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.
Transamerica Advisors Life Insurance Co.

Insurer Financial Strength (IFS) A+

Transamerica Life Insurance Co.
Transamerica Premier Life Insurance Co.

Short-Term IFS F1

Note: See additional ratings on page 14.

Rating Outlook

Stable

Financial Data

Aegon Americas

($ Mil.)	2017	1H18
Underlying Earnings Before Tax — IFRS	1,560	729
Net Income — IFRS	1,762	289
Return on Capital — Underlying Earnings (%)	7.9	8.3
Total Adjusted Capital	8,681	9,954
RBC[a] (%)	472	490

[a]U.S. statutory data for U.S.-domiciled subsidiaries of AEGON US Corp. and Transamerica Corp. Note: IFRS-based data is YTD.
Source: Company, SNL Financial, Fitch Ratings.

Related Research

Fitch Affirms Aegon's IFS Ratings at 'A+'; Outlook Stable (July 2018)

Life Insurance (U.S.) — Sector Credit Factors (February 2018)

Fitch 2018 Outlook: U.S. Life Insurance (Sector Outlook Revised to Stable) (December 2017)

TFC Ratio – An Alternate View of Leverage (Year-End 2016 Results for North American Insurers) (August 2017)

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Key Rating Drivers

Improving Profitability: Aegon Americas continues to execute on its turnaround plan, reducing its expenses and capital allocated to runoff businesses. The company's return on capital improved to 8.3% in 1H18, reflecting reduced expenses, which was partially offset by adverse mortality experience. Aegon Americas aims to achieve an annualized return on capital of 9% in 4Q18 and gross annual run-rate expense savings of $300 million.

Bottom-Line Growth: The company's net income nearly tripled in 2017 to $1.8 billion. Results benefitted from more favorable fair value items as a result of the change to a 100% option-based hedging program, which was partially offset by increased other charges relating primarily to model updates. Tax reform favorably affected results, reducing the company's deferred tax liability, and it is expected to reduce its effective tax rate by 10 percentage points going forward.

Capital Remains Strong: Aegon Americas' NAIC RBC ratio improved to 490% at 1H18 from 472% at YE 2017, exceeding its target range of 350%–450%. The ratio improved over recent periods due to lower required capital following its runoff dispositions, which was partially offset by a reduction in the company's net deferred tax asset. 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 manages a well-diversified, liquid investment portfolio. The company's risky asset ratio declined 8 percentage points to 74% at YE 2017. The ratio is below the industry average, reflecting below-average exposure to Schedule BA assets and equities, which are partially offset by above-average exposure to below investment-grade bonds. Credit-related impairments declined in 2017 and remain well below the company's long-term average.

Ownership Uplifts Ratings: Fitch Ratings 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 stand-alone 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 closed block of universal life with secondary guarantees and legacy long-term care (LTC) insurance.

Rating Sensitivities

Upgrade Sensitivities: The ratings could be upgraded if Aegon N.V's net income ROE improves to above 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 remains below 3%.

Business Profile

Strong Business Profile

- Established multinational company.
- Broad-based products and distribution.
- Department of Labor fiduciary rule vacated.

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. Aegon N.V. companies employ over 25,000 people across the globe. Aegon Americas represented over 65% of Aegon N.V.'s pretax underlying earnings in 2017 and accounted for approximately half of gross total assets before eliminations.

Broad-Based Products and Distribution

Aegon Americas offers a wide range of life insurance products, annuities and mutual funds. Aegon Americas was the leader in indexed universal life sales in 2017 and possesses a top-10 market position in individual term life and variable annuity (VA) sales. The company's strong market position helps it compete effectively by providing scale and brand recognition.

Aegon Americas utilizes multiple distribution channels for life product offerings, including independent brokerage distributors and agency channels with career agents. In recent years, the company shifted its portfolio away from capital-intensive products towards fee-based products. Additionally, the company has focused on simplifying its product portfolio and distribution model, eliminating noncore aspects. In 2017, the company executed a reinsurance transaction with Wilton Re Ltd. to reinsure 100% of its runoff bank-owned/corporate-owned life insurance (BOLI/COLI) and payout annuities. Additionally, in 2017, the company reduced its runoff life reinsurance business, divesting a legacy block of term insurance to SCOR S.E.

In 2015, Aegon Americas acquired Mercer HR Services, LLC's defined contribution (DC) recordkeeping business. The acquisition provided scale, as the company is now in the top 10 in the DC space based on plan participants and assets under management. The company aims to grow its DC mega-plans, and increase its cross-sale opportunities by providing an integrated retirement and voluntary benefits solution. Aegon Americas is also focused on improving its digital capabilities in order to improve its customer experience. In 2018, the company signed a multiyear agreement with Tata Consultancy Services (Tata) to administer its life and annuity and supplemental health business lines.

Department of Labor Fiduciary Rule Vacated

As a top-10 VA seller, the proposed U.S. Department of Labor (DOL) fiduciary rule would have affected Aegon Americas. In March 2018, the U.S. Court of Appeals for the Fifth Circuit vacated the rule entirely, a ruling that the DOL did not appeal. The DOL fiduciary rule would have subjected commission-based products such as VAs and fixed-indexed annuities to considerably more stringent compliance requirements when sold into qualified accounts. Aegon Americas and other insurers selling affected products made various changes to their distribution strategies and compensation structures to comply with the proposal, which Fitch expects to endure. Favorably, 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.

Related Criteria

Insurance Rating Criteria (November 2017)

Sovereign- and Country-Related Constraints

Fitch rates the local currency sovereign obligations of the United States of America at 'AAA' with a Stable Outlook, and the Country Ceiling is similarly 'AAA'.

The local currency sovereign rating expresses the maximum limit for local currency ratings of most, but not all, issuers in a given country. At current levels, the ratings of U.S. insurance organizations and other corporate issuers are not likely to be constrained by sovereign or macroeconomic risks.

Ratings Range Based on Business Profile

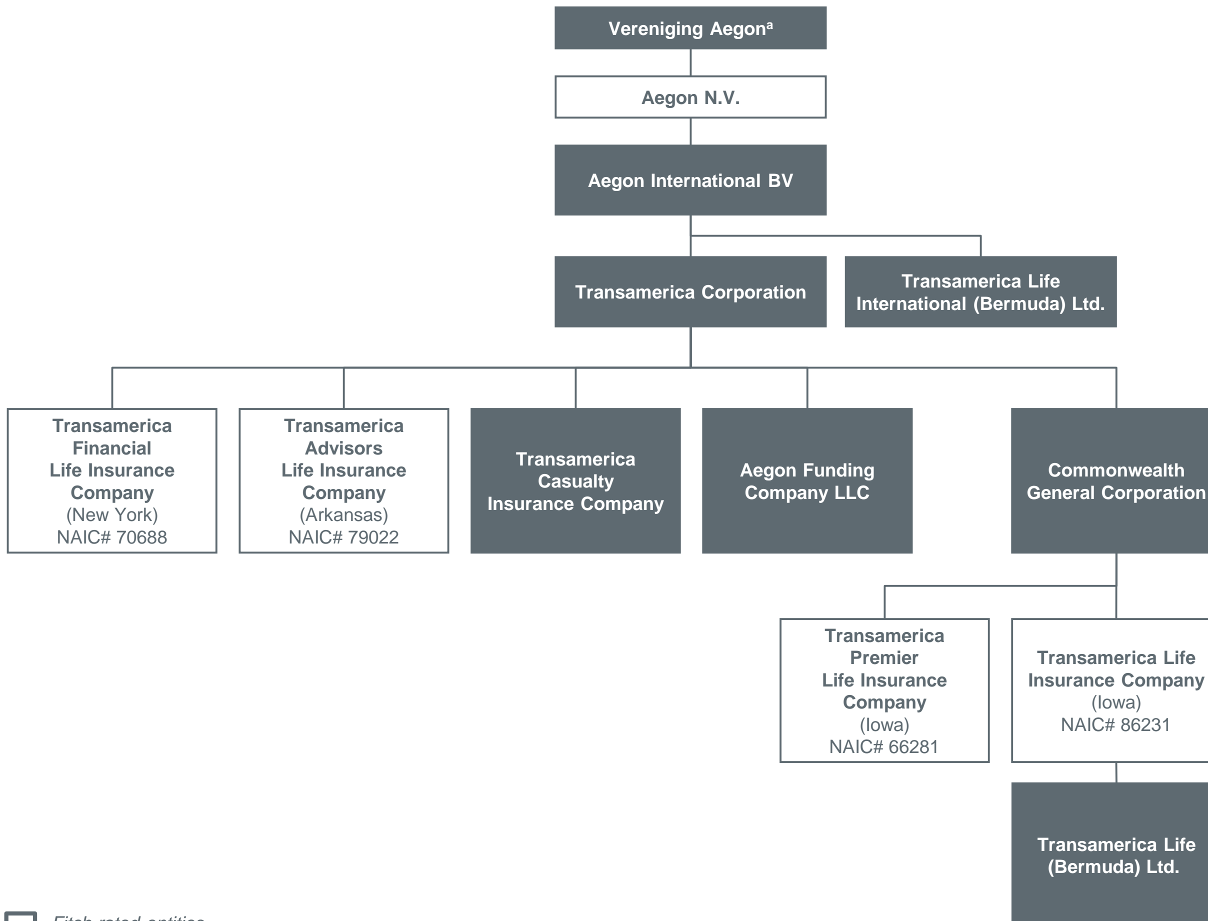
IFS Rating Category	AAA	AA	A	BBB	<BBB
Very Strong Business Profile					
Strong Business Profile					
Moderate Business Profile					
Weak Business Profile					

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.

Simplified Organizational Chart — Aegon Americas



[a]Owns 14% of Aegon N.V.
Source: Aegon Group, U.S. operations, Fitch Ratings.

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.

Industry Profile and Operating Environment

U.S. 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 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.

Fitch revised the sector outlook to stable from negative due to better than expected operating performance and a benign credit environment, which is expected to persist over the near term. Recent results benefited from favorable conditions in the equity and credit market, and the rise in interest rates post-election.

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 behavior.

Cyclical improvement in the U.S. 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 normalize, which would be a credit positive for life insurers. Modest credit-related investment losses reported in recent years are expected to continue in 2018.

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. Fitch views the company's diversity of earnings within the U.S. and market discipline as distinguishing factors in peer comparisons.

Aegon Americas' profitability, which is based on IFRS accounting and unlevered unlike its peers, is at the lower end of this peer group. The company's balance sheet metrics compare favorably with most peers in terms of operating leverage and asset leverage, while its capitalization, as measured by its RBC ratio is in line with peers. Investment risk, as measured by the risky asset ratio is well below Metlife, Inc. and near the median for this peer group.

Peer Comparison

($ Mil., YE 2017)	IFS Rating	RBC (%)	TAC ($ Mil.)	Assets/ TAC (x)	Operating Leverage (x)	Risky Assets/ TAC (%)	Financial Leverage Ratio (%)	ROA (%)	ROE (%)
Aegon Americas	A+	472	8,681	25	8	74	29	0.6	8
Principal Financial	AA–	443	6,047	31	11	90	22	0.8	14
Prudential Financial	AA–	529	21,699	27	7	65	25	0.8	14
Metlife, Inc.	AA–	388	16,179	26	16	180	30	0.7	9
Lincoln National	A+	489	9,187	28	11	54	23	0.8	13
Voya Financial.	A	484	6,676	30	13	73	32	0.4	9

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. 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, SNL Financial.

Capitalization and Leverage

($ Mil.)	2013	2014	2015	2016	2017
Total Adjusted Capital	9,197	10,710	9,982	8,835	8,681
RBC[a] (%)	442	540	460	440	472
Asset Leverage (x)	22	20	21	24	25
Operating Leverage (x)	9	7	8	9	8

[a]RBC shown is for Aegon Americas consolidated. Note: U.S. statutory data. Excludes restatements.
Source: Fitch Ratings, SNL Financial.

Fitch's Expectations

U.S. consolidated RBC is expected to decline towards the middle of the company's target range of 350%–450%.

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.

Very Strong Operating Company Capitalization

- U.S. statutory capital position remains very strong.
- Capitalization benefits from captives.
- TFC ratio is above average.
- Parent financial leverage is stable.

U.S. Statutory Capital Position Remains Very Strong

Fitch views Aegon Americas' risk-adjusted capital and combined group capital position as key ratings strengths. Aegon Americas' RBC ratio increased to 490% as of 1H18 from 472% at YE 2017, exceeding its target range of 350%–450%. The ratio increased in 2017 as a result of a 12% reduction in required capital due to the Wilton Re reinsurance transaction, which was partially offset by a 16-percentage point unfavorable impact relating to tax reform. Total adjusted capital continued to decline, falling 2% to $8.7 billion, as the company returned approximately $1.6 billion to its parent company. The U.S. operation has been generally self-funding in capital needed to invest back into the business and support growth. 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 are improved due to the transfer of reserves to third-party and captive reinsurers. Aegon Americas uses its captives primarily to manage statutory reserves and capital requirements associated with its term and universal life (UL) with no-lapse guarantee products. At YE 2017, the company's operating subsidiaries recognized $12.1 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.

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, 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 Ratio Is Above Average

Aegon N.V's 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 largely by Aegon Americas' use of XXX and AXXX funding, security lending and Federal Home Loan Bank (FHLB) borrowings. As of YE 2017, Aegon Americas' FHLB borrowings in the form of debt totaled approximately $5 billion. Aegon Americas' TFC ratio of 1.3x at YE 2017 was over twice the life industry average of 0.6x.

Parent Financial Leverage Is Stable

Aegon N.V.'s financial leverage as calculated by Fitch remained at 29% at YE 2017. Fitch expects financial leverage to remain within the 26%–30% range in 2018. A sustained increase in financial leverage to above 30% could lead to a downgrade.

Financial Performance and Earnings

($ Mil.)	2013	2014	2015	2016	2017
Net Underlying Earnings	1,280	1,082	1,100	1,059	1,158
Net Income	540	784	(261)	618	1,762
ROA (%)	0.7	0.6	0.6	0.6	0.6
Return on Capital (%)	7.0	6.2	6.8	7.3	7.9
Asset Growth (%)	2	5	(6)	4	4

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

Fitch's Expectations

Underlying earnings are expected to improve in 2018. Run-rate net underlying earnings are expected to be in the $1,200 million–$1,500 million range. IFRS return on capital is expected to exceed 8% in 2018, reflecting a reduced tax rate, increased expense savings and the release of runoff capital from transactions in 2017.

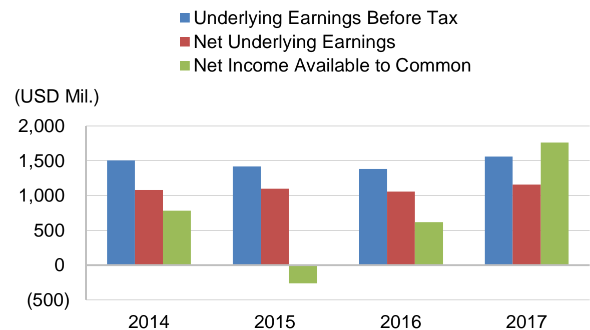
Profitability Below Ratings Expectations

- Turnaround plan in progress.
- Reducing noncore capital.
- Solid statutory dividend capacity.

Turnaround Plan in Progress

Aegon Americas' IFRS operating profitability continued its improving trend in 2017. The company achieved further progress on its turnaround plan in 2017, which is centered around reducing expenses through the elimination of redundant processes and management delayering, as well as a reduced geographical footprint, disposing of noncore assets, raising rates on UL and LTC, and overhauling the company's product line and distribution channels. The company is targeting an annualized return on capital of 9% in 4Q18 and gross annual run-rate expense savings of $300 million. The outsourcing agreement announced with Tata will result in transition and conversion charges of $280 million, but over time is expected to reduce run-rate expenses by up to $100 million.

Aegon Americas Earnings



Source: Company, Fitch Ratings.

After-tax underlying earnings increased 9% in 2017 to $1.2 billion, while the company's return on capital improved by 60bps to 7.9%, reflecting expense reductions, improved claims experience and higher fee revenue due to favorable equity markets. Results also benefitted from the release of capital supporting runoff businesses. Partially offsetting this was continued outflows associated with the business acquired from Mercer, although this was largely consistent with pricing assumptions. Net income exceeded underlying earnings in 2017, as it included a favorable impact from tax reform of over $600 million, in addition to net gains on divestments of runoff businesses and fair value items, which were partially offset by over $400 million in other charges related to model updates.

Results continue to exhibit an improving trend in 1H18, with a return on capital of 8.3%, benefitting from reduced runoff capital and lower expenses, which were partially offset by elevated mortality experience.

Reducing Noncore Capital

Aegon Americas reduced its capital allocated to runoff businesses in recent years to $400 million at YE 2017 from $5.1 billion in 2010. In June 2017, the company executed the aforementioned reinsurance transaction with Wilton Re. to reinsure 100% of its BOLI/COLI and

payout annuities. The divestment produced a $250 million gain overall, due to the realization of deferred gains on related derivatives, which was offset by the loss on the reinsurance transaction itself. Additionally, the company divested its runoff reinsurance blocks to SCOR S.E. Fitch views these transactions favorably in that they freed up approximately $850 million of capital and achieved the company's goal of reducing capital allocated to runoff businesses by $1.0 billion by 2018.

The capital released from the divestments was upstreamed to the holding company, which will improve Aegon Americas' return on capital by approximately 45bps–50bps in 2018. The runoff operations, which produced a return on capital of 3% in 2017, are a drag on reported results due to their low profitability and high capital requirements. The remaining runoff businesses are institutional spread-based business and VA reinsurance.

Solid Statutory Dividend Capacity

Statutory return on capital declined to 9% in 2017, but Aegon Americas remains an important and consistent source of funding for Aegon N.V. The company normally returns approximately $1 billion annually to parent, Aegon N.V. Additional capital was returned in 2017, which reflected the release of runoff capital. Fitch estimates that Aegon Americas ordinary statutory dividend capacity without prior regulatory approval is $1.5 billion in 2018.

Investment and Asset Risk

	2013	2014	2015	2016	2017	Fitch's Expectations
Cash and Invested Assets ($ Mil.)	83,924	83,849	82,160	84,163	75,847	Cash and invested assets invested assets are expected to remain near the current level. Risky assets will remain modestly 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 (%)	51	38	38	46	41	
Risky Assets Ratio (%)	80	68	77	82	74	
Investment Yield (%)	4.5	4.5	4.5	4.8	4.8	

TAC – Total adjusted capital.
Source: Fitch Ratings, SNL Financial.

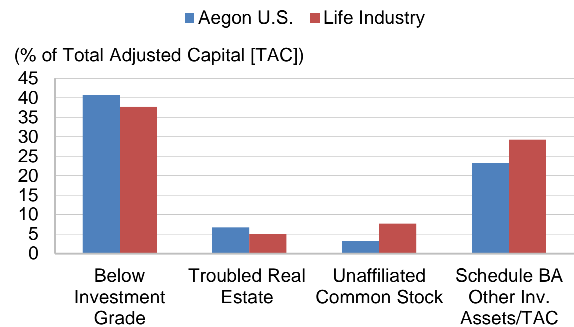
Moderate Investment Risk

- Portfolio risk in line with industry.
- Credit performance remains strong.

Portfolio Risk in Line with Industry

Aegon Americas' risky asset ratio fell 8 percentage points to 74% at YE 2017 as surplus exposure to below investment-grade bonds declined. The ratio compares favorably with the industry average of 80%. Fitch notes that the credit quality of Aegon Americas' bond portfolio was largely consistent with the prior year, but the allocation to bonds declined, causing the improvement.

Risky Asset Ratio
(As of Dec. 31, 2017)



Source: SNL Financial, Fitch Ratings.

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 cash, U.S. Treasury securities and federal agency-backed securities, which accounted for 23% of invested assets at YE 2017, a 3-percentage point increase from the prior year as the company increased its exposure to long-duration Treasurys through FHLB advances in order to reduce its duration mismatch.

Exposure to non-agency structured securities is not outsized, but is diversified and of good credit quality, with nearly 80% investment grade based on the National Recognized Statistical Rating Organization (NRSRO) 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 $19 million, or 3 bps, in 2017, down modestly from the prior year, and well below the company's historical averages as corporate bond defaults remain low and securitized assets continue to recover. Aegon Americas' moderate credit risk is primarily concentrated in exposure to residential mortgage-backed securities and commercial mortgage-related investments, which together comprise nearly 20% of invested assets. Mortgage performance has been good with low delinquencies and foreclosures, and strong loan-to-value and debt service coverage metrics. Aegon Americas' retail exposure is in line with the industry, comprising 20% of its mortgage loans. Favorably, the exposure is high quality and performing well.

Asset/Liability and Liquidity Management

	2013	2014	2015	2016	2017	Fitch's Expectations
Liquidity Ratio (%)	98	96	92	82	73	Fitch does not anticipate any material deviations in Aegon's sound asset/liability liquidity management in the near term.
Operating Cash Flow Coverage (x)	1.0	1.1	1.0	1.1	1.0	
Total Adjusted Liabilities and Deposits ($ Mil.)	189,380	198,486	197,903	204,051	207,801	

Source: Fitch Ratings, SNL Financial.

Sound Asset/Liability and Liquidity Management

- VA guarantee risk is reasonably managed.
- Declining duration mismatch.
- Sizable LTC block.
- Liquidity in line with industry.

VA Guarantee Risk Is Reasonably Managed

Fitch views Aegon Americas' economic hedging program of capital market-related risks associated with its $76 billion in VA reserves at YE 2017 to be reasonably sound and effective in recent years. Aegon Americas manages the risk to statutory capital from large equity market declines through a macro hedge strategy and de-risking of living benefit guarantees on new business. In 2017, the company updated its macro hedge program to be 100% option-based rather than using swaps and futures in order to reduce potential losses in an up market. Additionally, the company has dynamic hedges in place for delta, rho, gamma and vega risk. 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.

As a top-10 seller of VAs, Aegon Americas has significant exposure to VA benefit guarantees. Nearly 60% of its VA exposure contains living benefit guarantees, which leads to inherent reserve and capital volatility due to the difficulty in hedging uncertain policyholder behavior. The company's VA gross deposits continued to decline in 2017, falling 27%, reflecting lower demand due to the overhang of the DOL fiduciary rule. Additionally, sales volumes declined over recent years as a result of changes to its fund lineup and modification of its fees and benefits in the current low interest rate environment. At YE 2017, the company's closed block of VAs comprised 15% of its exposure, which the company managed down over time through lump sum offerings.

Declining Duration Mismatch

Fitch views Aegon Americas' duration mismatch as modestly wider than the life industry average, driven partly by its legacy products, particularly LTC, but notes that it declined in 2017 as the company lengthened its assets and disposed of its long-duration payout annuities in the transaction with Wilton Re. 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 2017, the company had positive surplus under all scenarios.

Sizable LTC Block

Aegon's cash flow testing results are somewhat pressured in low interest rate scenarios as a result of its LTC block. At YE 2017, the company had $6 billion in LTC reserves on an IFRS

basis. 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.

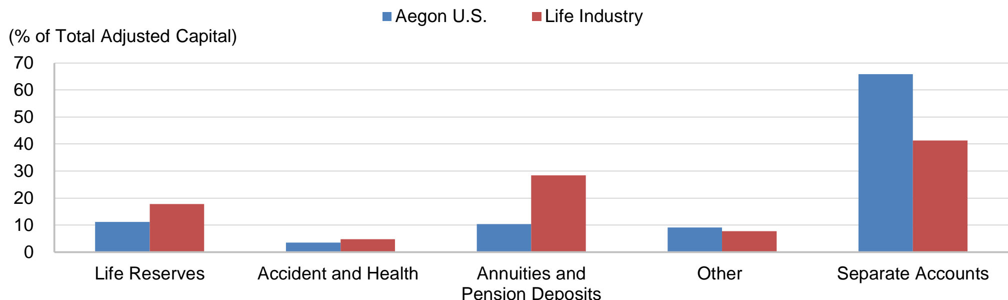
While the product is written on a guaranteed renewable basis, which allows the insurer to increase premium rates on in-force business based on emerging claims experience, premium rate increases are subject to regulatory approval. Aegon Americas has sought premium rate increases with approximately 75% of targeted increases achieved to date. 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 a $700 million pretax impact. Industry participants are mixed on whether this phenomenon exists among the insured population. Fitch notes that on an IFRS basis, which reflects best estimate assumptions, the company's actual to expected results have been tracking near 100% over recent years.

Liquidity in Line with Industry

Fitch views Aegon Americas' liquidity as in line with the industry. While the liquidity ratio declined over recent years as a result of an increasing proportion of its liabilities subject to discretionary withdrawal, it was consistent with the industry at 73% at YE 2017. 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, 64% could be withdrawn at book value with minimal or no surrender charges or adjustment, twice the industry average.

Adjusted Liabilities and Separate Accounts
(As of Dec. 31, 2017)



Source: SNL Financial, Fitch Ratings.

Appendix A: Additional Financial Exhibits

Outstanding U.S. Debt

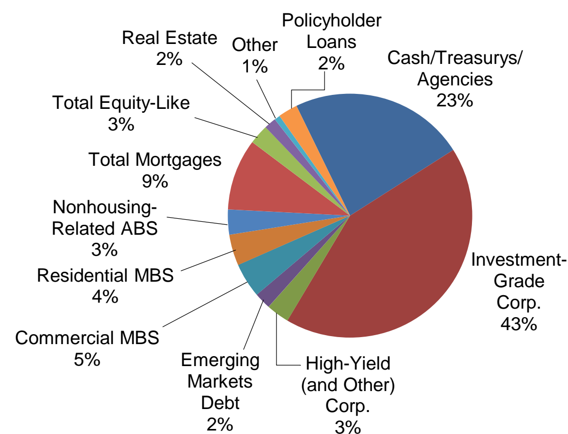
($ Mil., As of Dec. 31, 2017)

Description	Maturity	Amount
Commonwealth General Corporation		
Medium-Term Notes	2021	5
Medium-Term Notes	2022	10
Medium-Term Notes	2025	34
Medium-Term Notes	2026	14
Total	—	**63**
Transamerica Corporation		
Trust Pass-Through Securities	2026	87
Trust Pass-Through Securities	2037	46
Total	—	**133**
Aegon Funding Company		
Senior Notes	2020	500
Total Guaranteed by Aegon N.V.	—	**696**

Source: Aegon Americas, Fitch Ratings.

Aegon Americas Investments General Account

(As of Dec. 31, 2017)



MBS – Mortgage-backed securities. ABS – Asset-backed securities.
Source: Company reports.

Appendix B: Other Ratings Considerations

Other Ratings Considerations

Below is summary of additional ratings considerations of a technical nature that are also 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, intercompany reinsurance support and capital market transactions supporting the Core status.

Complete Ratings List

Issuer	Security Class	Rating
Transamerica Life Insurance Co.	IFS	A+
	Short-Term IFS	F1
Transamerica Financial Life Insurance Co	IFS	A+
Transamerica Premier Life Insurnace Co.	IFS	A+
	Short-Term IFS	F1
Transamerica Advisors Life Insurance Co.	IFS	A+
Aegon Funding Company LLC	Senior Unsecured Debt	BBB+

IFS – Insurer Financial Strength.
Source: Fitch Ratings.

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

The short-term IFS was notched using standard long-term and short-term ratings equivalencies, per Fitch criteria.

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: CAR % shows portion of hybrid value included as available capital, both before Fitch and the regulatory override. For FRL, % shows portion of hybrid value included as debt in numerator of leverage ratio.

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.

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