2016), mainly due to Foreign-exchange movements and the conclusion of the sale of Aegon Ireland.

The group's Solvency II (S2) ratio increased to 201% at end-2017 (end-2016: 157%). However, it remains sensitive to declines in interest rates and US credit defaults. The S2 ratio at end-2017 mainly benefited from a change in the methodology used to convert Aegon Americas' risk-based capital (RBC) ratio into the group's S2 ratio, partial internal model changes and the sale of run-off businesses.

High Leverage: Aegon's Fitch-calculated financial leverage ratio (FLR) remained unchanged at 29% at end-2017, a level that Fitch views as commensurate with the 'A' rating category, and in line with similarly rated peers. We expect FLR to remain between 26% to 30% in 2018.

Profitability a Key Rating Weakness: Aegon's profitability, which is under pressure from pricing competition and low interest rates in the main markets, is a key rating weakness. Net income return on equity (ROE) improved to 11% in 2017 (2016: 3%), largely due to favourable investment gains and absence of negative one-offs in 2017. Fitch expects net underlying earnings to remain stable in 2018 (2017 and 2016: EUR1.5 billion); due to the margin compression it might be challenging to grow earnings further.

Stable Fixed-Charge Coverage: Aegon's fixed-charge cover based on underlying earnings before tax increased to 8x in 2017 (2016: 7x), which Fitch views as strong. Fitch expects the ratio to remain stable in 2018.

Rating Sensitivities

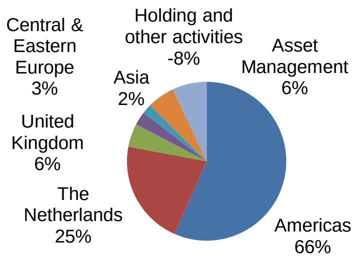
Higher Earnings: The ratings could be upgraded if Aegon's net income ROE remains above 7% for a sustained period with the Prism FBM score remaining at least 'Very Strong'.

Deterioration in Capital, Leverage: The ratings could be downgraded if, over a sustained period, the FLR rises above 30% or if the Prism FBM score falls to below the 'Very Strong' category.

Weaker Earnings: The ratings could also be downgraded if net income ROE weakens to below 3%.

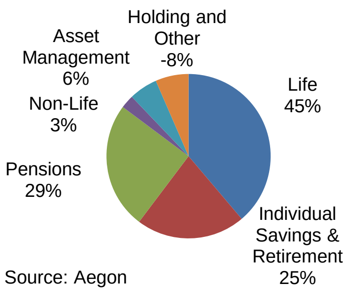
Business Profile

Underlying Earnings Before Tax by Region
2017 (EUR2,103m)



Source: Aegon

Underlying Earnings Before Tax by Line of Business
2017 (EUR2,103m)



Source: Aegon

Business and Geographical Diversification Support Ratings

- Established, diversified multinational company
- Broad product range and distribution footprint
- Largest savings platform provider in the UK
- Efficiency essential in competitive market segments

Established, Diversified Multinational Company

Aegon is an international life insurance, pension and asset-management company that has top-10 positions in most of its chosen market segments, which helps it to compete effectively by providing scale and brand recognition.

Broad Product Range and Distribution Footprint

Aegon offers a range of life insurance products, including term, universal life, annuities, whole life and accident and health. It also offers pension and related savings. Aegon uses multiple distribution channels, including independent brokerage distributors and agencies.

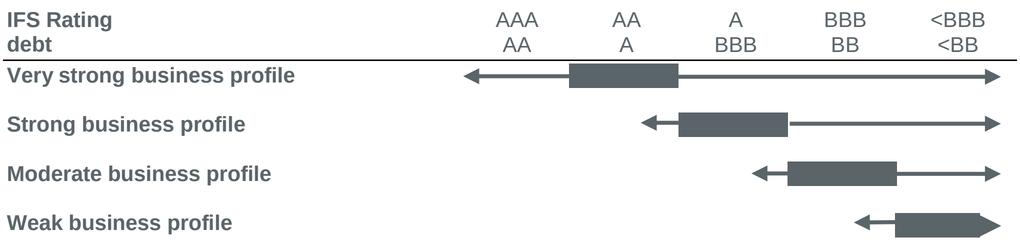
Largest Savings Platform Provider in the UK

Aegon has transformed its UK retail and workplace savings business into a market-leading investment platform with a combined market share of around 20% by assets under administration. This was largely a result of its bolt-on acquisitions of BlackRock's UK defined contribution platform and administration business and Cofunds, a retail investment platform. A strong market position in the UK platform business is an important element in Fitch's assessment of the group's business profile.

Efficiency Essential in Competitive Market Segments

Aegon has continued its strategy of transforming into an efficient, capital-light organisation. Key portfolio optimisation initiatives include the sale of its annuity portfolios in the UK, bank- and corporate-owned life insurance businesses in the US and Aegon Ireland. The group is also focusing on expense reduction expecting to achieve EUR350 million annualised expense savings in 2018.

Ratings Range Based on Business Profile



Source: Fitch

We believe that these initiatives will support Aegon's ability to remain competitive and offer products relevant to its customers in a low interest rate environment. However, most of its main markets, such as US VAs, Dutch pensions and UK savings platforms, are characterised by fierce competition and price-sensitive customers.

Related Criteria

Insurance Rating Criteria (November 2017)

Corporate Governance and Management

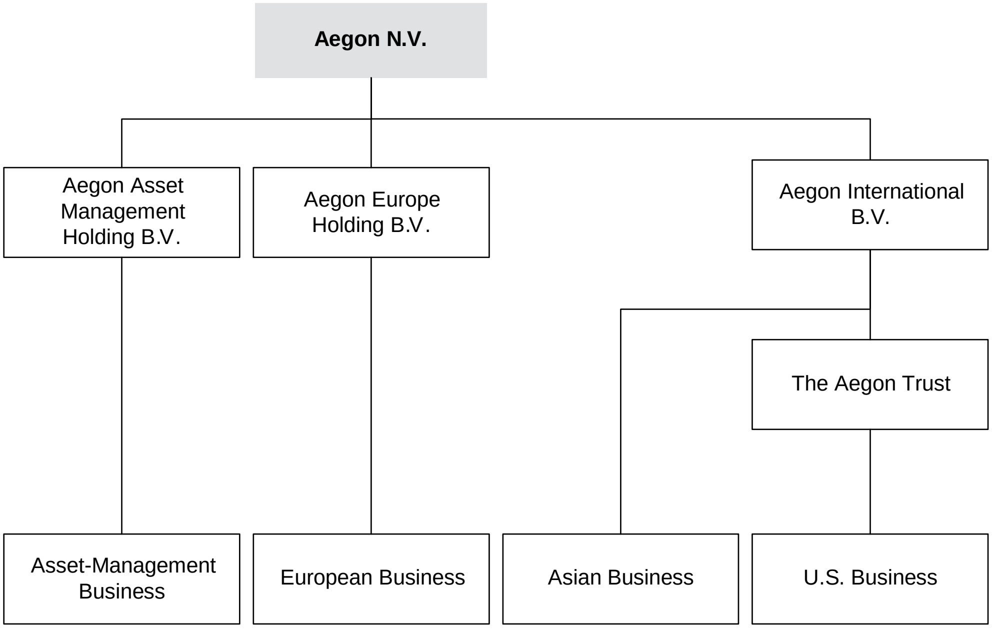
Fitch views the corporate governance and management to be adequate and neutral to the rating. The majority of the supervisory board are independent under the terms of the Dutch Corporate Governance Code.

Ownership Is Neutral to the Rating

Aegon common shares are listed on two stock exchanges: Amsterdam and New York. It has an international shareholder base, with the majority in the US and Europe (including the UK).

Aegon's largest single shareholder is Vereniging Aegon, an association whose role is to ensure the continuity of the company and to protect the interests of its stakeholders. Vereniging Aegon had 14.34% of the normal voting rights at end-2017.

Overview Aegon Structure - Sub Holdings vs. Business Lines



Source: Aegon

Industry Profile and Operating Environment

Sovereign and Country-Related Constraints

Fitch rates the sovereign obligations of the Netherlands and the US at ‘AAA’ with Stable Outlooks and the UK at ‘AA’ with a Negative Outlook. The Country Ceilings are all ‘AAA’. Therefore, the ratings of Dutch and US insurance organisations are not directly constrained by sovereign or macroeconomic risks. Aegon’s ratings are not constrained by UK sovereign or macroeconomic risks.

US Life Industry Has Strong Balance Sheet Fundamentals

A majority of North American life insurers in Fitch’s rated universe have Insurer Financial Strength (IFS) ratings in the ‘AA’ and ‘A’ categories and Stable rating Outlooks. This reflects very strong balance-sheet fundamentals and generally stable operating performance. Balance sheets reflect very strong capital and liquidity, reasonable financial leverage and high-quality investment portfolios. The industry’s profitability benefited in recent years from improved asset-based fee income associated with higher asset levels, partially offset by lower interest margins and one-time reserve charges due to continued low interest rates.

Key risk factors include persistently low interest rates, asset risk tied to investment leverage and exposure to VA living benefit guarantees. Low interest rates continue to pressure interest margins and statutory reserve adequacy on in-force business, leading to significant new business repricing and strategic, financial and operational changes across the industry. While new business repricing, product redesign and enhanced hedging strategies reduced the risk associated with the industry’s large VA exposure, industry earnings and capital remain exposed to financial market volatility and uncertain policyholder behaviour.

Cyclical improvement in the US economy, strong recovery in equity markets and a benign credit environment combined to mitigate the effects of prolonged low interest rates in recent years. Fitch’s base case expectation is a gradual rise in interest rates as monetary policy continues to normalise, which would be a credit positive for life insurers. Modest credit-related investment losses reported in recent years are expected to continue in 2018.

Dutch Insurers Steady Positioned

Dutch insurers are well positioned to manage a macroeconomic environment of low interest rates, limited organic growth and strong competition from traditional and new companies. This position is supported by large Dutch insurers’ strong capital, business diversification and improvements in operating efficiency.

Solvency II Strong, Sensitivities Manageable

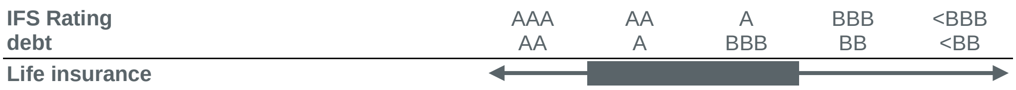
Dutch insurers maintain strong group S2 ratios, supported by profitability and the gradual run-off of capital-intensive life closed books. Sector S2 ratios improved to 191% and 176%, respectively, in the life and non-life segments at end-2017. Key sensitivities include a widening of government bond spreads and a reduction in the ultimate forward rate.

Focus on Client Retention

Life insurers increasingly focus on client retention in the shrinking Dutch individual life market by channelling existing customers to their bank savings products, newer savings and investment products with emphasis on cross-selling and client relations. Pockets of growth in protection products, such as term-life policies, could partly offset revenue declines.

Profits from life closed-book businesses (such as guaranteed products) support earnings. Closed books are tightly managed and optimised through cash-flow matching, hedges for interest rate risk, and cost controls.

Ratings Range Based on Industry Profile/Operating Environment



Source: Fitch

Peer Analysis

Capital Is Strong, but Aegon Trails Peers in Some Key Areas

Fitch views Aegon's capital position as comparable with those of large 'AA' rated life insurance groups. Aegon's financial leverage is in line with similarly rated peers, although it is at the upper end of a range.

Aegon's profitability measured as net income ROE has significantly improved reaching the second highest in the peer group. Net income in 2017 mainly benefited from the favourable investment result and absence of negative one-offs. However, due to the high sensitivity of the net income to investment market conditions, in particular low interest rates and credit risk, profitability is volatile. Operating profitability has lagged peers.

This weakness is partly offset by Aegon's diversified footprint, and strong market position in its chosen markets. Aegon's market position is strong in the Netherlands, the UK and the US.

Peer Comparison Table

End-2017	IFS Rating	Total assets (EURbn)[a]	Shareholders' equity (EURbn)[a]	Net income attributable to shareholders (EURbn)[a]	Pre-tax return on assets (%)	Net income return on equity (%)	Reported combined ratio (%)	Solvency II ratio (%)	Financial leverage (%)
Aviva	AA-/Stable	499	19	1.9	0.5	9	97	198	27[c]
Zurich	AA-/Stable	352	28	2.7	1.3	10	101	227[b]	23
NN	A+/Stable	227	23	2.1	1.7	9	102	199	28
Aegon	**A+/Stable**	**396**	**21**	**2.4**	**0.7**	**11**	**-**	**201**	**29**
Achmea	A+/Stable	91	9	0.2	0.3	3	96	184	22[c]
Ageas	A+/Stable	103	10	0.6	1.1	7	95	196	16[d]
VIVAT	BBB+/Evolving	57	4	-0.1	-0.3	-3	99	162	32
ASR	NR	55	4	0.9	2	21	95	196	25

[a] GBP/EUR:1.126, USD/EUR: 0.835.
[b] Swiss SST ratio.
[c] In 1H17.
[d] At end-2016 Source: Companies, Fitch

Capitalisation and Leverage

	2013	2014	2015	2016	2017	Fitch's expectation
Shareholders' equity (EURbn)	18	24	23	21	21	Fitch expects Aegon's capitalisation to be stable in the near term and financial leverage should remain within a range of 26% to 30%.
Total financing and commitments ratio (x)	1.6	1.4	1.6	1.7	1.7	
Financial leverage (%)	34	29	27	29	29	
Regulatory capital ratio (%)[a]	212	208	220	157	201	

[a] 2012-2015: Insurance Group Directive ratio; 2016 onwards: Solvency II ratio.
Source: Aegon, Fitch

Very Strong Capitalisation, High Leverage

- 'Extremely Strong' Prism FBM score
- Total financing and commitments ratio is high
- Financial leverage stable within a range
- S2 ratio Improved

'Extremely Strong' Prism FBM Score

Aegon's Prism FBM score increased to 'Extremely Strong' based on end-2017 results (2016: 'Very Strong'), although landing at the low end of a range. The Prism FBM score movement mainly reflects foreign-exchange movements and the conclusion of the sale of Aegon Ireland. The Prism FBM score is a ratio of total available capital (TAC) divided by target capital (TC) at various stress levels, with the Prism FBM score itself being equal to the highest category where TAC exceeds TC.

Fitch's TAC measure is used to calculate the Prism FBM score. However, Fitch believes there can be value in looking at the Fitch Core Capital (FCC), as this indicates the coverage of TC by very high quality capital. Fitch's TAC gives some credit for value of in-force (VIF) and subordinated debt, whereas FCC does not. If companies have a significant VIF or subordinated debt, the ratio of FCC/TAC will be lower, indicating a weaker quality of capital. Aegon's Prism FBM score reduces to 'Adequate' on FCC basis, reflecting relatively high share of VIF and subordinated debt.

Total Financing and Commitments Ratio Is High

Aegon's total financing and commitments ratio remains very high compared with those of its similarly rated peers, indicating greater reliance on financing activities. The main drivers of Aegon's high total financing and commitments ratio are US Regulation XXX and AXXX funding, securitisations to finance its mortgage portfolios in the Netherlands, securities lending, Federal Home Loan Bank borrowings, repurchase agreements and hybrids. The ratio of 1.7x translates to 'very high caution' in Fitch's criteria.

Financial Leverage Stable Within a Range

Aegon's Fitch-calculated FLR remained at 29% as at end-2017 (2016: 29%), within a range that Fitch considers commensurate with the 'A' rating category. Aegon has deleveraged its balance sheet significantly since 2011 and plans to maintain financial leverage below 30%.

S2 Ratio Improved

The group's S2 ratio has increased by 44pp to 201% at end-2017 (end-1H18: 215%), up from 157% at end-2016, although it is sensitive to declines in interest rates and US credit defaults. The S2 ratio improvement mainly benefited from a change in the methodology used to convert the RBC ratio of Aegon Americas into the group's S2 ratio, partial internal model changes, divestment of run-off businesses and capital generation. Aegon Americas' RBC ratio reached 472% exceeding the 350%-450% target range (end-2016: 440%). Fitch primarily assesses Aegon's capitalisation on a group basis, and believes that the group's capital is sufficiently

Debt Service Capabilities and Financial Flexibility

	2013	2014	2015	2016	2017	Fitch's expectation
Fixed-charge coverage ratio (x) – Fitch calculated	3	7	-1	4	10	Fitch expects the underlying earnings coverage ratio to remain stable, as operating earnings expected to show limited growth in the near term, and borrowing is little changed.
Fixed-charge coverage ratio (x) – based on underlying earnings	5	7	7	7	8	

Source: Aegon, Fitch

fungible to provide capital support for solo entities when needed.

Holding Company Liquidity

- Aegon has exercised its right to redeem the USD525 million 8% non-cumulative subordinated grandfathered tier 2 notes in May 2018 and EUR200 million 6% perpetual capital grandfathered Tier 1 securities in July 2018. It was partially financed by the issue of USD800 million subordinated Tier 2 notes in April 2018.
- Aegon's senior unsecured EUR500 million zero coupon notes mature in August 2018.
- Aegon has an access to significant undrawn committed credit facilities, commercial paper and debt issuance programmes.

Financial Flexibility Strong

- Fixed-charge cover commensurate with rating
- Strong financial flexibility
- Excess cash secures financial flexibility

Fixed-Charge Cover Commensurate with Rating

Aegon's fixed-charged cover based on published underlying earnings increased to 8x in 2017 (end-2017: 7x) following the underlying earnings growth and stable interest charge. Fitch views it as strong and commensurate with the rating. We expect the ratio to strengthen gradually as Aegon improves its operating efficiency and profitability, and total interest expenses to remain stable.

Fitch's calculated fixed-charge cover is more volatile as includes unrealised and realised gains and losses in the earnings.

Strong Financial Flexibility

Fitch believes that Aegon has strong financial flexibility, benefiting in particular from its relationship with its major shareholder, Vereniging Aegon. Aegon has a record of access to capital markets. The group also benefits from positive cash generation from its main business units.

Excess Cash Secures Financial Flexibility

In order to ensure the holding company's ability to fulfil its cash obligations and maintain sufficient management flexibility to allocate capital and liquidity support for Aegon's operating units and external dividend stability, Aegon's excess cash position is managed to a target range of EUR1 billion-1.5 billion. Aegon held EUR1.4 billion excess cash in the holding at end-2017 (end-2016: EUR1.5 billion).

Main movements in liquidity position in 2017 include: injection of EUR1 billion into Aegon the Netherlands that was partly offset by dividends from Aegon Americas (EUR1.359 billion of regular capital upstream and capital release from payout annuity and BOLI/COLI divestment), Aegon UK (EUR167 million – related to the divestment of annuity portfolio), and EUR176 million from Asia.

Financial Performance and Earnings

(EURm)	2013	2014	2015	2016	2017	Fitch's expectation
Net income	857	1,195	-523	586	2,361	Fitch expects Aegon's underlying earnings continue to grow slowly as the company executes its strategy to focus on core operations and improve operating efficiency.
Net underlying earnings[a]	1,531	1,416	1,481	1,483	1,543	
Net income return on equity (ROE) (%)[b]	3	5	-2	3	11	
Pre-tax operating ROA (%)[b, c]	0.4	0.5	-0.1	0.2	0.7	
Net underlying earnings ROE (%)[a]	7	7	6	7	7	

[a] Net underlying earnings reported by Aegon.
[b] Fitch calculated.
[c] Includes realised and unrealised gains.
Source: Aegon, Fitch

Stable Underlying Performance

- Underlying Earnings Stable
- Net Income Volatile

Underlying Earnings Stable

Underlying pre-tax earnings were stable for the fourth consequent year, fluctuating around the EUR1.5 billion level, supported by improvement in the UK and US businesses. However, Aegon's operating earnings remain under pressure because of pricing competition and low interest rates in its main markets. As a result, net underlying ROE has remained below 8% in recent years (2016: 6.8%; 2017: 7.4%). Fitch expects this trend to continue. In recent years, the company has benefited from very strong equity and credit markets.

Underlying earnings before tax increased by 10% in 1H18 on a constant currencies basis that is corresponding to a 2% euro-nominated increase to EUR1,064 million. The increase was driven by expense savings, higher investment margin in the Netherlands, performance fees and growth in Asia.

Aegon is shifting from high-margin (but capital-intensive) spread-based business to lower-margin, capital-light fee-based business, such as asset-management and pension business. Fitch believes this will improve the quality and consistency of Aegon's earnings, particularly by reducing the sensitivity of earnings to investment markets. However, the shift in business mix results in a compression of margins for the group.

It becomes critical to grow the revenue-generating assets to support stable earnings under fee-based business model. Aegon's revenue-generating assets increased by 10% or EUR74 billion in 2017 mainly due to the growth in third-party assets under management. As a result, Aegon's proportion of underlying earnings from fees improved further to 45% in 2017 (2016: 42%).

We expect the operating-earnings growth pace to remain limited in the short to medium term, as a result of the gradual change of business mix. However, Fitch believes that the fee-based model together with cost savings and digitalisation programs will be able to deliver economies of scale, and support profitability growth with continued strong equity and credit markets.

Net Income Volatile

Aegon reported net income of EUR2,361 million in 2017 (four times higher than 2016 results), mainly driven by investment gains (losses in 2016), absence of negative one-time charges and reduction in deferred-tax liability from US tax reform. As a result, the net income ROE has reached 11%.

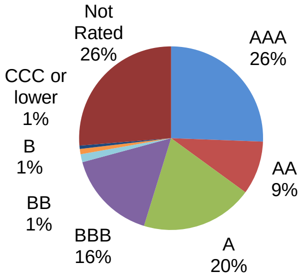
Fitch views ROE regular volatility with caution, as it may limit financial flexibility.

Investment and Asset Risk

(%)	2013	2014	2015	2016	2017	Fitch's expectation
Risky assets to equity	81	57	64	65	64	Fitch expects Aegon's investment risk to remain in line with ratings.
Unaffiliated shares/equity	12	5	6	6	8	
Non-investment-grade bonds/equity[a]	59	46	50	50	46	
Investments in affiliates/equity	11	7	8	9	10	

[a] Fitch estimate.
Source: Aegon, Fitch

Credit Rating of General Account Investments
Total: EUR141bn at end-2017



Source: Aegon

Investment Risk Profile Stable

- Investment risk low
- Mortgage exposure stable

Investment Risk Low

Aegon's risky asset ratio remained stable in 2017 at 64% of equity, a level that Fitch views as low. The group's exposure to bonds below investment grade reduced by 4pp to 46% in 2017 (2016: 50%). Aegon's investment strategy favours high-grade bonds, such as US Treasuries and investment-grade corporate bonds.

Moderate credit risk remains through exposure to certain residential mortgage-backed securities and commercial mortgage-related investments.

Mortgage Exposure Stable

The group's exposure to Dutch mortgages was stable in 2017 at EUR31 billion fair value (end-2016: EUR30 billion), which is 22% of general account investments. The group reported a portfolio loan-to-value of 76% in 2017 (2016: 83%), with 51% of this portfolio guaranteed by the Dutch government.

We do not classify Dutch mortgages as risky assets when assessing investment risk under our insurance methodology. This is based on lender-friendly legislation and the national mortgage guarantee that applies to a large portion of mortgages. However, a significant rise in this share could be credit negative because of concentration risk and the impact on liquidity.

Asset/Liability and Liquidity Management

	2013	2014	2015	2016	2017	Fitch's expectation
Liquid assets to policyholder liabilities (%)	107	99	97	98	95	Fitch expects Aegon's liquid assets/policyholder liabilities ratio to remain above 90% in the medium term.

Source: Aegon, Fitch

Solid Asset/Liability Liquidity Management

- Variable annuity-guarantee risk closely managed
- Declining duration mismatch
- Less spread-based business, more fee-based business
- Low liquidity risk
- Sizeable LTC Block

Variable Annuity Guarantee Risk Closely Managed

Aegon Americas has significant exposure to VA benefit guarantees, as a top-10 seller of VAs. A significant part of its VA exposure contains living benefit guarantees, which leads to inherent reserve and capital volatility due to the difficulty in hedging uncertain policyholder behaviour. The company's VA gross deposits declined by 27% in 2017, reflecting lower demand due to uncertainty around the US Department of Labor fiduciary rule (In March 2018, the U.S. Court of Appeals for the Fifth Circuit vacated the rule entirely, a ruling which the Department of Labor did not appeal). Favourably, the elimination of the rule reduces Aegon Americas' litigation risk, as the rule would have exposed the company and other annuity writers to potential class action lawsuits.

Additionally, sales volumes have declined over recent years as a result of changes to its fund line up and modification of its fees and benefits in the current low interest-rate environment. The company's closed block of VAs comprised 15% of its exposure at end-2017, which the company has managed down over time through lump-sum offerings.

The net amounts at risk on Aegon's VA business stayed at low level in relation to account values in 2017, reflecting the sophisticated hedging programs (see table).

US Variable Annuity Business

	Account value[a]		Net amount at risk[b,c]	
Benefit type (EURm)	**2016**	**2017**	**2016**	**2017**
Guaranteed minimum accumulation and withdrawal benefit (GMWB)	35,374	33,371	222	94
Guaranteed minimum death benefit (GMDB)	54,821	52,070	2,615	1,309
Guaranteed minimum income benefit (GMIB)	5,628	5,270	684	474

[a] The account value reflects the actual fund value for the policyholders.
[b] The net amount at risk for the GMWB represents the sum of the positive differences between the discounted maximum amount payable under the guarantees and the account value.
[c] The net amount at risk for the GMDB and GMIB is defined as the discounted value of the minimum guaranteed annuity payments available to the contract holder in excess of the current account balance.
Source: Aegon

The aggregate net amount at risk of EUR1.9 billion equates to 9% of Aegon's equity (17% in 2016). The amount that is subject to policyholder options (GMWB and GMIB) is only EUR568 million, or 2% of Aegon's equity (2016: 4%).

Fitch views this exposure as manageable, particularly in light of Aegon's capital strength and its hedging programme to mitigate financial market risks on VA business. This includes full delta-hedging on the GMIB business – a commitment made by Aegon in connection with its receipt of support from the Dutch state in 2008.

Declining Duration Mismatch

Fitch views Aegon Americas' duration mismatch as modestly wider than the life industry average of approximately one year, driven partly by its legacy products, particularly long-term care, but notes that it declined in 2017 as the company lengthened its assets and disposed of its long-duration payout annuities to Wilton Re Ltd. Aegon Americas conducts cash-flow testing for each legal entity using the "New York 7" interest-rate scenarios as well as other deterministic stresses. The company had positive surplus under all scenarios at end-2017.

Less Spread-Based Business; More Fee-Based Business

Aegon has significant exposure to US investment markets, especially through its annuities and retirement division. Aegon is reducing this exposure by running down its spread-related business and increasing its focus on fee-related business.

Low Liquidity Risk

Aegon's ratio of liquid assets-to-policyholder liabilities suggests that Aegon has a sound liquidity position. Aegon regularly stress-tests its liquidity position to ensure that available liquidity would meet requirements under extreme scenarios, covering prolonged frozen capital markets, an immediate and permanent rise in interest rates and policyholders withdrawing liabilities at the earliest conceivable date.

Aegon operates liquidity risk policy according to which operating companies should have enough highly liquid assets to meet cash demands of policyholders and account holders over the next two years.

Sizeable LTC Block

Aegon has a sizeable block of LTC business in the US with reserves totalling approximately USD6 billion on an IFRS basis. Fitch views LTC insurance as one of the riskiest products sold by US life insurers due to above-average underwriting and pricing risk, high reserve and capital requirements and exposure to low interest rates.

While the 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. Aegon has sought premium rate increases with approximately 75% of targeted increases in the latest round achieved to date. Fitch expects the company to continue to seek rate increases on underperforming classes.

Over the years, Aegon has increased LTC reserves to reflect adverse experience as well changes in assumptions. Fitch believes there is the potential for future reserve increases for companies with legacy LTC blocks including Aegon.

Reinsurance and Risk Management

Sophisticated Risk Management

- Risk appetite updated
- Cyber security in focus
- Limited use of reinsurance

In Fitch's view, Aegon's risk-management processes and controls are aligned to S2, at least in line with those of peers, and commensurate with the rating level.

Risk Appetite Updated

Aegon's risk appetite has been recently updated introducing capital generation in the dimensions of risk-appetite metrics. Fitch views this positively as a formal introduction of capital generation into risk appetite and decision-making framework will help delivering sustainable long-term capital generation.

Cyber Security in Focus

Cyber resilience will continue to be enhanced further given the focus on digitalisation of Aegon's business.

Limited Use of Reinsurance

Aegon retains most of the insurance risk that it writes, taking the view that it is pricing profitably and should retain the profits. The group's scale and diversification means that it does not need significant reinsurance to avoid undue concentration of risk. Reinsurance counterparty credit ratings are typically 'A-' or higher.

Appendix B: Other Ratings Considerations

Below is a summary of additional ratings considerations of a "technical" nature, that are also part of Fitch's ratings criteria.

Group IFS Rating Approach

The entities listed below are considered 'Core' entities under Fitch's insurance group rating methodology.

Aegon Americas' 'Core' status is supported by its scale, operating performance and market 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 record of mutual support in terms of capital contributions, upstream dividends, intercompany reinsurance support and capital market transactions supporting the Core status.

Aegon UK's (a divisional name for Scottish Equitable Plc) 'Core' status is supported by its strategic position in UK as the leading platform savings, investments and pensions provider in the market. Aegon UK's focus on fee-generating business is in line with group strategy, and it shares the "Aegon" brand. Recent acquisitions by Aegon UK (Cofunds, Blackrock) confirm Aegon N.V.'s strategic investment in the long-term success of Aegon UK.

The operating entities share the same IFS rating based on Fitch's evaluation of the strength of the group as a whole.

Complete Ratings List

Entity	Rating type	Rating
Aegon N.V.	LT IDR	A−/Stable
	ST IDR	F2
	Senior	BBB+
Subordinated debt programme	Long term	BBB−
Aegon N.V. debt issues		
Commercial paper	Short term	F2
Subordinated debt		
USD250m floating rate, callable 12/2010 (NL0000062438)	Long term	BBB−
EUR700m 4% callable 04/2024 (XS1061711575)	Long term	BBB−
EUR950m floating rate, callable 07/2014 (NL0000116150)	Long term	BBB−
USD500m floating rate, callable 07/2014 (NL0000116168)	Long term	BBB−
USD1,000m 6.375%, callable 06/2015 (NL0000021541)	Long term	BBB−
USD800m 5.5%, callable 04/2048 (US007924AJ23)	Long term	BBB-
NLG250m 1.506%, callable 06/2025 (NL0000120004)	Long term	BBB
NLG300m 5.185%, callable 10/2018 (NL0000121416)	Long term	BBB
NLG450m 4.26%, callable 03/2021 (NL0000120889)	Long term	BBB
Aegon Funding Company, LLC	Senior	BBB+
Subordinated debt programme	Long term	BBB−
Commercial Paper programme	Short term	F2
Scottish Equitable Plc	IFS	A+/Stable
Transamerica Advisors Life Insurance Company	IFS	A+/Stable
Transamerica Premier Life Insurance Company	IFS	A+/Stable
	ST IFS	F1
Transamerica Financial Life Insurance Company	IFS	A+/Stable
Transamerica Life Insurance Company	IFS	A+/Stable
	ST IFS	F1

Source: Fitch

Notching

For notching purposes, the regulatory environment of the Netherlands is assessed by Fitch as being 'Effective', and classified as following a Group Solvency approach.

Notching Summary

Holding Company

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 foreign earnings and/or capital being greater than 30% of consolidated group totals.

IFS Ratings

For Aegon's operating companies, 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.

Senior Debt

A baseline recovery assumption of 'Below Average' was applied to the senior unsecured debt. Standard notching relative to the IDR was used.

Hybrids

For three issues (NLG250m 4.156%, callable 06/2015 (NL0000120004), NLG300m 5.185%, callable 10/2018 (NL0000121416) and NLG450m 4.26%, callable 03/2021 (NL0000120889)), a baseline recovery assumption of 'Poor' and a non-performance risk assessment of 'Minimal' were used. Notching of two was applied relative to the IDR, which was based on two notches for recovery and zero for non-performance risk.

For all other issues, a baseline recovery assumption of 'Poor' and a non-performance risk assessment of 'Moderate' were used. Notching of three was applied relative to the IDR, which was based on two notches for recovery and one notch for non-performance risk.

Short-Term Ratings

The holding company's Short-Term Issuer Default Rating is 'F2', which is standard when the Long-Term IDR is 'A-'.

The Short-Term IFS ratings of Transamerica Premier Life Insurance Company and Transamerica Life Insurance Company are 'F1', which is standard when the IFS rating is 'A+'.

Hybrids – Equity/Debt Treatment

Hybrids Treatment

Hybrid	Amount	CAR Fitch (%)	CAR reg. override (%)	FLR debt (%)
Aegon N.V.				
NL0000062438	USD250m	0	100	100
XS1061711575	EUR700m	0	100	100
NL0000116150	EUR950m	0	100	100
NL0000116168	USD500m	0	100	100
NL0000021541	USD1,000m	0	100	100
US007924AJ23	USD800m	0	100	100
NL0000120004	NLG250m	0	100	100
NL0000121416	NLG300m	0	100	100
NL0000120889	NLG450m	0	100	100

CAR — capitalisation ratio; FLR — financial leverage ratio
For CAR, % tells portion of hybrid value included as available capital, both before (Fitch %) and after the regulatory override
For FLR, % tells portion of hybrid value included as debt in numerator of leverage ratio
Source: Fitch

Criteria Variations

None.

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.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS. IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.