Aegon USA

Transamerica Premier Life Insurance Co.

Credit Summary Report | March 2020

State of Domicile:	Iowa	**Ratings as of:**	March 2020
Holding Company:	Aegon N.V.	**Moody's:**	A1/Stable Outlook
Type:	Stock	**S & P:**	A+/Stable Outlook
Incorporated:	1860	**Fitch:**	A+/Stable Outlook

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 51% of AEGON N.V. earnings in 2019, followed by 40% earnings contribution from Europe, 6% from Asset Management and 3% 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 with EUR 898 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. 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 2017 Transamerica Life Insurance completed the sale of a majority of its US run-off payout annuity and COLI/BOLI businesses to Wilton Re, decreasing exposure to businesses susceptible to spread compression. In 2018 and 2019 Aegon divested its business in Ireland, Czech Republic and Slovakia and acquired the income protection service provider Robidus in the Netherlands, as it continued to optimize its portfolio and capital allocation across businesses. Financial Stability Board has Aegon N.V.

on the list of G-SIIs (global systemically important insurers) which will likely result in higher capital requirements and closer regulatory scrutiny.

In 2019 Aegon N.V. reported underlying earnings before tax of EUR 1.97 bn, down 4.9% y/y driven by the Americas segment as a result of lower fee revenues in Variable Annuities, the negative impacts from lower rates and developments in portfolios on intangibles in the Life business, and investments in the US businesses to support growth. The other contributor to the decrease in underlying earnings was Holdings, primarily due to more interest expense recorded via the income statement instead of directly through equity. In the Americas underlying earnings before tax in 2019 decreased by 8% y/y to EUR 1.1 bn caused by lower fee revenues in Variable Annuities, negative impacts from lower interest rates, tighter credit spreads and portfolios on intangibles in the Life business, and investments in the business to support growth. In Europe, underlying earnings before tax in 2019 increased by 4% y/y to EUR 875 mn as a result of growth in the Netherlands and the United Kingdom, more than offsetting the lower earnings from Southern & Eastern Europe due to the divestment of Aegon's businesses in the Czech Republic and Slovakia. In Asia, underlying earnings before tax improved by 7% y/y to EUR 62 mn in 2019. This was mainly driven by Aegon Insights, reflecting expense savings and favorable claims experience. Underlying earnings before tax from Asset Management decreased by 8% in 2019 to EUR 139 mn driven by Europe and the Americas, more than offsetting an increase of underlying earnings before tax in the Rest of World. Total Holdings costs amounted to EUR 227 mn in 2019 compared with EUR 188 mn in 2018. This is mainly due to the refinancing of debt as Aegon redeemed perpetual securities, for which the interest expense was recorded directly through equity, and issued dated (Tier 2) instruments, for which the interest expense is recorded through the income statement.

Group capital position weakened slightly as Aegon N.V.'s Solvency II ratio declined to 201% as of YE2019, from 211% a year ago but remained above 150-200% target range. Excess cash at the holding company was EUR 1.2 bn and gross financial leverage was 28.5%. Aegon targets excess cash of EUR 1 bn to EUR 1.5 bn and a gross financial leverage ratio of 26-30%. During 2019 Aegon received EUR 1.1 bn of dividends from its business units, including EUR 801 mn from the US and EUR 251 mn from the UK. The company ended 2019 with EUR 440 bn in total assets and EUR 22 bn in shareholders' equity. Capitalization of Aegon's operating insurance subsidiaries was well in excess of minimum regulatory requirements. At YE2019 the combined Risk-Based Capital ratio of Aegon's life insurance subsidiaries in the U.S. was 470% (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.

On March 19, 2020 Aegon provided an update on its capital position in light of the impact of COVID-19 outbreak. Aegon remains well capitalized with the Group's Solvency II ratio estimated at 190% at the end of the 1Q2020. The capital ratios of Aegon's businesses in the US, the Netherlands and the UK are all estimated to be well above the bottom-end of their respective target zones. This should allow for planned level of dividends to the Group, absent a further significant deterioration of COVID-19 and its impact on the financial markets. Further Aegon announced that it will comply with the calls from European Insurance and Occupational Pensions Authority and DNB, Aegon's principal regulator to temporarily postpone all dividend distributions due to COVID-19. Aegon will forgo its 2019 final dividend of EUR 0.16 per common share and will review opportunities for returning capital to its shareholders as soon as appropriate.

Aegon held EUR 145 bn of general account investments with Americas at EUR 73 bn, Europe and the UK at EUR 65 bn, and Asia at EUR 7 bn. 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 (47%), followed by Cash/Treasuries/Agencies (18%), Commercial MBS (5%), Residential MBS and ABS (6%), Commercial Mortgage Loans (12%), 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).

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.

In February 2020 S&P downgraded Aegon Group's core operating subsidiaries, including Transamerica Premier 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.

Environmental, Social and Governance (ESG):

- In its Annual Report Aegon provides a 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.
- 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, annuity, and pension markets.
- 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 ($6.1 bn of reserves), and through a legacy fixed annuity portfolio.
- Growing use of on- and offshore captives weakens the quality of reserves and regulatory capital.
- Uncertain impact of COVID-19 pandemic on operating results and capital.

Key Statistics – Transamerica Premier Life Insurance Co.

($ millions)	2019	2018	2017	2016	2015
Total Assets without Separate Account	$26,007	$24,340	$24,994	$19,413	$20,330
Separate Account Assets	$26,508	$23,296	$24,947	$22,102	$21,320
Total Assets	$52,515	$47,637	$49,941	$41,516	$41,649
Capital & Surplus	$2,308	$1,965	$1,593	$1,678	$1,508
Net Gain from Operations before Tax	$391	$639	$185	$366	$205
Net Realized Capital Gains (Losses)	$229	($72)	$411	($11)	($21)
Net Income	$579	$536	($308)	$339	$214
Return on Average Assets (Stat.)	1.15%	1.09%	-0.72%	0.79%	0.51%
Return on Average Equity (Stat.)	26.07%	30.93%	-19.44%	22.35%	12.15%
RBA Ratio (ACL)	940.35%	846.74%	772.47%	807.38%	829.42%

Sources: Company Reports and Statutory Filings

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