Aegon Americas

And North American Subsidiaries of Aegon N.V.

Full Rating Report

Ratings

Transamerica Life Insurance Co.
Transamerica Financial Life Insurance Co.
Transamerica Premier Life Insurance Co.

Insurer Financial Strength (IFS)	A+

Transamerica Life Insurance Co.

Short-Term IFS	F1

Note: See additional ratings on page 14.

Rating Outlook

Stable

Financial Data

Aegon Americas

($ Mil.)	2018	1H19
Underlying Earnings Before Tax — IFRS	1,437	651
Net Income — IFRS	61	660
Return on Capital — Underlying Earnings (%)	9.4	8.7
Total Adjusted Capital	9,343	11,466
RBC[a] (%)	465	472

[a]U.S. statutory data for U.S.-domiciled subsidiaries of AEGON US Corp. and Transamerica Corp. Note: IFRS-based data is YTD.
Source: Fitch Ratings, Aegon Americas, S&P Global Market Intelligence.

Related Research

U.S. Life Insurance Statutory Dividend Capacity (Capacity Edges Lower in 2019) (June 2019)

North American Life Insurers' Financial Leverage and Debt-Servicing Capacity (Little Movement in 2018) (May 2019)

U.S. Life Insurers' Net Investment Income Dashboard: YE 2018 (April 2019)

The Coming Storm: How U.S. Life Insurers Are Positioned for Downturn (February 2019)

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Key Rating Drivers

Improving Underlying Returns: Over recent periods, Aegon Americas' underlying profitability improved, driven by reduced capital allocated to runoff businesses and expense reductions, though net income volatility persists. While underlying earnings aligned with net income in 1H19, they declined as a result of reduced fee income due to lower average asset balances, coupled with investments in the business to support growth and improve customer experience.

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 and above-average exposure to variable annuities (VAs). Fitch views the company's LTC exposure as moderate and its reserve adequacy as below-average compared with peers.

Capital Remains Strong: Aegon Americas' NAIC RBC ratio of 472% as of 1H19 remains above its target range of 350%–450%. The ratio was adversely affected by tax reform in 2018, but benefitted from the company's merger of its VA captive into Transamerica Life Insurance Company, which generated $1 billion in capital. Aegon Americas makes material use of reinsurance from third-party insurers, as well as captive reinsurance companies. Upstream dividends to Aegon N.V. are a significant source of cash for the holding company.

Diversified Investment Portfolio: Aegon Americas' investment mix remains stable and liquid, with a risky asset ratio of 65% at YE 2018. The ratio is below the industry average, reflecting below-average exposure to Schedule BA assets and equities. Bond quality is largely consistent with the industry, with an average NAIC rating of 1.5. Credit-related impairments declined in 2018 and remain modest and below long-term averages YTD.

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 higher than they would be on a standalone basis.

Macroeconomic Headwinds: Ongoing low interest rates pose risks to Fitch's outlook for life insurers and could have a negative effect on Aegon Americas' earnings and capital. Fitch considers Aegon Americas to have above-average exposure to interest rate risk given the company's legacy LTC and closed block of universal life with secondary guarantees.

Rating Sensitivities

Upgrade Sensitivities: The ratings could be upgraded if Aegon N.V.'s net income ROE exceeds 7% for a sustained period with the Prism factor-based model capital score remaining at least 'Very Strong'.

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%.

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.

Established Multinational Company

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 universal life insurance. Aegon Americas' strong position helps it compete effectively by providing scale and brand recognition.

Meaningful Diversification

Aegon Americas is a well-diversified insurer offering a wide range of life insurance products, annuities and mutual funds. Life insurance sales are largely indexed universal life insurance, term life and whole life insurance, while annuity sales are focused on VAs. Individual life insurance with benefit riders comprise a significant portion of Aegon Americas' portfolio, representing approximately 30% of new sales, nearly twice that of the industry. Additionally, the company competes in the voluntary benefits and retirement services markets. A key initiative for the company is to increase its cross-sale opportunities between voluntary benefits and retirement services through an integrated strategy, including a bundled offering.

Aegon Americas utilizes multiple distribution channels for life product offerings, including independent brokerage distributors and agency channels with career agents. Over recent years, the company successfully shifted its portfolio away from capital-intensive products towards fee-based products. Additionally, the company focused on simplifying its product portfolio and distribution model and reduced capital allocated to runoff businesses. In 2017, Aegon Americas reinsured all of its runoff bank-owned/corporate-owned life insurance (BOLI/COLI) and payout annuities and reduced its runoff life reinsurance business, divesting a legacy block of term insurance.

Aegon Americas is also focused on improving its digital capabilities in order to enhance its customer experience and accelerate growth. In 2018, the company 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 experience. 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.

Related Criteria

Insurance Rating Criteria (January 2019)

LTC Elevates Business Risk

At YE 2018, Aegon Americas had $5.7 billion and $6 billion in LTC reserves on an IFRS and U.S. statutory basis, respectively. Statutory LTC reserves represented approximately 65% of total adjusted capital (TAC), which Fitch considers moderate exposure. 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.

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. Favorably, Aegon Americas achieved approval on over 80% of its most recent $1.1 billion filed rate increases. Fitch expects the company to continue to seek rate increases on underperforming series.

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. 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, $700 million pretax impact. Industry studies are generally inconclusive as to whether this phenomenon exists among the insured population. 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 $100 million pretax.

Favorably, Aegon Americas’ reinvestment risk is mitigated 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

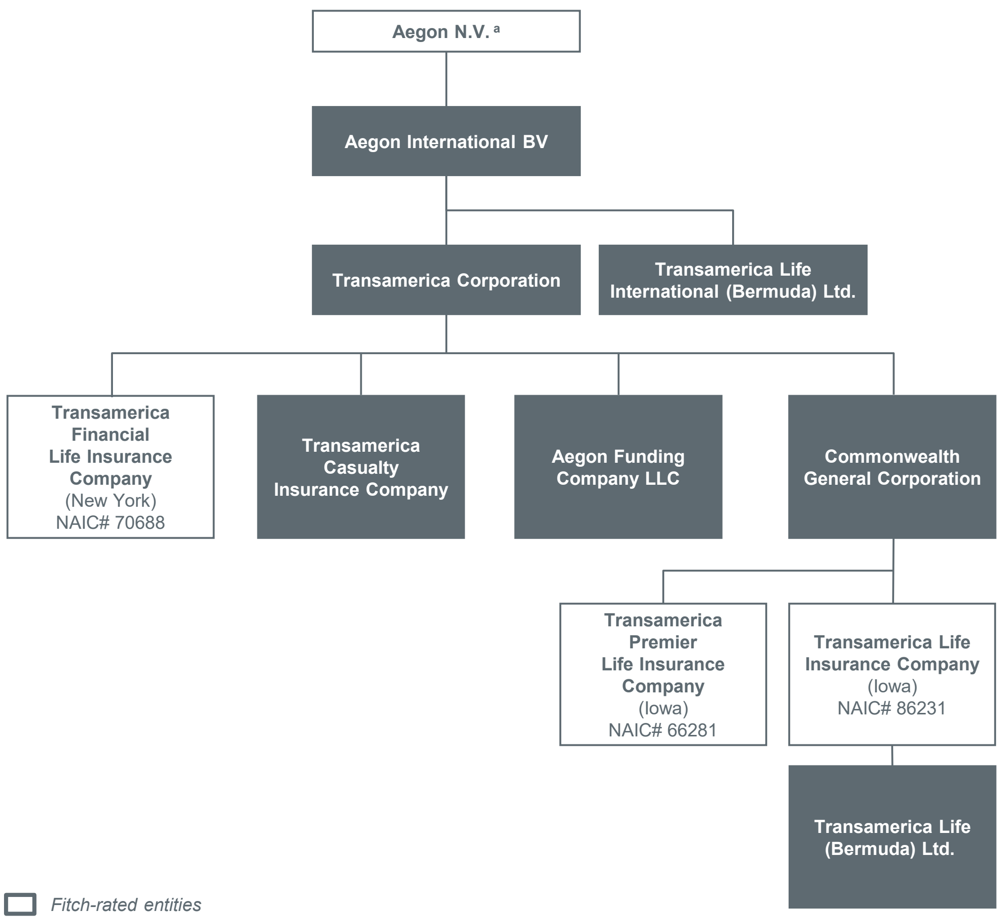
Aegon N.V. is a Netherlands-based holding company that was founded in 1983 with the merger of two Dutch companies. The company's core business is insurance with a primary focus on three markets: life insurance, pensions and asset management.

Aegon N.V.'s U.S.-based operations comprise four 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

($ Mil.)	2015	2016	2017	2018	1H19
Total Adjusted Capital	9,982	8,835	8,681	9,343	11,466
RBC[a] (%)	460	440	472	465	472
Asset Leverage (x)	21	24	25	22	18
Operating Leverage (x)	8	9	8	8	6

[a]RBC shown is for Aegon Americas consolidated. Note: U.S. statutory data. Excludes restatements.
Source: Fitch Ratings, S&P Global Market Intelligence.

Fitch's Expectations

U.S. consolidated RBC is expected to be at the high end or exceed the company's target range of 350%–450%. Asset leverage and operating leverage are expected to increase modestly from the current levels.

Very Strong Operating Company Capitalization

Aegon Americas' capital position is very strong, though reported metrics benefit from its above-average use of captives for reserve financing.

U.S. Statutory Capital Position Remains Very Strong

Fitch views Aegon Americas' risk-adjusted capital and combined group capital position as key ratings strengths. The company's 2018 Prism score is expected to be consistent with the prior year at 'Very Strong'. Aegon Americas' RBC ratio increased 7 percentage points to 472% as of 1H19 and remains above its target range of 350%–450%. Required capital increased meaningfully in 2018 as a result of the lower corporate tax rate, which was offset by the company's merger of its VA captive into Transamerica Life Insurance Company, which generated $1 billion in capital. TAC declined approximately 4% from the prior period that was restated for the merger, while required capital increased by double digits. The U.S. operation has been generally self-funding in capital needed to invest back into the business and support growth, while over the years, parent Aegon N.V. has been flexible in its dividend requirements.

Capitalization Benefits from Captives

Fitch notes that Aegon Americas' reported risk-adjusted capital measures improved due to the transfer of reserves to third-party and captive reinsurers, which are used primarily to manage statutory reserves and capital requirements associated with its term and universal life (UL) with no-lapse guarantee products. At YE 2018, the company's operating subsidiaries recognized $13 billion in credit, or 139% 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. While the company simplified its captive structure, through mergers and reinsurance, excess reserves in existing captives continue to build towards peak reserve requirements.

The company uses a variety of funding mechanisms for its excess reserves, which include a credit-linked note transaction, long-term (20–30 years) LOCs and a 30-year private structured credit transaction. Principles-based reserving (PBR), which life insurers were able to implement beginning in 2017 and becomes mandatory in 2020, includes more realistic assumptions and has eliminated a large portion of the reserve redundancy for new business. Aegon Americas has adopted PBR for its new term business.

TFC is a nonrisk-based leverage measure that expands on the traditional debt-to-equity ratio to include all forms of debt, including match-funded and operational debt, as well as debt supporting long-term capital needs and liquidity and working capital needs.

The measure is intended to flag those companies that have an above-average reliance on the capital markets for funding. During periods of market disruptions and lost access to capital markets funding, such operational and off-balance sheet commitments can become a direct source of vulnerability to an organization.

TFC Ratio Is Above Average

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. As of YE 2018, Aegon Americas' FHLB borrowings in the form of debt totaled approximately $4 billion. Fitch notes that the company's FHLB borrowings declined to approximately $2 billion as of 3Q19. Aegon Americas' TFC ratio of 1.2x at YE 2018 was twice the life industry average of approximately 0.6x.

Financial Performance and Earnings

($ Mil.)	2015	2016	2017	2018	1H19
Net Underlying Earnings	1,100	1,059	1,158	1,276	564
Net Income	(261)	618	1,762	61	660
ROA (%)	0.6	0.6	0.6	0.6	0.5
Return on Capital (%)	6.8	7.3	7.9	9.4	8.7
Asset Growth (%)	(6)	4	4	(8)	(1)

Note: All figures are based on IFRS accounting.
Source: Fitch Ratings, Aegon Americas.

Fitch's Expectations

Underlying earnings are expected to increase modestly in 2019, while profitability metrics will be fairly stable compared with the prior year, benefitting from expense savings, but challenged by the protracted low interest rate environment.

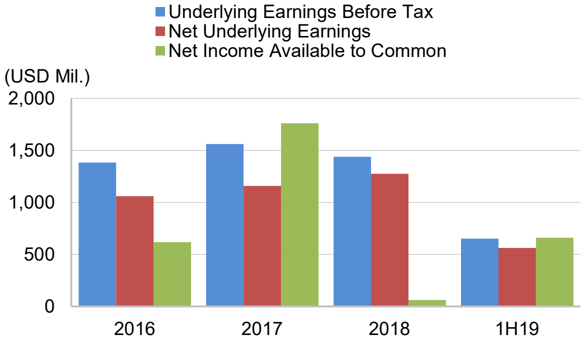
Underlying Profitability Improving, but Below Rating Expectations

Profitability is viewed as below expectations for the current rating level, but exhibited an improving trend over recent periods. While underlying profitably trended favorably, net income volatility persists.

Upward Trend in Underlying Earnings

Aegon Americas' IFRS operating profitability continued its improving trend in 2018. Net underlying earnings steadily improved over the past five years through reduced capital allocated to runoff businesses and expense initiatives. The company achieved over 90% of its targeted $300 million in gross annual run-rate expense savings and exceeded its targeted $1 billion decline in capital allocated to runoff businesses, divesting its BOLI/COLI, payout annuities and remaining life insurance over recent years. Pretax underlying earnings declined 8% in 2018 as a result of lower fee income due to the adverse equity market in 4Q18 and unfavorable mortality, while the after-tax underlying earnings improved 10%, benefitting from the lower corporate tax rate.

Aegon Americas Earnings



Source: Fitch Ratings, Aegon Americas.

Aegon Americas' Retirement Plans segment was pressured in 2018. Underlying returns before taxes declined 38% yoy to $195 million due to lower asset balances driven by adverse markets in 4Q18 and net outflows as well as margin compression, driven by fee rate changes. In 2015, the company acquired Mercer's U.S. defined contribution retirement business, which expanded its capabilities in the jumbo space. Since the acquisition, retention on the block was lower than anticipated, though persistency is expected to stabilize going forward and growth in the segment is projected to accelerate.

Net underlying returns declined 7% in 1H19 to $564 million. The decline was driven by reduced fee income as a result of lower average asset balances coupled with increased investments geared toward supporting growth and improving the customer experience.

Net Income Volatility

Aegon Americas' net income of $61 million in 2018 was adversely affected by losses on fair value hedges without an accounting match ($558 million), underperformance of fair value investments ($152 million), realized losses on investments ($241 million), a class action litigation settlement with universal life policyholders ($166 million), transition and conversion charges from the TCS partnership ($150 million) and a loss on the divestment of a life reinsurance business ($110 million).

Hedge costs declined following the movement to a 100% option-based hedge program in 2016, but underperformed in 2018, due to the lack of an increase in implied volatility despite the market downturn in the fourth quarter. Results for 1H19 included model and assumption changes of $80 million related to surrender, lapse and mortality updates in the life business, but net income exceeded underlying earnings as it benefitted from favorable fair value items. While Fitch more heavily weights operating results in assessing profitability, with the exception of 2017, Aegon's full-year net income was consistently below its underlying earnings and adversely affected by one-time and fair value items. Further improvement, along with a convergence between underlying earnings and net income, would be viewed favorably.

Solid Statutory Dividend Capacity

Statutory return on capital declined materially to 1% in 2018 from 8% in the prior year, reflecting increased VA reserves and a loss on the recapture of term insurance business from a captive reinsurer, but Aegon Americas remains an important and consistent source of funding for Aegon N.V. Aegon Americas supported remittances to its parent company of approximately $900 million per year and they are expected to grow. Fitch estimates that Aegon Americas ordinary statutory dividend capacity without prior regulatory approval is $1.4 billion in 2019.

Investment and Asset Risk

	2015	2016	2017	2018	1H19	Fitch's Expectations
Cash and Invested Assets ($ Mil.)	82,160	84,163	75,847	75,540	75,940	Cash and invested assets invested assets are expected to remain near the current level. Risky assets will remain below the life industry average, while investment yields are expected to decline as a result of the protracted low interest rate environment.
Below-Investment-Grade Bonds/TAC (%)	38	46	41	36	27	
Risky Assets Ratio (%)	77	82	74	65	N.A.	
Investment Yield (%)	4.5	4.8	4.8	4.2	4.1	

TAC – Total adjusted capital. N.A. – Not available.
Source: Fitch Ratings, S&P Global Market Intelligence.

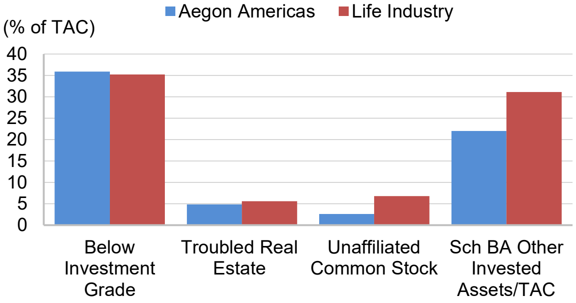
Conservative Investment Portfolio

Aegon Americas' diversified portfolio is viewed as very strong and below average in risk compared with the broader industry. Invested asset allocations are generally stable and the portfolio continues to perform well.

Diversified Investment Portfolio

Aegon Americas' risky asset ratio fell 9 percentage points to 65% at YE 2018 due to increased capital as a result of the aforementioned captive merger. Exposure to risky assets was largely consistent with the prior period. Risk levels compare favorably with the life industry average risky asset ratio of 79%. Overall bond quality was largely consistent with the prior year, with 93% rated investment grade, though exposure to NAIC 2 bonds ticked up 3 percentage points.

Risky Asset Ratio
(As of Dec. 31, 2018)



TAC – Total adjusted capital.
Source: Fitch Ratings, S&P Global Market Intelligence.

Aegon Americas' portfolio is well diversified and liquid. 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, which accounted for 21% at YE 2018, with FHLB advances utilized to invest in long-duration Treasurys and reduce the company's duration mismatch.

Exposure to non-agency structured securities is approximately 11% of invested assets and is diversified and of good credit quality, with approximately 80% investment grade based on the National Recognized Statistical Rating Organization ratings. The company also holds moderate positions in private equity limited partnerships, but has below-average exposure to common stocks.

Credit Performance Remains Strong

Aegon Americas' reported net credit-related impairments of $10 million in 2018, down from the prior year, and well below the company's historical averages as corporate bond defaults remain low and securitized assets continue to recover. Mortgage performance was good with low delinquencies and foreclosures, and strong loan-to-value and debt service coverage metrics. Aegon Americas' retail exposure is slightly below the industry, comprising 18% of its mortgage loans, and the exposure is high quality and performing well. Fitch notes that Aegon Americas has an above-average exposure to interest-only loans, though the exposure is of high quality and predominately partial interest-only loans with below-average exposure to full-term interest-only loans.

Asset/Liability and Liquidity Management

	2015	2016	2017	2018	1H19	Fitch's Expectations
Liquid Asset Ratio (%)	81	74	67	66	N.A.	Fitch does not anticipate any material deviations in Aegon's sound asset/liability and liquidity management in the near term.
Operating Cash Flow Coverage (x)	1.0	1.1	1.0	1.0	1.1	
Total Adjusted Liabilities and Deposits ($ Mil.)	197,903	204,051	207,801	190,871	199,835	

N.A. – Not available.
Source: Fitch Ratings, S&P Global Market Intelligence.

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.

VA Guarantee Risk Is Reasonably Managed

Fitch views Aegon Americas' economic hedging program of capital market-related risks associated with its $68 billion in VA reserves at YE 2018 to be reasonably sound and effective in recent years, though hedge losses were material in 4Q18 as a result of a lack of increase in implied volatility despite the downturn in equity markets. Aegon Americas manages the risk to statutory capital from large equity market declines through an option-based macro hedge strategy and de-risking of living benefit guarantees on new business that is 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.

Additionally, the company 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.

Unhedged exposures are believed to be manageable within the context of the company's broader capital resources. Fair value results of hedging with an accounting match may exhibit quarterly volatility, but are expected to smooth out over time.

Aegon Americas has significant exposure to VA benefit guarantee with nearly 60% of its VA exposure containing living benefit guarantees (predominantly withdrawal benefits), which leads to inherent reserve and capital volatility due to the difficulty in hedging uncertain policyholder behavior. The company fell out of the top 10 of VA sales in 2018, though VA gross deposits increased compared with the prior year. The VAs continue to experience negative net flows as the company's runoff and core blocks of VAs mature. Additionally, sales volumes generally declined compared with historical periods as a result of changes to its fund lineup and modification of its fees and benefits in the current low interest rate environment. The company is expected to grow its VA book over the coming periods through product enhancements and new product launches.

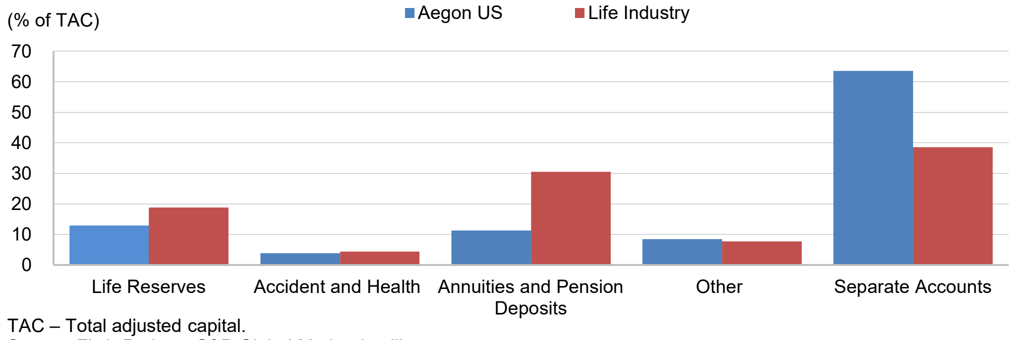
Above-Average Interest Rate Exposure

Fitch views Aegon Americas' duration mismatch as modestly wider than the life industry average, driven partly by its legacy products, particularly LTC, and it increased modestly 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. For YE 2018, the company had positive surplus under all scenarios despite pressure from the legacy LTC and legacy life liabilities.

Liquidity in Line with Industry

Fitch views Aegon Americas' liquidity as in line with the industry. The ratio was stable compared with the prior year and fairly consistent with the life industry. Aegon Americas has ample backup liquidity, including uncommitted 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. Of the company's gross general account annuities, 58% could be withdrawn at book value with minimal or no surrender charges or adjustment, nearly twice the industry average.

Adjusted Liabilities and Separate Accounts
(As of Dec. 31, 2018)



TAC – Total adjusted capital.
Source: Fitch Ratings, S&P Global Market Intelligence.

Appendix A: Industry Profile and Operating Environment

This section discusses the U.S. life insurance sector. Most insurers in this sector have Insurer Financial Strength (IFS) ratings in the 'AA' and 'A' categories. These ratings reflect the sector's very strong balance sheet profile and stable financial performance, which has benefited from cyclical economic improvement, higher interest rates and benign credit environment.

Regulatory Oversight

Fitch views U.S. insurance regulation as very developed, relatively transparent and effective. Insurance regulation is conducted at the state level and focused on protecting policyholders and promoting insurance company solvency. State insurance departments have broad regulatory authority over insurers domiciled in their state with respect to standards of solvency, financial reporting, investments, market conduct, and licensing for insurers domiciled in their state, among other things.

Financial reporting requirements are considered robust and transparent based on accounting practices and procedures prescribed or permitted by the state insurance departments. Regulatory capital standards and monitoring/examination processes are robust.

Technical Sophistication of Insurance Market; Diversity and Breadth

The U.S. life insurance sector is very sophisticated technically, with diverse and very deep product offerings. Fitch's view reflects the industry's well-established underwriting and pricing practices, investment capabilities and analysis, and improving enterprise risk management capabilities.

Competitive Profile

The U.S. life insurance sector is highly competitive. Life insurers compete based on a number of factors, including product features, service, scale, price, financial strength, brand name, and investment and distribution capabilities. There are significant scale advantages in the life insurance business, which favors well-established competitors over new market entrants.

The adoption of more sophisticated systems and data analytic capabilities is reshaping the life insurance business model, reducing barriers to entry and changing the competitive landscape. For existing players, this trend represents both a business opportunity and a competitive threat that will emerge over time. For new market participants, this trend represents an opportunity to disrupt certain aspects of the life insurance value chain.

Financial Markets Development

The U.S. has the largest and most developed financial markets in the world. The markets are very deep, robust and highly liquid, which provides insurers the ability to maintain diversified asset portfolios, manage interest rate and credit risk exposures, and invest new cash flows with favorable trade execution. While the U.S. financial markets exhibit enormous strength in almost all economic environments, they experienced stress during extreme conditions.

Country Risk

Insurers' ratings are unconstrained by sovereign risk issues as Fitch maintains a 'AAA' country rating with a Stable Outlook on the U.S. The rating is supported by structural strengths, including the size of the economy, high per capita income, strong institutions, dynamic business environment and the world's pre-eminent reserve currency. Partially offsetting these are concerns tied to government spending and financing activity, particularly growth in government deficits and the ability to meet long-term obligations, such as retirement and healthcare entitlements.

Appendix B: 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.

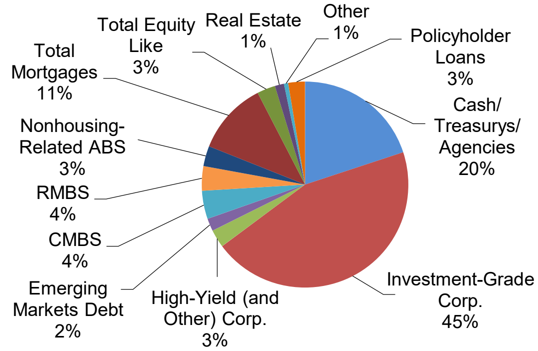
Peer Comparison

($ Mil., as of YE 2018)	IFS Rating	RBC (%)	TAC ($ Mil.)	Assets/ TAC (x)	Operating Leverage (x)	Risky Assets/ TAC (%)	Financial Leverage Ratio (%)	ROA (%)	ROE (%)
Aegon Americas	A+	465	9,343	22	8	65	27	0.6	9
Principal Financial	AA–	416	6,434	29	11	78	22	0.8	14
Prudential Financial	AA–	417	20,903	28	8	66	27	0.8	14
Metlife, Inc.	AA–	366	15,961	25	16	171	26	1.0	12
Lincoln National	A+	452	9,541	27	11	48	26	0.8	14
Voya Financial.	A	478	5,129	27	12	78	29	0.6	10

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, S&P Global Market Intelligence.

Appendix C: Additional Financial Exhibits

Aegon Americas Investments General Account
(As of June 30, 2019)



ABS – Asset-backed securities.CMBS – Commercial mortgage-backed securities. RMBS – Residential mortgage-backed securities.
Source: Aegon Americas.

Complete Ratings List

Transamerica Life Insurance Co.	
Transamerica Financial Life Insurance Co.	
Transamerica Premier Life Insurance Co.	
IFS	A+
Transamerica Life Insurance Co.	
Short-term IFS	F1
Aegon Funding Company LLC	
Senior Unsecured Debt	BBB+

Appendix D: Other Ratings Considerations

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

Group 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 are 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.
Debt
A baseline recovery assumption of Below Average for a holding company issuer was used, which is standard notching. The debt issued by US 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 short-term IFS rating is in support of the company's short-term funding agreement-backed notes.

Hybrids—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: 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.

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

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.