Aegon N.V.

And core subsidiaries

Full Rating Report

Ratings

Insurer Financial Strength Ratings

Scottish Equitable Plc.	A+
Transamerica Financial Life Insurance Company	A+
Transamerica Life Insurance Company	A+
Transamerica Premier Life Insurance Company	A+

Short-Term Insurer Financial Strength Ratings

Transamerica Life Insurance Company	F1
Transamerica Premier Life Insurance Company	F1

Issuer Default Rating

Aegon N.V.	A-

Short-Term Issuer Default Rating

Aegon N.V.	F2

Long-Term Debt Ratings

Senior unsecured	BBB+
Subordinated (minimal non-performance risk)	BBB
Subordinated (moderate non-performance risk)	BBB-
Perpetual contingent convertible	BB+

Short-Term Debt Ratings

Senior unsecured	F2

Outlooks

Insurer Financial Strength Ratings	Stable
Issuer Default Ratings	Stable

Financial Data

Aegon N.V.

(EURbn)	2017	2018	1H19
Shareholders' equity	20.6	19.5	21.5
Total assets	396.3	393	424.5
Net income	2.4	0.7	0.6
Net income ROE (%)	11	4	n.a.
Solvency II ratio (%)	201	211	197
Financial leverage (%)	29	27	n.a.

At 31 December
Source: Fitch Ratings, Aegon

Related Research

Aegon Bank N.V. (May 2019)
Aegon Americas (April 2019)
Netherlands (May 2019)
Dutch Insurance Dashboard: Mid-Year Update (September 2019)

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Key Rating Drivers

Very Strong Business Profile: Fitch Ratings ranks Aegon's business profile as 'favourable' compared to other insurance companies based in the Netherlands. This is driven by its 'favourable' competitive positioning, 'moderate' business risk profile and 'most favourable' diversification by products, distribution channels, and geographies. Aegon is an international life insurance, pension and asset-management company that has top 10 positions in most of its chosen market segments.

Very Strong Capitalisation, Leverage: Aegon's capital assessment benefits from a 'Very Strong' Prism Factor Based Capital Model (Prism FBM) result at end-2018 and Solvency 2 coverage (S2) of 197% at end-1H19. We estimate financial leverage (FLR) of around 25% at end-1H19 (end-2018:27%). We expect the group's FLR and capital metrics to remain stable.

Good Financial Performance: Fitch views Aegon's profitability as a key rating weakness. Earnings are broadly stable on an underlying basis, which excludes various non-recurring items. However, we assess the volatility of net earnings (2018 net income return on equity (ROE): 4%; 2017:11%) less favourably due to the frequent recurrence of significant non-operating items. Fitch believes gradually improving underlying earnings supported by cost savings and profitable growth but net income return on equity (ROE) could remain volatile.

Strong Debt Service Capabilities: Our assessment of Aegon's debt-servicing capability and financial flexibility is based on a five-year average fixed charge coverage (FCC) ratio of 5x and very stable market access complemented by robust contingent funding in place. Fitch believes Aegon's interest expenses could decrease as legacy higher yielding debt securities are redeemed or refinanced at more favourable rates. Improving earnings could also support the FCC.

Low Investment Risk: Fitch assesses Aegon's investment and asset risk as 'Very Strong'. Investments mainly consist of investment grade debt securities and a conservative mortgage portfolio. We expect Aegon to take additional investment risk through higher allocations to higher yielding assets mainly as part of the performance optimisation of existing back books. However, this is unlikely to affect our assessment of Aegon's investment and asset risk.

Strong Asset-Liability, Liquidity Management: Fitch views Aegon's asset/liability and liquidity management as 'Strong' based on a sophisticated and comprehensive risk management framework and a prudent investment policy. Aegon utilises cash flow matching, duration matching as well as derivatives-based hedging to manage risks in insurance portfolios.

Rating Sensitivities

Improved Profitability: The ratings could be upgraded if Aegon's net income ROE exceeds 7% for a sustained period with the Prism FBM capital score remaining at least 'Very Strong'.

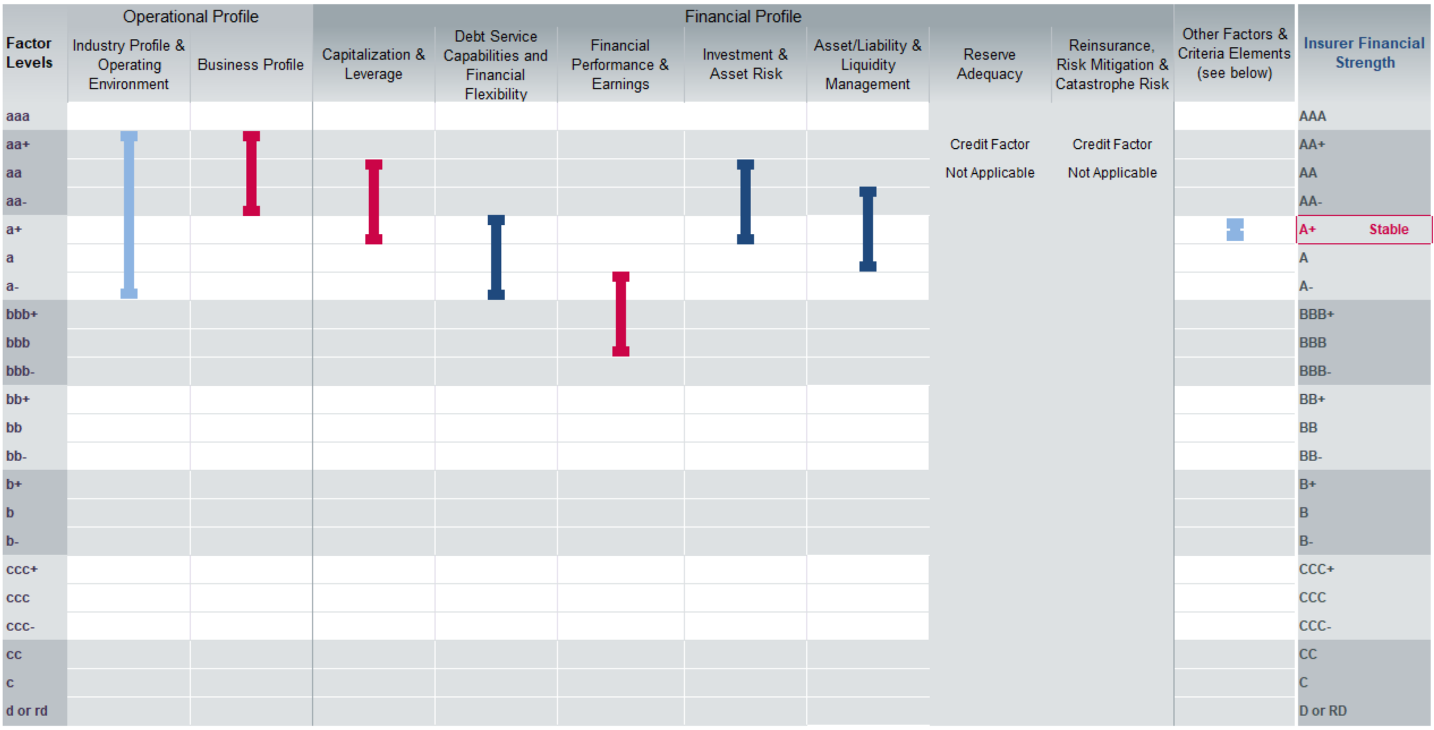
Weaker Capital, Higher Leverage: The ratings could be downgraded if, over a sustained period, the FLR rises above 30%, or if the Prism FBM score falls below 'Very Strong'.

Deteriorating Profitability: The ratings could be downgraded if net income ROE weakens to below 3%.

Aegon N.V.

ESG Relevance:

Insurance Ratings Navigator
European Life



Other Factors & Criteria Elements				
Provisional Insurer Financial Strength				**A+**
Non-Insurance Attributes	Positive	**Neutral**	Negative	+0
Corporate Governance & Management	**Effective**	Some Weakness	Ineffective	+0
Ownership	Positive	**Neutral**	Negative	+0
Transfer & Convertibility / Country Ceiling	Yes	**No**	AAA	+0
Insurer Financial Strength (IFS)			Final:	**A+**
IFS Recovery Assumption				+0
Issuer Default Rating (IDR)			Final:	**n.a.**

Bar Chart Legend:

Vertical Bars = Range of Rating Factor

Bar Colors = Relative Importance
- Higher Influence
- Moderate Influence
- Lower Influence

Bar Arrows = Rating Factor Outlook
- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ☐ Stable

Applicable Criteria

Insurance Rating Criteria (January 2019)

Business Profile

'Very Strong' Business Profile

Fitch ranks Aegon's business profile as 'favourable' compared to that of other insurance companies based in the Netherlands (discussed in Appendix A of this report). This is driven by its 'favourable' competitive positioning, 'moderate' business risk profile and 'most favourable' diversification. Fitch scores Aegon's business profile as 'Very Strong' based on this ranking.

Established Multinational Insurer

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.

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

Substantial Dutch, UK Business Franchise

Although the majority of Aegon's operations are non-European, we assess Aegon's competitive positioning in a European context and relative to other large insurers in the Netherlands. This is due to its significant operations in its home country, however the size, scale and market position of Aegon's US operations also inform our assessment.

With EUR96 billion in assets in the Netherlands at end-2018, Aegon maintains a substantial business franchise in the Dutch market, especially in pension administration, traditional life and pensions insurance, and savings where it has top-five market positions. Non-life operations remain relatively sub-scale.

Aegon is the largest savings platform provider in the UK 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.

US Products Drive Business Risk

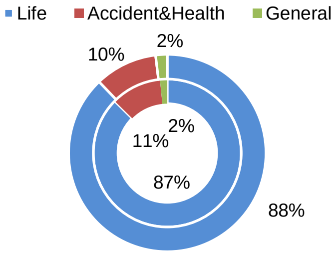
Aegon's business risk profile score of 'moderate' predominantly reflects the business risk assessment of Aegon's US operations (Transamerica). The 'moderate' score reflects Transamerica's exposure to legacy long-term care insurance (LTC) and above-average exposure to variable annuities. Fitch views LTC 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.

In the Netherlands, Aegon has continued its strategy of transforming into an efficient, capital-light organisation with predominant focus on pension servicing and banking. The strategy and business risk are in line with other large Dutch insurers with significant legacy life insurance operations. Non-life business risk is below other Dutch peers' due to the relatively small size of Aegon's non-life insurance operations.

Significant Geographic Diversification

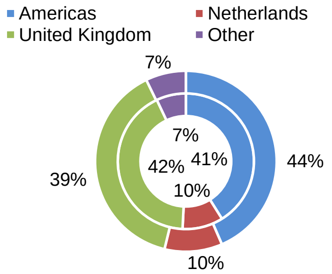
Aegon's 'most favourable' diversification ranking reflects its broad geographic diversification compared to other large Dutch insurers. Aegon has substantial non-Dutch operations predominantly in the US (Transamerica) and the UK. Dutch assets accounted for approximately 23% of total group assets at end-2018 (EUR96 billion).

Gross Premiums per Segment
(Outer ring 2018; EUR19bn
Inner ring 2017; EUR23bn)



Source: Fitch Ratings, Aegon

Gross Premiums per Geography
(Outer ring 2018; EUR19bn
Inner ring 2017; EUR23bn)



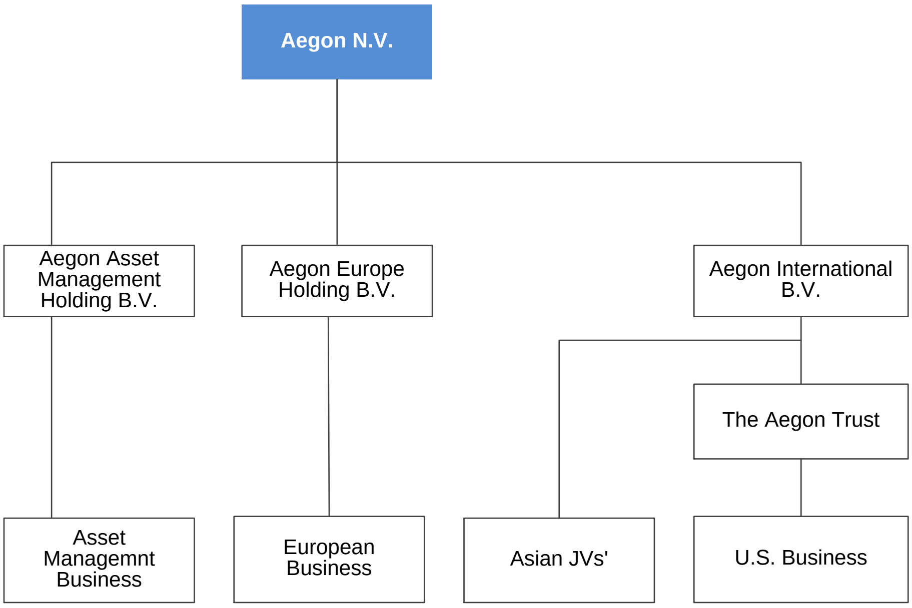
Source: Fitch Ratings, Aegon

Ownership Neutral to Rating

Aegon common shares are dual 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 shareholder is Vereniging Aegon, an association whose purpose is to protect the long-term interests of both Aegon and its stakeholders. Vereniging Aegon held 32.64% of voting rights in Aegon at end-2018. However, in the absence of a special cause, it may only cast one vote for every 40 common shares 'B' it holds. Therefore Vereneging Aegon's effectively held 14.33% of voting rights at end-2018.

Overview Aegon Structure-Sub Holdings vs.Business Lines



Source: Fitch Ratings, Aegon

Capitalisation and Leverage

(%)	2014	2015	2016	2017	2018	Fitch's expectation
Shareholders' equity (EURbn)	24	22.7	20.9	20.6	19.6	We expect the group's financial leverage and capital metrics to remain stable.
Total financing and commitments ratio (x)	1.4	1.6	1.7	1.6	1.5	
Financial leverage	29	27	29	29	27	
Group regulatory capital ratio[a]	208	220	157	201	211	

[a] 2014-2015 Insurance Group Directive ratio; 2016 onwards: Solvency II ratio
Source: Fitch Ratings, Aegon

'Very Strong' Capitalisation and Leverage

Fitch assesses Aegon's 'Capitalisation and Leverage' as 'Very Strong', driven by its 'Very Strong' capital score based on Prism FBM and S2 and financial leverage commensurate with a 'Strong' assessment. Aegon is subject to S2 regulations in Europe and Risk Based Capital (RBC) in the US. Fitch primarily assesses Aegon's regulatory capital adequacy on a group basis under S2.

Weaker Fitch Capitalisation

Aegon's capital score in Fitch's Prism FBM weakened to 'Very Strong' at end-2018 (2017: 'Extremely Strong'). The weaker score mainly reflects higher risk charges on investment assets. We expect Aegon to maintain at least a 'Very Strong' Prism FBM capital score over the rating horizon.

Strong Operating Capital Generation Support S2

Aegon's S2 ratio improved in 2018 mainly supported by EUR1.4 billion operating capital generation. Fitch expects Aegon's operating capital generation to remain strong and support the S2 ratio as growth in international in-force businesses more than offset new business strain and the gradual run-off of Dutch closed businesses. However, Fitch believes strong capital generation also indicates sub-par new business growth; therefore potentially stronger growth could reduce operating capital generation through higher new business strain. The S2 ratio fell to 197% at end-1H19 as market movements (credit spreads) more than offset operating capital generation.

Further Deleveraging Expected

The degree of financial leverage in Aegon's capital structure compared well to other large Dutch insurers and similarly rated Western-European peers at end-2018. Fitch expects further deleveraging through debt redemptions. Fitch estimates the financial leverage ratio decreased from 27% at end-2018 to 25% at 1H19 on the successful issuance of EUR500 million restricted tier 1 (RT1) notes and redemption of USD500 million callable notes. RT1 securities receive 100% equity credit in Fitch's financial leverage calculation.

Fitch typically excludes debt securities issued by non-insurance related subsidiaries from the financial leverage calculation. The EUR500 million of senior notes issued by Aegon Bank N.V. in June 2019 are therefore excluded from the financial leverage assessment.

Cautionary Total Financing and Commitments Ratio

Aegon's total financing and commitments (TFC) ratio (which measures the broad capital markets footprint of an organisation) is high compared to similarly rated peers, indicating greater reliance on external financing in its operations. The main drivers of the high TFC ratio are US Regulation XXX and AXXX funding, securitisations to finance mortgage portfolios in the Netherlands, securities lending, Federal Home Loan Bank borrowings, and repurchase agreements.

Debt Service Capabilities and Financial Flexibility

(x)	2014	2015	2016	2017	2018	Fitch's expectation
Fixed charge coverage ratio	7	-1	4	10	5	Fitch expects further deleveraging and improving operating efficiency could support Aegon's fixed charge coverage ratio. We also expect financial flexibility to remain 'very strong'.
Fixed charge coverage ratio (based on underlying earnings)	7	7	7	8	8	
Cash in holding companies (EURbn)	1.2	1.5	1.5	1.4	1.3	

Source: Fitch Ratings, Aegon

'Strong' Debt Service Capabilities and Financial Flexibility

Aegon's debt-servicing capability and financial flexibility is 'Strong' based on a five year average fixed charge coverage ratio of 5x and very stable market access complemented by robust contingent funding in place.

Interest Expenses Could Decrease

Aegon's FCC is 'Strong' but somewhat volatile due to earnings fluctuations. The majority of outstanding debt securities were fixed rate at end-2018 with coupon resets in the upcoming two to ten years. Fitch expects Aegon's interest expenses could decrease as legacy higher yielding debt securities are redeemed or refinanced at more favourable rates. Improving operating efficiency could also support the FCC.

Low Refinancing Risk

Fitch assesses Aegon's refinancing risk as low given its very strong capitalisation, robust cash position of the holding company as well as stable market access at reasonable funding costs.

Aegon maintains stable access to capital markets under a USD6 billion debt issuance program and a EUR2.5 billion commercial paper program. It successfully issued EUR500 million RT1 securities in 1H19 at a fixed coupon of 5.625% which resets to a floating rate after the initial fixed period. The achieved coupon places Aegon's RT1 securities between ASR's and Achmea's 4.625% and VIVAT's 7% RT1 notes. In this comparison, Aegon's relatively higher coupon is explained by the timing of the issue as the Z-spread is among the lowest of recent Dutch RT1 issues.

Very Strong Financial Flexibility

Aegon held EUR1.3 billion cash at the holding company at end-2018 (end-2017: EUR1.4 billion). This is in line with management's comfort zone for the holding company cash position. To further enhance the liquidity position Aegon also maintains back-up credit facilities with international lenders comprising a EUR2 billion syndicated revolving credit facility and a USD2.2 billion letter of credit facility expiring in 2023 and 2024, respectively.

Holding Company Liquidity

Aegon N.V. is the ultimate holding company of the group. Aegon N.V. had adequate liquidity at end-2018 supported by significant amounts of cash. It had total current assets of EUR1.6 billion (of which EUR1.2 billion in cash) which compared to EUR975 million current liabilities at end-2018.

Aegon N.V.'s liquidity is further supported by maintained cash remittances from operating subsidiaries and contingent funding facilities.

Debt Maturities (excluding callable securities)

(At end-2018)	(EURm)	(USDm)
2019	75	0
2020	0	500
Total		

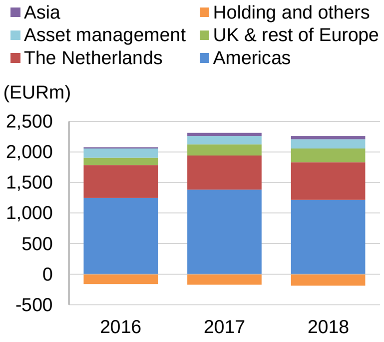
Source: Fitch Ratings, Aegon

Financial Performance and Earnings

(%)	2014	2015	2016	2017	2018	Fitch's expectation
Net income attributable to shareholders (EURbn)	1.2	-0.5	0.6	2.4	0.7	Fitch expects gradually improving underlying earnings supported by cost savings and profitable growth but net income return on equity (ROE) could remain volatile.
Net underlying earnings (EURbn)[a]	1.4	1.5	1.5	1.6	1.8	
Net income ROE	6	-2	2	11	4	
Pre-tax operating ROA	0.5	-0.1	0.3	0.7	0.3	
Net underlying earnings ROE	7	6	7	8	9	

[a] Aegon reported, excluding volatile items
Source: Fitch Ratings, Aegon

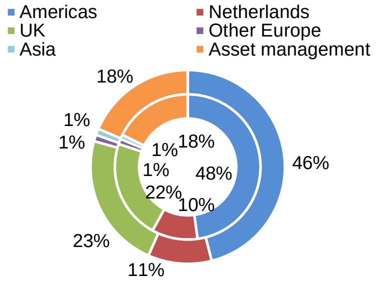
Pre-Tax Underlying Earnings



Source: Fitch Ratings, Aegon

Total Revenue Generating Assets

(Outer ring: 2018; EUR804bn
Inner ring: 2017; EUR813bn)



Source: Fitch Ratings, Aegon

'Good' Profitability

Fitch views Aegon's profitability as 'Good' but a rating weakness. Aegon's earnings are relatively stable on an underlying basis (excluding volatile and non-recurring items) but Fitch views the volatility of net earnings cautiously due to the frequent recurrence of significant non-operating items.

Fee-Based Business Sensitive to Financial Market Volatility

The proportion of pre-tax underlying earnings (excluding holding activities) from fee-based businesses fell to approximately 42% in 2018 (2017:45%) mainly as a result of the poor performance of equity markets in 2H18 that led to a decrease in revenue-generating assets[1] (RGA) in US businesses. RGA growth is critical for improving earnings from fee-based business. Increased financial market volatility is typically negative for RGA growth through lower asset values and negative net asset flows.

Aegon is increasingly focusing on sales of lower-margin fee-based business such as asset-management and pension administration and unit linked products as a result of the low interest rate environment.

Run-Off Businesses Closely Managed

Aegon is actively managing the profitability of closed businesses in the Netherlands, UK and US through cost saving initiatives including internal reorganisations and outsourcing of administrative tasks, as well as asset re-allocations to higher yielding assets (e.g. mortgages).

Aegon has achieved EUR79 million cost reductions in the Netherlands in the period 2015-2018 exceeding the initial target of EUR50 million and delivered the overall EUR350 million cost savings target across the group. Fitch expects Aegon will continue to apply strong cost controls also beyond 2018.

Special Items Affect Net Result

Special items decreased Aegon's net earnings by EUR875 million in 2018 (2017: EUR68 million) mainly including US litigation cost, model and assumption changes in the Netherlands, integration expenses and recognised loss on the sale of Aegon Ireland. In addition, fair value losses amounted to EUR260 million as a result of the marked decline in equity markets in 2H18 being only partly offset by other gains.

Litigation Costs Could be Substantial

Aegon is involved in a number of legal proceedings in the US and Europe related to life insurance products and other non-product related matters. The potential liability from class action lawsuits is hard to estimate but could be substantial in the event of adverse court rulings. Litigation charges amounted to EUR167 million in 2018.

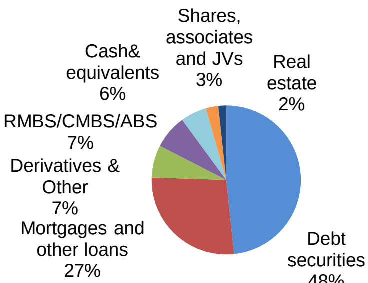
[1] Investments on general account, on account of policyholders, third-parties (off balance sheet).

Investment and Asset Risk

(%)	2014	2015	2016	2017	2018	Fitch's Expectation
Risky assets/equity[a]	66	57	58	52	67	Fitch expects Aegon's investment and asset risk metrics to remain in-line with a 'Very Strong' assessment.
Unaffiliated shares/equity[a,e]	13	18	17	17	25	
Non-investment grade bonds/equity[a,b,d]	46	31	32	25	31	
Investment in affiliates/equity[a]	7	8	9	10	11	
Mortgages at book value (EURbn)[c]	32	33	34	34	37	

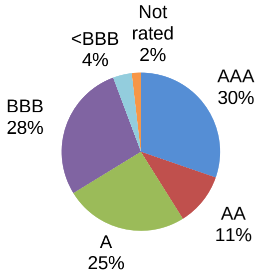
[a] equity excludes 'other equity instruments' and Aegon Bank
[b] including RMBS/CMBS/ABS
[c] at book value including Aegon Bank
[d] 2014: estimate based on less granular disclosure
[e] including hedge funds, private equity and limited partnerships
Source: Fitch Ratings, Aegon

Total Investments
(End-18: EUR157bn; excluding investments for account of policyholders)



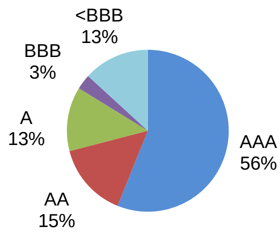
Source: Fitch Ratings, Aegon

Debt Portfolio by Rating
(End-18: EUR76bn; excluding structured assets)



Source: Fitch Ratings, Aegon

Structured Portfolio by Rating
(End-18: EUR12bn)



Source: Fitch Ratings, Aegon

Low Investment Risk

Fitch assesses Aegon's investment and asset risk as low and scores this credit factor as 'Very Strong'. Investments mainly consist of investment grade debt securities and a conservative mortgage portfolio.

Low Non-Investment Grade Exposure

Aegon's investment strategy favours high-grade bonds such as US treasuries and investment grade corporate bonds. Non-investment grade exposure are low relative to Aegon's equity and mainly related to the corporate bond portfolio and residential mortgage-backed securities (RMBS) issued before 2007. Other structured exposures such as commercial mortgage-backed securities (CMBS) and asset backed securities (ABS) like credit cards, auto finance and other loans are predominantly high-grade. Fitch believes there are no material issuer concentrations in the fixed income portfolio.

Incremental Increase in Investment Risk Expected

We expect Aegon to take incrementally more investment risk through higher allocations to higher yielding assets mainly as part of the performance optimisation of run-off businesses. However, this is unlikely to affect our assessment of Aegon's investment and asset risk.

Bond Valuations Confirmed

Aegon has exposure to EUR76 billion of investment assets (excluding assets held on account for policyholders), with valuation based on unobservable data such as models and assumptions (level 2 and level 3 as defined under International Financial Reporting Standards) which represent a higher risk of potential valuation errors. The majority of these assets are debt securities. Aegon's auditor has confirmed that the valuation of these assets were within an acceptable tolerance range at end-2018. Fitch has not identified present or past shortfalls in this matter.

Mortgage Book is Low Risk

Aegon's EUR37 billion mortgage book is concentrated on Dutch residential mortgages with some diversification to commercial lines in the Americas. The US mortgage portfolio accounted for 22% of the total balance at end-2018. Fitch assesses credit risk of both portfolios as low supported by low delinquency rates and conservative loan-to-value ratios of approximately 54% for the US and 70% for the Dutch portfolio. In addition, a significant part of the Dutch portfolio (46%) is guaranteed by the Dutch National Mortgage Guarantee (The Netherlands are rated IDR 'AAA'). Fitch expects Aegon to continue increasing its mortgage exposure but views this as neutral to the investment and asset risk assessment.

Asset/Liability and Liquidity Management

(%)	2014	2015	2016	2017	2018	Fitch's expectation
Liquid assets/policyholder liabilities	99	97	98	97	95	Fitch expects Aegon's asset/liability and liquidity management score to remain in-line with a 'Strong' assessment.
Operating cash flow coverage	7	2	6	1	1	

Source: Fitch Ratings, Aegon

'Strong' Asset/Liability and Liquidity Management

Fitch assesses Aegon's asset/liability and liquidity management as 'Strong' based on a sophisticated and comprehensive risk management framework and a prudent investment policy. Aegon utilises cash flow matching, duration matching as well as derivatives-based hedging to manage risks in insurance portfolios.

Guarantee Risks Closely Managed

Aegon has provided guaranteed minimum benefits and investment guarantees on legacy and new products sold in the US (variable insurance contracts and annuities) and the Netherlands (variable unit-linked products and traditional life and pension products with profit sharing). This leads to inherent reserve and earnings volatility due to the uncertainty of policyholder behaviour and potential changes in assumptions made in the valuation of insurance reserves. Aegon runs specific reinsurance and hedging programmes to manage risks stemming from guarantees.

The aggregate net amount at risk[2] related to guarantees increased to EUR11 billion or 56% of Aegon's shareholders' equity at end-2018 (2017: EUR8 billion), mainly reflecting the decline in equity markets in 2H18.

Above-Average Duration Mismatch

Fitch views Aegon Americas' duration mismatch as moderately wider than the US life industry average, driven partly by its legacy products, particularly long-term care (LTC), and it slightly increased in 2018. 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-2018.

Reasonable Protection Reduces Longevity Risk

As a predominantly life insurance company, the main underwriting risk for Aegon is longevity mainly driven by Dutch run-off products such as defined benefit pensions.

Aegon utilises longevity reinsurance and hedging to reduce risk in the Dutch group pension portfolio. Fitch estimates risk reduction arrangements in place provide moderate protection against adverse developments and Aegon would retain the majority of longevity loss under a worst case stress scenario.

Fitch believes Aegon will continue to investigate options to reduce longevity risk either through portfolio transfers or additional reinsurance or hedging arrangements. Longevity risk is not substantial in the Dutch individual life portfolio and limited in the UK business.

[2] The difference between the discounted maximum amount payable and the actual accounting value.

LTC Assumption Change Could Trigger Reserve Strengthening

Over the years, Aegon Americas 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 Americas. Favourably, 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.

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 a USD700 million pre-tax impact. Industry studies are generally inconclusive as to whether this phenomenon exists among the insured population.

Appendix A: Industry Profile and Operating Environment

Regulatory Oversight

Fitch considers regulatory oversight in the Netherlands as very strong. The Dutch insurance market is highly regulated, with well-developed regulatory practices and supervision processes. As a member of the European Union, the Netherlands adopted the risk-adjusted solvency framework (Solvency 2), which came into force on 1 January 2016. The Dutch insurance regulator is focused on ensuring that insurance organisations are viable and their conduct of business is appropriate. Fitch considers the regulator's enforcement as effective.

Technical Sophistication of Insurance Market; Diversity & Breadth

The Dutch insurance market is the fifth largest in Europe (EUR74 billion of gross written premiums in 2018), although the size of the market is largely explained by the importance of the mandatory health insurance segment. Fitch believes the market is technically highly sophisticated. This is underpinned by the use of strong and generally accepted actuarial practices for underwriting analysis, calculating claims reserves and products pricing. In addition, the adoption of Solvency 2 improved enterprise risk management in the market.

The Dutch insurance market is concentrated in health insurance, which is of a mandatory nature. The health insurance business represented 64% of gross written premiums, followed by life (21%) and non-life (15%), at end-2018. As the market is highly mature, premium growth is low, albeit higher in the property and casualty segment than in life and health.

Competitive Profile

Fitch believes the Dutch insurance market is very competitive in all insurance segments and relatively concentrated with the five largest insurance groups representing approximately 80% of total gross written premiums. The remainder of the market is fragmented and market share is distributed among a larger number of small companies, especially in the non-life segment. At end-2018, a total of 160 insurers were under the supervision of the Dutch National Bank (117 non-life, 30 life, nine re-insurers, and four funeral in-kind insurers).

Life insurers have been repositioning their business to cope with persistently low interest rates in Europe, favouring the distribution of retirement solutions, often in the form of capital-light and unit-linked savings products. Apart from pension products, there are also pockets of growth in term life; however we expect growth to level-off in this segment. In non-life, strong competition creates pressure on prices which is mitigated by a phase of "harder" pricing.

Financial Markets Development

The Dutch financial market is sophisticated and has considerable breadth and depth both in its insurance and non-insurance segments. The Dutch stock and bond markets are among the largest globally, providing sufficient liquidity in most traded products. Companies' and financial institutions' access to capital markets is strong.

Country Risk

The Netherlands' Long-Term IDR is 'AAA' with a Stable Outlook. The Netherlands' ratings are underpinned by a large, wealthy and diversified economy, strong and effective civil and social institutions and a record of macro-economic stability. The Netherlands also benefits from strong financial flexibility, helped by the ultra-loose financing conditions prevailing in the eurozone, and the access to deep and liquid capital markets as a core eurozone member.

Peer Comparison Table - 2018

(EUR billion)	IFS Rating/Outlook[c]	Total assets	Shareholders' equity	Gross written premiums	Net Income attributable to shareholders	Return on equity (%)	Reported combined ratio (%)	Solvency II ratio (%)	Financial leverage (%)
Aviva[a]	AA-/Stable	479	19	33	1.8	10	96.6	204	28
Zurich[b]	AA-/Stable	453	37	56	4.6	12	97.8	221[d]	24
NN	A+/Stable	224	23	13	1.1	5	99.4	230	28
Aegon	A+/Stable	393	20	19	0.7	4	n.a.	211	27
Achmea	A+/Stable	82	8	20	0.3	4	95.5[e]	198	24
Ageas	A+/Stable	102	9	9	0.8	9	94.3	215	21
Groupama	A/Positive	97	8	14	0.5	6	99.3	167[f]	28
VIVAT	BBB+/Stable[g]	56	3	3	-0.3	-8	96.8	192	30

[a] 1GBP=1.13EUR
[b] 1USD=1.14EUR
[c] Insurer Financial Strength Ratings of primary operating entities
[d] Swiss solvency test ratio
[e] non-life only
[f] excluding transitional
[g] Rating Watch Positive on VIVAT Schadeverzekeringen
Source: Fitch Ratings, Companies

Appendix B: Peer Analysis

Capital in Line but Financial Performance Trails Peers

Aegon's capitalisation and leverage is in line with most peers. Aegon is the one of the best-capitalised insurers in the Netherlands on a group basis under S2 but is also at a strong level in an international context. Dutch insurers' S2 capitalisation do not benefit from transitional measures. Aegon's financial leverage is gradually decreasing in line with the deleveraging trend among most Dutch insurers, the result of already strong capital levels.

Aegon's profitability measured as net income ROE 'normalised' in 2018, but still favourable in a Dutch context and comparable to that of NN and Achmea, despite the different business mix of these companies. 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.

Appendix C: Other Ratings Considerations

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

Group IFS Rating Approach

The entities discussed 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, and capital market transactions supporting the Core status.

Aegon UK's (the main legal entity being 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.

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

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

Holding Company Debt

A baseline recovery assumption of 'Below Average' was applied to senior unsecured debt securities issued by Aegon N.V. Standard notching relative to the IDR was used.

Hybrids

For NLG450m 4.26% perpetual callable 03/2021, NLG250m 1.506% perpetual callable 06/2025, and NLG300m 1.425% perpetual callable 10/2028 notes issued by Aegon N.V., 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 zero notch for non-performance risk.

For all other hybrids issued by Aegon N.V., 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.

For perpetual contingent convertible notes issued by Aegon N.V., a baseline recovery assumption of 'Poor' and a non-performance risk assessment of 'Moderate' were used. Notching of four was applied relative to the IDR, which was based on two notches for recovery and two notches for non-performance risk. This represents one extra notch compared with our treatment of standard Solvency 2 instruments to reflect higher non-performance risk arising from the fully flexible interest cancellation.

Source: Fitch Ratings

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 debt rating of Aegon's commercial paper programme 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	Grandfathering Status	Amount	CAR Fitch (%)	CAR Reg. Override (%)	FLR Debt (%)
Aegon N.V.					
4.26% perpetual callable 03/2021	Grandfathered for S2	NLG450m	0	100	100
4% due 04/2044 callable 04/2024	Grandfathered for S2	EUR700m	0	100	100
1.506% perpetual callable 06/2025	Grandfathered for S2	NLG250m	0	100	100
5.5% due 04/2048 callable 04/2028	-	USD800m	0	100	100
1.425% perpetual callable 10/2028	Grandfathered for S2	NLG300m	0	100	100
Floating rate perpetual callable 12/2010	Grandfathered for S2	USD250m	0	100	100
Floating rate perpetual callable 07/2014	Grandfathered for S2	EUR950m	0	100	100
Floating rate perpetual callable 07/2014	Grandfathered for S2	USD500m	0	100	100
6.375% perpetual callable 06/2015	Grandfathered for S2	USD1000m	0	100	100
5.625% perpetual contingent convertible callable 04/2029	-	EUR500m	100	0	0

CAR – Capitalisation ratio: FLR – Financial leverage ratio. N.A. – Not Applicable
For CAR, % shows portion of hybrid value included as available capital, both before (Fitch %) and the regulatory override.
For FLR, % shows portion of hybrid value included as debt in numerator of leverage ratio
Source: Fitch Ratings

Fitch provides 100% equity credit to restricted tier 1 securities issued under the Solvency 2 regime in line with the regulatory treatment therefore no regulatory override applied. Grandfathered perpetual debt securities receive 0% equity credit either due to their coupon step up feature; regulatory override applied for CAR.

Corporate Governance and Management

Corporate governance and management are adequate and neutral to the rating.

Transfer and Convertibility Risk (Country Ceiling)

None.

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.