Transamerica Life Insurance Company (Aegon)

Credit Summary Report | June 2021

State of Domicile:	Iowa	**Ratings as of:**	June 2021
Holding Company:	Aegon N.V.	**Moody's:**	A1/Negative Outlook
Type:	Stock	**S & P:**	A+/Stable Outlook
Incorporated:	1860	**Fitch:**	Not Rated

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 with EUR 941 bn in revenue-generating investments. Transamerica Corporation is the holding company for the US operations and is the parent of Transamerica Life Insurance Company (TLIC) and Transamerica Financial Life Insurance Company. In October 2020, Transamerica Premier Life Insurance Company was merged into TLIC with TLIC as the surviving company. The US business represents approximately half of Netherlands-based Aegon N.V. sales and pre-tax earnings. The Netherlands is the second-largest earnings contributor for Aegon, with the group among top five life and pension providers, as well as mortgage originators. In the U.K. Aegon has a strong investment platform providing a broad range of investment, retirement solutions and protection products.

Transamerica (Aegon USA) is one of the leading life insurance companies in the United States and the largest of Aegon's operating units worldwide. Transamerica provides a wide range of life insurance, long-term care insurance and voluntary benefits (including supplemental health insurance), retirement plans, recordkeeping and advisory services, annuities, mutual funds and other long-term savings and investment products. Transamerica employs a variety of distribution models including working through third-party financial professionals, retail producers and agents and Transamerica registered investment advisors. The US business operates through two core business units, Workplace Solutions and Individual Solutions. Workplace Solutions offers retirement plan recordkeeping, advisory services, employee benefits (life insurance and supplemental health insurance), group annuities, collective investment trusts, health savings and flexible savings accounts, individual retirement accounts and stable value solutions. Individual Solutions offers annuities, mutual funds, supplemental health insurance, and life and LTC insurance.

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. In December 2020 Aegon outlined its business transformation plan with the company focusing on three core markets, three growth markets and one global asset manager. Three core markets are the United States, the Netherlands, and the United Kingdom. The businesses in the core markets will be separated into Financial Assets and Strategic Assets. Financial Assets are blocks of business that are capital intensive with relatively low returns on capital and will be closed for new sales. Strategic Assets are businesses with a greater potential for an attractive return on capital and well-positioned for growth. Aegon will aim to release capital from Financial Assets over time and reallocate capital to Strategic Assets and growth markets. Several Aegon USA product lines are considered Financial Assets and will be closed for new sales as of 1Q21. These are traditional, interest rate-sensitive living benefits and death benefits, currently available with variable annuities (VA), standalone individual LTC, and fixed indexed annuities. Strategic Assets are where Aegon USA is positioned for a greater potential for an attractive return on capital and growth. In Workplace Solutions, Aegon USA will continue to operate in the large market for retirement plans and enhance its focus on small to mid-size organizations and on employee benefits, stable value solutions and Transamerica Advice Center (TAC) businesses. Workplace Solutions will also continue to provide value-added services, such as Managed Advice and its proprietary investment solutions. In Individual Solutions, Aegon USA will focus on select life and investment products, including the sale of term life insurance, final expense whole life insurance, and indexed universal life insurance, and select mutual funds and individual retirement products, like accumulation VAs with limited interest rate sensitivity.

In 2020 Aegon reported underlying earnings before tax of EUR 1.7 bn, down 12% y/y: all business units except the United States showed improved performance, partially driven by expense savings. Results in the United States decreased due to the direct and indirect effects of the COVID-19 pandemic, namely adverse mortality and lower interest rates. In 2020 underlying earnings before tax in the Americas were EUR 820 mn, down 27% y/y due to the impact of lower interest rates and adverse mortality experience in the Life business, which was partly attributable to COVID-19. Favorable morbidity experience as a result of COVID-19, mostly related to the closed block of Long-Term Care insurance, as well as higher investment income and higher fees as a result of favorable equity market performance in Variable Annuities, were offset by the impact of lower interest rates and lower account balances in Fixed Annuities and the impact of outflows and contract discontinuances in retirement plans. In the Netherlands underlying earnings were EUR 665 mn, up 3% y/y as expense savings across all segments and higher earnings in the Banking and the Service business more than offset lower non-life earnings. In the UK underlying earnings were EUR 144 mn, up 3% y/y driven by higher underlying earnings before tax from the Digital Solutions business as a result of lower expenses and higher fee income from continued growth in platform assets, reflecting growth in the Workplace channel. Asset Management reported underlying earnings of EUR 182 mn, up 31% y/y mainly driven by the performance of Aegon's Chinese asset management joint venture.

In December 2020 Aegon introduced new three-year financial targets with the focus on deleveraging, expense reduction, free cash flow growth and shareholder returns. During 2020 Aegon's shareholders' equity increased by EUR 0.4 bn to EUR 22.8 bn, as lower interest rates and their impact on the revaluation reserve more than offset the adverse impact of currency movements. Aegon Group own funds amounted to EUR 18.6 bn on 12/31/20, up from EUR 18.5 bn a year ago. The increase was mostly driven by the positive impact from expected return on in-force business and the inclusion of Aegon Bank. The positive impact was partly offset by unfavorable market impacts triggered by the COVID-19 pandemic, reflected by a sharp decrease in interest rates, compounded by negative credit variances partly caused by widening of mortgage spreads. Aegon's Group Solvency Capital Requirement (SCR) amounted to EUR 9.5 bn on 12/31/20, up from EUR 9.2 bn in 2019. The SCR increased by EUR 300 mn since YE2019 and was mainly due to new business strain and the inclusion of Aegon Bank. As a result of these changes in own funds and SCR, the Group Solvency II ratio declined by 5%-points to 196% at YE2020. Gross financial leverage improved to EUR 6.0 bn at YE2020 compared to EUR 6.7 bn at YE2019, which was mostly the result of the repayment of USD 500 million senior debt in December 2020. Gross financial leverage ratio was 27.9% and fixed charge coverage ratio was 8.3x at YE2020. At YE2020 Aegon held a balance of EUR 1.1 bn in excess cash capital at the holding company, compared to EUR 1.2 bn at YE2019 with a target for excess cash of EUR 0.5 bn to EUR 1.5 bn. At YE2020 combined risk-based capital ratio of Aegon's life insurance subsidiaries in the United States was estimated to be 432% (compared to 470% in 2019) and within 350%-450% target range. The decrease was mainly due to negative market impacts driven by the decline of interest rates and adverse mortality experience impacted by the COVID-19. 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. Capitalization of Aegon's operating insurance subsidiaries was well in excess of minimum regulatory requirements.

At YE2020 Aegon held EUR 158 bn of general account investments with Americas at EUR 77 bn, The Netherlands at EUR 70 bn and the remainder in the UK and International. Aegon Americas' current investment strategy favors high-grade bonds, such as U.S. Treasurys, 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 (19%), Commercial MBS (4%), Residential MBS and ABS (6%), Commercial Mortgage Loans (11%), Equity and Other, including Alternative Investments (6%). Gross impairments in the portfolio remain below historical industry averages (i.e. 20-30 basis points per annum).

In February 2020 S&P downgraded Aegon Group's core operating subsidiaries, including Transamerica Life to A+ from AA-, the outlook is now Stable. The rationale for downgrade was more significant than peers' decline in profitability as a result of lower sales growth, high ongoing restructuring costs and hedging effects, as well as intensifying competition. Moody's has a Negative outlook on Aegon's rating reflecting the agency's concerns about lower than expected profitability for its rating level, significant exposure to interest sensitive liabilities, efforts needed to mitigate low interest rates, earnings volatility, and the inability to consistently build sales momentum.

Environmental, Social and Governance (ESG):

- Aegon is rated AA by MSCI. Aegon gets high marks on Insuring Health and Demographic risk, Governance and Responsible Investment by MSCI.
- In its Annual Report Aegon provides substantial amount of information on its ESG performance.
- In 2019 Aegon established the Responsible Business and Investment Committee (RBIC) which consists of selected Management Board members, Chief Investment Officers and other senior managers.
- In 2020 Aegon created new Global Corporate Sustainability Team and appointed Global Head of Corporate Sustainability, reporting directly into Aegon's new CEO, Lard Friese.
- Aegon is committed to the UN Sustainable Development Goals with contributions via product development to meet specific needs, as well as community involvement and broad philanthropic efforts.
- As a large asset manager, Aegon is committed to Responsible Investment as it integrates ESG into its decision-making across portfolios, actively engages with portfolio companies on ESG, as well as provides ESG-focused strategies and products.

Strengths:

- Very strong, diversified competitive position in the U.S. life insurance and accumulation businesses.
- Strong capital, good liquidity and ALM management.
- Extensive hedging program increasing resilience to market shocks.

Weaknesses:

- Execution risk with multi-year business transformation as capital is reallocated to strategic assets from financial assets.
- Relatively weak profitability due to pressure from pricing competition, low interest rates, lower margins in legacy long-term care business and adverse market conditions for variable annuities.
- Significant equity market and interest rate risk could result in capital volatility.
- Growing use of on- and offshore captives weakens the quality of reserves and regulatory capital.

Key Statistics – Transamerica Life Insurance Company

($ millions)	2020	2019	2018	2017	2016
Total Assets without Separate Account	$78,448	$44,471	$45,098	$44,488	$58,016
Separate Account Assets	$121,820	$85,721	$71,918	$80,820	$73,774
Total Assets	$200,268	$130,191	$117,016	$125,308	$131,790
Capital & Surplus	$8,110	$6,561	$5,778	$5,412	$5,235
Net Gain from Operations before Tax	$1,070	$3,017	($682)	($41)	$678
Net Realized Capital Gains (Losses)	$113	$241	($686)	($663)	($309)
Net Income	$1,291	$3,335	($1,339)	$381	$471
Return on Average Assets (Stat.)	0.91%	2.68%	-1.09%	0.29%	0.36%
Return on Average Equity (Stat.)	21.38%	50.58%	-23.56%	7.26%	8.24%
RBA Ratio (ACL)	819.24%	923.24%	941.86%	1007.88%	850.85%

Sources: Company Reports and Statutory Filings

Mellon's investment capabilities in fixed income, equities and multi-asset, and liquidity will be realigned with Insight Investment (Insight), Newton Investment Management (Newton) and Dreyfus Cash Investment Strategies (the "Reorganization"). The Reorganization is expected to occur in August 2021. As part of the Reorganization, Mellon's fixed income capabilities will transition to Insight, Mellon's equity and multi-asset capabilities will be transitioned to Newton, and Mellon will continue to operate its cash and liquidity business under the brand of Dreyfus Cash Investment Strategies. There will be no change to the firms' investment processes or philosophies during the transition period as a result of the change. Following the transition period, Mellon will continue to deliver institutional equity and fixed income index management.

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