

**State of Domicile:** Iowa  
**Holding Company:** Aegon N.V.  
**Type:** Stock  
**Incorporated:** 1860

**Ratings as of:** **March 2018**  
**Moody's:** A1/Stable  
**S & P:** AA-/Negative  
**Fitch:** A+/Stable

AEGON USA represents a major part of Netherlands-based AEGON N.V. America's business unit, and is the parent of Transamerica Premier Life Insurance Co. (former known as Monumental Life Insurance Co.), Transamerica Financial Life Insurance Co., and Transamerica Life Insurance Co. In August 2014 AEGON USA announced plans to rename and merge some of its statutory insurance companies further consolidating its Transamerica brand. Monumental Life Insurance Co. changed its name to Transamerica Premier Life Insurance Co., and Western Reserve Life Assurance Co. of Ohio were merged into the new entity. Transamerica Advisors Life Insurance Co. of New York was merged into Transamerica Financial Life Insurance Co.

AEGON USA focuses primarily on individual life, individual variable annuities, defined contribution retirement plans, and fixed annuities. The U.S. group ranks among the top ten providers of individual life insurance and variable annuities. The company also sells long-term care insurance and maintains a legacy book of long-term care policies. Historically, AEGON USA has been a major provider of institutional investment products, such as GICs and funding agreements, but the group has decided to deemphasize its spread-based business and pursue fee-based revenues from asset management and retirement services. AEGON USA has a strong distribution diversity, with key channels that include independent and career agents, financial institutions and at the same time the company has been investing in digital capabilities. U.S. operations are the most significant contributor to group earnings, representing 61% of AEGON N.V. earnings in 2017, followed by 31% earnings contribution from Europe, 6% from Asset Management and 2% from Asia.

Aegon N.V. is an international provider of life insurance, pensions and asset management products with businesses in more than 20 markets in the Americas, Europe and Asia, and just over EUR 817 bn in revenue-generating investments. AEGON N.V. has stated its strategic priorities are to reallocate capital to businesses with higher growth and return prospects, improve growth and returns from existing businesses, reduce financial market risk, and manage the group as an international company. As of YE2017 fee-based businesses contributed to 45% of total Aegon's earnings, as the company focused on growing fee and protection businesses. Aegon USA continues to grow its life insurance and retirement businesses while de-emphasizing its non-core businesses such as institutional life insurance and payout annuities. As part of a capital preservation strategy, AEGON received EUR 3 billion from the

Dutch government during the fourth quarter of 2008, a portion of which was down streamed to the US operations to restore statutory capital levels that had been depleted by investment losses. During 2Q11, AEGON repaid the remaining EUR1.1 bn of capital support to the Dutch government, partially financed by proceeds received by the sale of Transamerica Re (EUR 900mm). Reinsurance is a high risk business with significantly more earnings volatility than direct life insurance, and the divestiture of this unit was a large step forward in the group's de-risking initiative. In 2014 Aegon announced the sale of its Canadian operations for CAD 600 mn and the sale of its 35% share in La Mondiale Participations for EUR 350 mn. In 2015 Aegon USA acquired the defined contribution pension recordkeeping business of Mercer HR Services with the goal of increasing pension sales. In 2016 Aegon UK sold its annuities business and acquired BlackRock's UK defined contribution business and Cofunds, UK investment platform for financial advisers and institutional clients, further growing its UK pensions business. In 2015 the Financial Stability Board added Aegon N.V. to the list of G-SIIs (global strategically important insurers) which will likely result in higher capital requirements and closer regulatory scrutiny.

In 2017 Aegon N.V. reported underlying earnings before tax of EUR 2.1 bn, up 10% y/y on sales of EUR 16 bn, up 36% y/y. The strong increase in sales was the result of a 54% increase in gross deposits to EUR 35 bn, primarily driven by strong deposits across all regions in Asset Management, and institutional platform sales in the United Kingdom. Aegon Americas reported underlying earnings before tax of \$1.4 bn, up 11% y/y as lower expenses more than offset weaker sales trends. Aegon Europe and the UK reported earnings of EUR 707 mn, up 8% y/y as a result of higher UK platform deposits and savings deposits in the Netherlands. Aegon Asia had earnings of \$55 mn, double y/y on improvement in life sales and strong results in high net worth businesses. Aegon Asset Management reported underlying earnings of EUR 136 mn in 2017, down 9% y/y due to lower management fees while assets under management stood at EUR 318 bn, down 4% y/y.

Group capital position improved significantly throughout 2017. Aegon N.V.'s Solvency II ratio increased to 201% as of YE2017. Excess capital at the holding company increased to EUR 1.4 bn and gross financial leverage was 28.6% while fixed charge coverage ratio was 8x as of YE2017. Aegon targets a gross financial leverage ratio of 26-30% and a fixed charge coverage of 6-8x. During 2017 Aegon received EUR 800 mn of dividends from its business units, including EUR 625 mn from the US and

EUR 167 mn from the UK. The company ended 2017 with EUR 396 bn in total assets and EUR 24 bn in shareholders' equity. Capitalization of Aegon's operating insurance subsidiaries was well in excess of minimum regulatory requirements. At YE2017 the combined Risk-Based Capital ratio of Aegon's life insurance subsidiaries in the U.S. was 472% (company action level), above the high-end of the company's 350-450% target range. We note that RBC ratio partially benefits from the use of reinsurance transactions including through captives which diminishes the quality of regulatory capital. Aegon USA has a strong liquidity position with a highly liquid investment portfolio.

Aegon held EUR 137 bn of general account investments with Americas at EUR 73 bn, Europe and the UK at EUR 58 bn, and Asia at EUR 5 bn. Aegon Americas' current investment strategy favors high-grade bonds, such as U.S. Treasuries, agencies and investment-grade corporate bonds. Investment portfolio is well-diversified and liquid. High risk investments such as high-yield and structured securities are declining. Average bond quality of Aegon Americas portfolio was A. Aegon Americas general account was mainly invested in Investment-Grade Corporates (48%), followed by Cash/Treasuries/Agencies (20%), Commercial MBS (6%), Residential MBS and ABS (8%), Commercial Mortgage Loans (9%), Equity (1%) and Other, including Alternative Investments (8%). Gross impairments in the portfolio remain below historical industry averages (i.e. 20-30 basis points per annum).

AEGON has incurred various charges in recent years related to revised risk assumptions on certain insurance products as well as reserve strengthening for annuity guarantees, which has led to earnings volatility. These actions were taken to reduce risk on in force policies, which combined with a focus on effective hedging strategies, should help improve overall balance sheet strength. There are still concerns regarding products exposed to low interest rates and equity market volatility, but it appears that the company is taking the necessary measures to effectively manage its risk. De-risking through asset and business divestments, hedges against annuity risk, and dividend curtailment have helped AEGON preserve its capital adequacy and will contribute to stronger statutory profitability going forward. AEGON USA has a strong competitive position supported by well recognized brand in Transamerica, economies of scale, and strong distribution capabilities across diverse business lines.

#### Strengths:

- Very strong, diversified competitive position in the U.S. life insurance, annuity, and pension markets.
- Strong franchise and scale in its main markets, the US, the Netherlands and the UK, with top 10 or better market position for its products.
- Good liquidity and ALM management.
- Strategic importance of AEGON USA to parent AEGON N.V., which enhances financial flexibility and provides ratings support.

#### Weaknesses:

- Relatively weak profitability due to pressure from pricing competition and low interest rates in the main markets.
- Significant equity market risks and hedging challenges through a sizable and growing portfolio of variable annuities with benefit guarantees.
- Exposure to interest rate risk through a growing portfolio of no-lapse universal life and long-term care liabilities, and through a legacy fixed annuity portfolio.
- Growing use of on- and offshore captives weakens the quality of reserves and regulatory capital.
- Potential decline in revenues due to the impact of Department of Labor Fiduciary Rules on VA and IRA sales.

#### Key Statistics – Transamerica Premier Life Insurance Co.

(\$ millions)	2013	2014	2015	2016	2017
Total Assets without Separate Account	\$17,354	\$20,176	\$20,330	\$19,413	\$24,994
Separate Account Assets	\$14,526	\$22,072	\$21,320	\$22,102	\$24,947
Total Assets	\$31,880	\$42,248	\$41,649	\$41,516	\$49,941
Capital & Surplus	\$971	\$1,775	\$1,508	\$1,678	\$1,593
Net Gain from Operations before Tax	\$202	\$531	\$205	\$366	\$185
Net Realized Capital Gains (Losses)	(\$11)	\$16	(\$21)	(\$11)	\$411
Net Income	\$167	\$351	\$214	\$339	(\$308)
Return on Average Assets (Stat.)	0.53%	1.06%	0.51%	0.79%	-0.72%
Return on Average Equity (Stat.)	19.42%	35.63%	12.15%	22.35%	-19.44%
RBC Ratio (ACL)	666.77%	994.62%	829.42%	807.38%	772.47%

Sources: Company Reports and Statutory Filings