S&P Global
Ratings

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Aegon USA Group

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Aegon USA Group

SACP* Assessments					SACP*			Support			Ratings
Anchor	aa-	+	Modifiers	0	=	aa-	+	0		=	Financial Strength Rating: AA-/Negative/--
Business Risk			ERM and Management	0		Liquidity	0	Group Support	0		
Very Strong											
Financial Risk			Holistic Analysis	0		Sovereign Risk	0	Gov't Support	0		Holding Company Rating: A-/Negative/A-2
Very Strong											

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Very Strong

- Widely recognized Transamerica brand name with a multichannel distribution base;
- Strong competitor in each of its selected markets; and
- Constrained operating performance but likely to benefit from disciplined expense management.

Financial Risk Profile: Very Strong

- Very strong capitalization despite significant and consistent dividend contributions to parent AEGON NV and
- An intermediate risk position, supported by strong enterprise risk management (ERM) practices.

Other Factors

- We continue to view Aegon USA as core to its parent, AEGON N.V., due to its substantial contribution to the overall group's earnings and strategy.
- We view Aegon USA's ERM as strong and its management and governance as satisfactory, consistent with the practices of the overall group.

Outlook: Negative

The negative outlook on AEGON USA parallels our negative outlook on the Aegon N.V. group given Aegon USA's core group status. Similarly, any rating action at the group level would likely lead to a commensurate rating action on Aegon USA.

On a stand-alone basis, we expect that Aegon USA will maintain the strength of its balance sheet and the business and financial profiles of its operations. Specifically, we expect Aegon USA to maintain a very strong business risk profile, capital redundancy at least at the 'AA' confidence level, and strong ERM. We expect to continue viewing Aegon USA as core to Aegon N.V. given Aegon USA's importance to the overall group. Any material change to any of our expectations for Aegon USA would likely affect our assessment of the overall group.

Downside scenario

We could lower the ratings in the next 12 to 24 months if Aegon N.V.'s group credit profile changes. We could also lower the rating if Aegon USA's competitive position were to deteriorate due to a weakening market position, if operating performance declines relative to peers', or if capital adequacy drops significantly below the 'AA' confidence level for a sustained period. This could result from, for example, earnings compression or significant changes in the group's capital-management strategy.

Upside scenario

We could revise the outlook to stable if we revise our outlook on the overall Aegon group to stable.

Base-Case Scenario

Macroeconomic Assumptions

- U.S. economy continues to improve slowly, with real GDP growth of about 2.3% in 2017 and 2.4% in 2018.
- Average 10-year U.S. Treasury yield of 2.5% in 2017 and 3.0% in 2018.
- S&P 500 Index level of 2360.5 in 2017 and 2395.8 in 2018.

Source: "U.S. Economic Forecast: I'm Still Standing!" March 30, 2017.

Company-Specific Assumptions

- Capitalization will remain redundant at the 'AA' level.
- The company will maintain a strong market position for each of its different business lines.
- Earnings will gradually benefit from an increased focus on fee-based businesses and a decline in operating expenses.

Key Metrics

	--Year ended Dec. 31--				
	2018*	**2017***	**2016**	**2015**	**2014**
Return on assets (%)	0.4-0.8	0.3-0.7	0.7	0.3	0.5
S&P Global Ratings capital adequacy/redundancy	AA	AA	AA	AA	AA

*Forecast data reflect S&P Global Ratings' base-case assumptions.

Company Description: Leading North American Insurer With A Widely Recognized Brand

Aegon USA is a leading player in the North American life insurance market. Operating under its well-known brand name, Transamerica, the company provides annuities, pension, life, and supplemental health insurance services. In recent years, the company has pivoted its business mix toward fee-based products, which now account for a sizeable portion of earnings. The group, operating under its parent, Aegon N.V., has recently undergone a rebranding campaign to consolidate and rebrand its multiple life insurance subsidiaries under the Transamerica brand. The company plans to capitalize on this successful brand and use this campaign to further leverage its growing business.

Business Risk Profile: Very Strong

Insurance industry and country risk: Modest economic growth prospects in a highly competitive market

Aegon USA faces low industry and country risk, driven by our view of low country and industry risks for its life insurance operations. Our view of Aegon USA's low country risk is driven by stable economic growth prospects, relatively effective and stable political institutions, sophisticated financial systems, and strong payment culture in the U.S. In our view, Aegon USA's life insurance operations are exposed to low industry risks due to moderate product risk, as demonstrated by a strong track record of maintaining asset-liability management mismatch within one year. The availability of fixed-income instruments of sufficient duration to match insurance liabilities in the capital markets greatly supports this capability. However, we see sensitivity to interest rates and equity-market volatility as offsetting this strength somewhat and burdening long-term operating return prospects. We believe a weak global economy, persistent low interest rates, and intense competition will limit the sector's growth prospects and potential for higher operating margins.

Table 1

Aegon USA Group/Industry And Country Risk

Insurance sector	Risk	Business mix (%)
U.S. life	Low	92
U.S. health	Low	7
U.S. property/casualty	Intermediate	1

Competitive position: Very strong

Aegon USA has a very strong competitive position, supported by the widely recognized Transamerica brand. The company also enjoys low-cost operations with economies of scale and very strong distribution capabilities across diverse lines of business. These provide for a diversified earnings profile with a well-balanced mix of individual life insurance, annuities, and retirement plans.

Aegon USA is a strong competitor in each of its selected markets. Although some of the company's largest markets are very competitive and have been characterized by a high degree of commoditization, the company has consistently ranked among the Top 10 players in those markets, including supplemental health and voluntary products. Based on 2015 Life Insurance Marketing and Research Association (LIMRA) data, the company ranked fifth in individual life sales and seventh in variable annuity (VA) sales in the U.S. However, recently VA sales have declined as a result of corrective pricing actions, and the Department of Labor fiduciary rule sales could affect sales further. On the other hand, the company is growing its presence in indexed universal life (IUL) and now ranks second in this market. It also holds a Top 10 position in the retirement segment following its acquisition of Mercer's U.S. defined contribution business.

Aegon USA relies on its very well-diversified distribution network, which include career agency, banking channels, and independent brokers, and at the same time, the company has been investing in digital capabilities. Its strategic alliance with World Financial Group has been particularly instrumental in growing the company's IUL business. Aegon USA is discontinuing some of its direct distribution channels that are no longer strategically aligned with its core product offerings, but this does not alter our views of the company's distribution strength or overall competitive position.

Aegon USA has been very focused on lowering on its overall expenses and has taken several actions to do so, including discontinuing certain products and distribution channels (mostly direct distribution), exiting locations, and lowering headcount. The company's disciplined expense management should improve the overall operating performance. Aegon USA's profitability continues to be constrained by the drag of low interest rates and unfavorable mortality experience. For 2016, Aegon USA's pretax operating earnings were about $1.4 billion, about 3% lower than same period the prior year. In addition, its total net deposits were down significantly following some anticipated contract discontinuances after the Mercer acquisition. While these outflows could continue this year, we expect Aegon USA's operating performance to gradually improve as a result of several cost-saving initiatives, paring noncore divisions, and a focused shift toward fee-based business. However, if the company's market share declines significantly in its core products or if the investments in new technology and business initiatives outweigh the benefits of cost savings, such that it dampens the overall operating performance, we could revise our view of the company's business risk profile.

Table 2

Competitive Position

	--Year ended Dec. 31--				
(Mil. $)	**2016**	**2015**	**2014**	**2013**	**2012**
Gross premiums and annuity considerations	23,597.5	29,095.9	33,365.5	27,524.5	24,214.4
Change in gross premiums and annuity considerations (%)	(18.9)	(12.8)	21.2	13.7	0.8
Net premiums and annuity considerations	23,019.5	23,691.4	27,927.4	23,189.3	19,082.6

Table 2

Competitive Position (cont.)					
	--Year ended Dec. 31--				
(Mil. $)	**2016**	**2015**	**2014**	**2013**	**2012**
Change in net premiums and annuity considerations (%)	(2.8)	(15.2)	20.4	21.5	15.4
Total assets under management	213,933.5	207,973.2	209,237.7	198,627.8	184,573.6
Growth in total assets under management (%)	2.9	(0.6)	5.3	7.6	2.4

Financial Risk Profile: Very Strong

Capital and earnings: Very strong

Aegon USA has consistently maintained very strong capital and earnings at the 'AA' confidence level, and its statutory risk-based capital ratio was 440% as of year-end 2016.

In our current assessment of Aegon USA's capital, for captives with unfunded solutions, we have excluded the letters of credit and other forms of parental guarantees as assets backing the liabilities in the captives, and we have incorporated these captives back into our group capital adequacy analysis. We view two funded captives as isolated, reflecting our view that there is a low likelihood that those operating entities will require additional capital. The overall result of this assessment was continued redundancy at 'AA' level.

While we expect Aegon USA to maintain redundancy at the 'AA' level, we expect the level of capital redundancy to diminish. This results from earnings strain as well as our belief that Aegon USA will likely use excess capital to fund new business initiatives and make dividend contributions to its parent. Although the implementation of the new bond factors will lower the reported NAIC risk-based capital ratio, it probably won't have a significant impact our capital assessment unless the company makes a material shift in its investment portfolio. Over the past few years, the company has been successful in strengthening its capitalization by divesting its noncore units, optimizing the value of its back books and thereby releasing the capital associated with those businesses or lowering the capital requirements. For example the company recently divested its U.S payout annuity business and the Bank Owned / Corporate Owned Life Insurance business (BOLI/COLI). We expect Aegon USA to maintain capital redundancy at least at the 'AA' level through 2017.

Table 3

Earnings Statistics					
	--Year ended Dec. 31--				
(Mil. $)	**2016**	**2015**	**2014**	**2013**	**2012**
Total revenue	30,035.3	30,080.4	37,810.9	29,864.0	23,399.6
EBIT adjusted	1,485.1	608.2	1,086.8	2,285.0	2,347.6
Net income	1,106.0	198.7	911.6	909.4	1,843.2
Return on revenue	4.9	2.0	2.9	7.6	10.0
Return on assets (excluding realized gains/losses)	0.7	0.3	0.5	1.2	1.3
Return on capital and surplus (%)	12.6	2.1	10.4	11.2	23.1
Expense ratio (%)	11.8	12.2	12.1	10.1	10.7
General expense ratio (%)	5.9	5.8	5.0	5.5	6.5

Table 3

Earnings Statistics (cont.)

	--Year ended Dec. 31--				
(Mil. $)	**2016**	**2015**	**2014**	**2013**	**2012**
Prebonus pretax earnings/total assets (%)	0.7	0.3	0.5	1.2	1.3

Table 4

Risk Position

	--Year ended Dec. 31--				
(Mil. $)	**2016**	**2015**	**2014**	**2013**	**2012**
Total invested assets (incl. affiliated investments)	84,295.1	82,283.1	83,947.4	84,022.8	87,531.2
Change in total invested assets (%)	2.4	(2.0)	(0.1)	(4.0)	(5.7)
Separate account assets	124,860.4	121,811.0	121,314.6	110,813.4	93,047.8
Net investment income	3,842.2	3,664.1	3,729.9	3,819.9	4,530.8
Realized capital gains/(losses)	(427.4)	(439.5)	162.5	(1,592.2)	(423.9)
Net investment yield (%)	4.6	4.4	4.4	4.5	5.0
Portfolio composition (% of general account invested assets)					
Cash and short term investments	3.8	4.3	5.0	3.5	7.7
Bonds	70.7	69.2	70.2	72.1	69.4
Unaffiliated equity investments	0.1	0.1	0.1	0.1	0.2
Real estate	0.4	0.4	0.2	0.2	0.2
Mortgages	10.2	9.8	9.8	9.6	9.6
Investments in affiliates	4.8	5.4	3.9	3.5	3.5
Investments in partnerships, joint ventures, and other alternative investments	0.9	1.1	1.2	1.3	1.4
Other investments	9.0	9.7	9.7	9.7	8.1

Risk position: Intermediate

Aegon USA has an intermediate risk position, reflecting its strong investment portfolio diversification, with a weighted average bond quality of 'A', and moderate sector concentration. In our view, its exposure to high-risk assets, which make up about 71% of total adjusted capital, is neutral to the rating. For year-end 2016, Aegon USA's investment portfolio's approximate composition was as follows: cash and government securities (20%), corporate bonds (48%), mortgage-backed and asset-backed securities (8%), commercial-backed securities (6%), mortgage loans (9%), equity (1%), and other (including alternative investments) (8%). Although the company's alternative investment portfolio has experienced some earnings volatility, the increasing share of investment-grade securities--especially government securities--demonstrates that the company continues to lower the risk in its portfolio. We believe Aegon USA's investment portfolio is equipped with comprehensive credit limits, and we expect the company to maintain a high-quality portfolio that is supportive of its liability profile. The company does not have any pension obligations at the U.S. statutory entity level.

Table 5

Capitalization Statistics					
	--Year ended Dec. 31--				
(Mil. $)	2016	2015	2014	2013	2012
Total assets	213,933.5	207,973.2	209,237.7	198,627.8	184,573.6
Adjusted total assets	213,746.7	207,845.9	208,953.6	198,450.0	184,370.5
Capital and surplus	8,700.8	8,924.3	9,630.3	7,963.4	8,264.5
Change in capital and surplus	(2.5)	(7.3)	20.9	(3.6)	7.0

Financial flexibility: Strong

Aegon USA's strong financial flexibility is largely derived from the strengths of its parent, Aegon N.V. The consolidated Aegon N.V. group maintains strong financial flexibility, which the group's proven access to capital markets supports. In addition, Aegon N.V. has relatively limited capital needs for the next two years. Aegon N.V.'s financial leverage and coverage were about 32% and 7.0x, respectively, at year-end 2016, which was in line with our expectations for the overall group. We expect Aegon N.V.'s leverage and coverage to stay relatively stable and improve incrementally over time. Aegon N.V. guarantees the low proportion of consolidated long-term debt its U.S. subsidiaries issue. We do not expect the group to raise additional debt capital from its U.S. companies.

Table 6

Financial Flexibility					
	--Year ended Dec. 31--				
(Mil. $)	2016	2015	2014	2013	2012
Cash flows					
Net cash flow from operating activities	2,921.7	(1,173.5)	3,155.2	296.1	295.2
Net cash flow from investing activities	(2,661.4)	788.1	2,580.0	(1,957.7)	8,249.5
Net cash from from financing activities	(645.3)	(248.6)	(4,431.1)	2,150.6	(6,154.4)

Other Assessments

Enterprise risk management: Strong

We view Aegon N.V.'s ERM as strong and the importance of ERM to the ratings as high. Our assessment reflects our positive view of the risk-management culture, risk controls, and strategic risk management of the organization, which we consider complex. Aegon USA actively supports and is fully integrated into the group's risk management practices.

Through 2016, Aegon USA's exposure to credit risk and equity risk was mostly in line with, but close to, the set limits. The company is conducting a detailed model-validation exercise, as the aggregation of policies resulted in an understatement of reserves. This exercise included an external third-party review and should improve the difference between actual and expected mortality experience. The company has also reduced exposure to credit risk by easing its institutional spread and fixed-annuity businesses. Its interest rate exposure, on the other hand, continues to remain high, though the company has been largely successful in improving its duration-mismatch profile.

Management and governance: Satisfactory

We view Aegon USA's management and governance practices as satisfactory and highly consistent with the consolidated group's practices. This reflects our favorable view of the group's strategic planning process, well-constructed and comprehensive financial policies, well-articulated risk tolerances, and low appetite for unhedged direct exposure to equities.

Liquidity: Exceptional

Aegon USA has successfully managed the significant liquidity needs associated with the planned run-off of its institutional spread-based business. In 2015, the company had a liquidity ratio of 331% per our model, reflecting its ability to maintain strong and stable liquidity.

Support

Aegon USA's core group status reflects our view that the company is highly unlikely to be sold in the future because it generates over 60% of Aegon N.V.'s earnings and capital. Aegon USA's strong operating performance in its business lines is integral to the overall group strategy, is consistent with overall group objectives, and is supported by its Top 10 market share in multiple product lines. In addition, our view of Aegon USA's capitalization is in line with the overall group's capitalization. Its robust capitalization is further supported by a strong, proven commitment of support from its parent. Ultimately, we expect Aegon USA's importance to the overall group to remain high.

Accounting Considerations

We base our credit analysis of Aegon USA and its operating subsidiaries largely on available public disclosures, financials provided by the company, and regulatory filings. We have made analytical adjustments to statutory financial information that are consistent with our criteria to calculate capital adequacy and use a combination of statutory and company-provided operating performance metrics to measure operating performance.

Related Criteria

- Methodology: Treatment Of U.S. Life Insurance Reserves And Reserve Financing Transactions, March 12, 2015
- Methodology For Assessing Capital Charges For U.S. RMBS And CMBS Securities Held By Insurance Companies, Aug. 29, 2014
- Group Rating Methodology, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- Insurers: Rating Methodology, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Methodology For Assessing Capital Charges For Commercial Mortgage Loans Held By U.S. Insurance Companies, May 31, 2012
- Methodology For Calculating The Convexity Risk In U.S. Insurance Risk-Based Capital Model, April 27, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

- Liquidity Model For U.S. And Canadian Life Insurers, April 22, 2004

Ratings Detail (As Of May 26, 2017)	
Holding Company: AEGON N.V.	
Issuer Credit Rating	A-/Negative/A-2
Commercial Paper	A-2
Junior Subordinated	BBB
Senior Unsecured	A-
Subordinated	BBB
Operating Companies Covered By This Report	
Transamerica Advisors Life Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Negative/--
Counterparty Credit Rating	
Local Currency	AA-/Negative/--
Senior Unsecured	AA-
Transamerica Financial Life Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Negative/NR
Issuer Credit Rating	
Local Currency	AA-/Negative/NR
Transamerica Life (Bermuda) Ltd.	
Financial Strength Rating	
Local Currency	AA-/Negative/--
Issuer Credit Rating	
Local Currency	AA-/Negative/--
Transamerica Life Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Negative/NR
Issuer Credit Rating	
Local Currency	AA-/Negative/A-1+
Transamerica Premier Life Insurance Co	
Financial Strength Rating	
Local Currency	AA-/Negative/NR
Issuer Credit Rating	
Local Currency	AA-/Negative/A-1+
Domicile	Arkansas

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.