

## AEGON USA Group

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# AEGON USA Group

## Major Rating Factors

### Strengths:

- Very strong, diversified competitive position in the U.S. life insurance, annuity, and pension markets.
- Very strong capital adequacy and liquidity.
- Strong enterprise risk management.
- Relationship with AEGON N.V. that enhances financial flexibility.

### Weaknesses:

- Operating earnings volatility resulting from market-sensitive product guarantees and diminished earnings stemming from tightening spreads.
- Investment exposures to nonagency residential mortgage-backed securities, commercial mortgage-backed securities, and commercial mortgages.

### Operating Companies Covered By This Report

#### Financial Strength Rating

Local Currency

AA-/Negative/A-1+

## Rationale

The insurer financial strength ratings on the AEGON USA group of companies primarily reflect their very strong competitive position, capital adequacy, and liquidity. The AEGON USA group has established very strong distribution capabilities across multiple channels that enable it to execute its strategy of meeting a wide variety of protection, savings, and retirement needs in the U.S. market. It has leveraged its widely recognized Transamerica brand and economies of scale to become a top-10 producer of individual life insurance sales and a top-15 seller of variable annuities. Through Transamerica Retirement Services and Diversified Investment Advisors, the group has established strong momentum in the retirement plans business, with sales growth of over 20% in 2009 as well as in the first nine months of 2010.

Based on Standard & Poor's Ratings Services' models, capital adequacy and liquidity remain very strong, owing to management's aggressive actions to minimize the impact of market volatility on the balance sheet (or "de-risk") and to the curtailment of dividends to the holding company. Significant actions include the placement of the institutional guaranteed spread and bank-owned life insurance/corporate-owned life insurance (BOLI/COLI) businesses into runoff, hedging the previously un-hedged equity exposure of the guaranteed minimum income benefits (GMIB) back-book, and a higher allocation of investments to cash and short-term positions while reducing holdings of hedge funds. AEGON N.V. (the ultimate parent company) is exploring strategic options for Transamerica Re, including finding a suitable buyer. We would expect that the capital released from a sale of Transamerica Re would be returned to the parent company. Repayment of the remaining €1.5 billion of convertible core capital securities issued during the financial crisis remains a priority for AEGON N.V., and we expect significant dividends from the U.S. operations in 2010 and 2011 to fund their repayment. Nevertheless, we expect capital adequacy to remain supportive of 'AA' targets.

Operating earnings have been volatile, declining significantly from their peak in 2007 mainly due to the effects of equity market declines and interest spread compression. Underlying earnings before tax rebounded to \$1.525 billion in the first nine months of 2010 compared with \$633 million through the first nine months of 2009. A recovery in

variable annuities and increased earnings from fixed annuities and pensions led the rebound. On Dec. 1, 2010, AEGON announced plans to wind down its BOLI/COLI business and consolidate its Louisville operations with other existing U.S. locations. Excluding the impact of these actions, we expect underlying earnings before tax of about \$2.05 billion in 2010 and \$1.85 billion in 2011. The decline in 2011 reflects the expected sale of Transamerica Re, and a reclassification of BOLI/COLI to run off businesses, as well as reduced fixed annuity earnings due to the low interest rate environment and curtailment of new sales.

We believe credit losses will continue to moderate; however, the company may realize elevated impairments from holdings of nonagency residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and commercial mortgage loans. We believe the greatest risk is in the \$1.675 billion (at amortized cost) portfolio backed by negative amortization collateral which was showing a \$627 million gross unrealized loss as of Sept. 30, 2010.

## Outlook

The negative outlook on the AEGON USA group of companies is aligned with the negative outlook on AEGON N.V. and its subsidiaries. The negative outlook on AEGON N.V. and its subsidiaries reflects continuing risks and uncertainties relating to its ongoing restructuring, and recognizes that the operating environment in AEGON's core markets remains challenging. We could lower the ratings if repayment of the Dutch State requires further restructuring of its business that adversely affects our view of AEGON's business profile or future earnings prospects, or weakens the balance sheet such that capital adequacy is deficient at 'AA' levels and debt leverage exceeds 15%.

we could revise of the outlook to stable if certainty emerges over the source of funds for repaying the Dutch State such that AEGON maintains capital adequacy at 'AA' levels, if debt leverage below 15%, and if fixed charge coverage is over 4x. In addition, we may consider a revision if AEGON demonstrates continued resilience in underlying performance, as measured by new sales and net deposits. Sustainable underlying earnings in excess of €1.8 billion and net cash flows to the holding company in excess of €1.0 billion will also be important to support ratings stability.

## Competitive Position: Scale And Strong Distribution Capabilities In Diverse Lines Of Business

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

Although AEGON USA is a strong competitor in each of its selected markets, it is not compelled to follow the sometimes irrational pricing of competitors in any particular segment, because the group does not rely too heavily on any single line of business. Some of the company's largest markets are very competitive and characterized by a high degree of commoditization. These include universal life insurance and annuities. The company's breadth of distribution outlets is a key element in maintaining its competitive position, but individual life insurance and annuity sales will be somewhat susceptible to competitor activity in terms of pricing and product features.

Table 1

<b>Aegon USA Group/Selected Statistics</b>					
	<b>--Year ended Dec. 31--</b>				
<b>(Mil. \$ unless otherwise noted)</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Capital adequacy ratio (%)	AA	AA	AA	191.0	214.0
Statutory earnings adequacy ratio (%)	N.A.	N.A.	N.A.	195.7	156.0
Liquidity ratio (%)	393.8	342.9	268.0	252.0	219.0
Total assets (including separate accounts)	180,266.8	179,775.6	197,391.0	178,382.0	172,137.0
Total premiums and considerations	15,747.5	16,141.6	15,915.0	13,768.0	14,214.0
Pretax income	3,078.0	179.2	1,461.0	1,406.0	1,755.0
Total adjusted capital (including asset valuation reserve)	9,579.8	9,369.4	9,067.0	8,933.0	8,806.0

N.A.--Not available.

Table 2

<b>Aegon USA Group/Competitive Position</b>					
	<b>--Year ended Dec. 31--</b>				
<b>(Mil. \$ unless otherwise noted)</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Total revenue	23,517.9	19,451.2	25,462.0	24,204.0	22,539.0
Total premiums and considerations	15,747.5	16,141.6	15,915.0	13,768.0	14,214.0
Premium revenue increase (%)	(2.4)	1.4	15.6	(3.0)	(4.0)
Deposits	1,594.7	10,701.0	12,565.0	10,248.0	9,801.0
Total premiums, considerations, and deposits	17,342.1	26,842.7	28,480.0	24,015.0	24,015.0
Premiums, consideration, and deposit revenue increase (%)	(35.4)	(5.7)	18.6	0.0	6.0
Net first-year premiums	8,434.2	9,660.5	3,906.0	3,345.0	4,563.0
Net first-year increase (%)	(12.7)	154.7	16.8	(27.0)	16.0
Net single premiums*	338.9	603.6	2,843.0	2,256.0	1,535.0
Net single increase (%)	(43.8)	(83.4)	26.0	47.0	(42.0)
Separate accounts assets	71,178.9	59,910.1	80,122.0	61,291.0	53,761.0
Increase in separate accounts assets (%)	18.8	(25.2)	31.0	14.0	7.0
<b>Major lines</b>					
Individual life	2,877.8	3,563.6	3,510.0	2,894.0	3,503.0
Individual annuities	4,610.0	3,859.0	3,679.0	3,527.0	3,346.0
Group life	339.8	405.9	429.0	408.0	411.0
Group annuities	6,207.7	6,540.0	6,508.0	5,261.0	5,274.0
Group accident and health	950.3	898.2	908.0	913.0	952.0
Individual accident and health	705.0	825.8	795.0	709.0	667.0
Aggregate of all other	56.8	49.1	87.0	54.0	61.0
Deposits	1,594.7	10,701.0	12,565.0	10,248.0	9,801.0

\*Excludes annuity and fund deposits for 2001 and later.

## Life And Protection

Life insurance and accident and health (A&H) products are distributed through an exceptionally diverse array of channels, targeting specific market segments. AEGON Financial Partners targets the upper-middle-income and affluent markets; World Financial Group targets the middle-income market; and the Monumental Division targets the middle-income market primarily through a career agency sales force and First Command, an independent

marketing organization that primarily serves the military market. In addition, AEGON Direct Marketing Services is a direct marketer of life, supplemental health, and specialty insurance products that develops and executes cobranded marketing. A&H offerings are mainly distributed by affinity partners and include accident, critical illness, cancer treatment, hospital indemnity, and short-term disability policies. Long-term care insurance is distributed via independent brokerage and other AEGON USA companies.

AEGON USA, which offers universal, term, whole, and variable life insurance, is consistently among the top 10 producers of new life insurance sales in the U.S. and the top five producers of universal life insurance sales. After a 15% decline in retail new life sales in 2009, sales through the first nine months of 2010 are up 13%, to \$402 million.

### **Individual savings and retirement products**

Transamerica Capital Inc., an affiliated broker-dealer, distributes individual annuities and mutual funds through wirehouses, regional broker-dealers, independent financial planners, and banks using company-owned and external wholesalers. In conjunction with the Dec. 28, 2007, acquisition of Merrill Lynch Life Insurance Co. and ML Life Insurance Co. of New York, AEGON USA entered into a strategic alliance with Merrill Lynch, bolstering its distribution in the variable annuities business. AEGON USA has chosen to deemphasize the sale of fixed annuities as part of a strategy to shift capital and source of earnings to fee-based businesses from spread-based businesses. Through the first nine months of 2010, variable annuity deposits increased 8%, to \$2.794 billion, after a 1% increase in 2009. As of Sept. 30, 2010, fixed and variable annuity account balances were \$28.6 billion and \$39.3 billion, respectively.

### **Employer solutions and pensions**

AEGON USA offers pension plans, pension-related products and services, and life and supplemental insurance products through employers. Diversified Investment Advisors targets the mid to large-plan market (\$10 million to \$2 billion), while Transamerica Retirement Services targets the small-plan market. Diversified Investment Advisors uses an open architecture platform that supports mutual funds, variable annuities, and collective trusts.

Transamerica Retirement Services offers fully bundled and partially bundled retirement solutions, predominantly supported by group variable annuities. In addition, AEGON Stable Value Solutions provides synthetic guaranteed investment contracts (GICs), primarily to tax-qualified institutional entities such as 401(k) plans and other retirement plans. Transamerica Worksite Marketing offers voluntary payroll deduction life and supplemental health insurance. Total pension written sales increased 22% to \$8.3 billion in 2009, despite the tough economic conditions. Through the first nine months of 2010, retirement plan sales have increased 23% to \$8.5 billion and total account balances were \$67.7 billion. Despite lower production in recent years after a period of rapid growth, AEGON USA remains a leading provider of synthetic GICs with \$60.1 billion of account balances as of Sept. 30, 2010.

### **Prospective**

We expect AEGON USA, through its diverse distribution channels, to generate retail life sales that are in line with or slightly above industry growth rates. We expect mid- to high-single-digit growth in variable annuity deposits, but production will depend on equity market performance and competitors' pricing actions and product features. We expect AEGON USA to maintain strong momentum in retirement plan sales.

## Management And Corporate Strategy: A Wide Array Of Product And Distribution Capabilities Meets A Variety Of Needs

AEGON USA has a broad strategy of meeting life-cycle needs by providing protection, savings, and retirement income products. The group has a wide variety of product and distribution capabilities to meet these needs, including life and A&H products, individual annuities, and retirement plans. The group is well positioned to meet the needs of the aging U.S population, which is enjoying greater longevity but less-certain employer- and government-provided retirement income. Three strategic priorities guide AEGON's global group strategy: reallocate capital to businesses with higher growth and return prospects, improve growth and returns from existing businesses, and optimize the group's businesses as "one AEGON" by increasing operating efficiency and making better use of its global resources.

As a result of strategic reviews, AEGON has chosen to rebalance capital across geographies, winding down or deemphasizing certain U.S. businesses. In February, 2009, AEGON announced plans to run-off its institutional spread-based business in order to reduce credit risk and release capital. In December 2010, AEGON announced a decision to wind down its BOLI/COLI business and the company is currently exploring options for Transamerica Reinsurance, including finding a suitable buyer.

### Operational management

AEGON executes its strategy through operating units focused on key markets, supported by shared corporate functions. Major business segments include life and protection, individual savings and retirement, and employer solutions and pensions. Shared services include risk management, finance, legal, technology, and human resources.

### Financial management

AEGON management is committed to maintaining capital consistent with 'AA' rating requirements, very strong liquidity, and disciplined asset/liability management (ALM). Declining equity markets during 2008 created large net amounts at risk for guaranteed-minimum-death-benefit riders and older GMIB riders. Management has responded with significant initiatives to preserve capital, including reducing risk in the investment portfolio, winding down the institutional spread business, hedging the equity exposure in the back-book of GMIB riders, and reducing dividends to the parent holding company. AEGON now hedges about 80% of the equity exposure from its back-book of GMIB variable-annuity guarantees, with plans to fully hedge the equity exposure by the end of 2012.

## Enterprise Risk Management: Strong

We have upgraded our assessment of the enterprise risk management (ERM) framework to strong, reflecting the significant advances that AEGON N.V. has made in developing its framework and the fact that this is now becoming embedded in its business. The recent financial crisis, together with the receipt of state aid from the Dutch State, has accelerated the advancement of certain aspects of AEGON's ERM framework. Capital raises provided significant flexibility for AEGON during a period of heightened risk and uncertainty and enabled the group to pursue its strategy developed using its ERM framework, thus facilitating more effective risk management than was previously the case.

We assess AEGON N.V.'s overall ERM as strong. AEGON is a large and geographically diversified group with exposures to risks across geographies. Therefore, ERM is of high importance to the rating on the company. Despite

AEGON's significant de-risking initiatives, capital market risk still dominates its risk profile. AEGON is actively managing the risk profile to reduce its exposure to interest rate risk and equity risk and to enhance diversification across the group by increasing insurance risk exposures. AEGON has strong risk controls for the majority of its risks, including capital market and insurance risks, which are the most capital intensive. These risk controls reflect the strong risk culture at the group level and the operating unit level. AEGON is making good progress in embedding its economic framework. For example, risk and risk-adjusted return considerations are now an important part of pricing and many decision-making processes, although AEGON still uses more traditional embedded value measures as a dual requirement (which it will phase out in 2010).

We view AEGON's risk-management culture as strong. The group operates a decentralized risk-management structure, with the local operating companies responsible for local controls. The responsibility of the Group Risk and Capital Committee (GRCC) is to provide independent oversight of the group's operations. AEGON's group chief risk officer (CRO) reports to the group's CFO, which is also the case for most of the subsidiaries. There is also a reporting line between local CROs and the group through the regional CROs. The group achieves consistency through risk policies, regular risk meetings, and the risk committee structure. The GRCC covers all risk types, as well as the management of the overall capital position, and reports to the group's executive board.

The group has revised its risk appetite in line with the economic framework and has translated this into risk limits. The risk reporting provides risk exposures but does not always compare them to the risk limits. We assess AEGON's emerging risk process as adequate. AEGON is a member of the industry-wide CRO forum working group. We currently view AEGON's risk models as adequate, as they have yet to develop an integrated internal model.

We assess AEGON's strategic risk management as strong. AEGON has sufficiently embedded economic balance sheet modeling into key business processes, including risk management, pricing, performance measurement, incentives, and corporate strategy.

## Accounting

AEGON prepares its financial statements in accordance with International Financial Reporting Standards (IFRS). For external reporting, AEGON USA is included in the AEGON Americas segment, which also includes Transamerica Life Canada as well as the Latin American operations. AEGON USA accounts for the vast majority of assets and earnings in the segment. In addition to its U.S.-domiciled insurance companies, the segment also includes Transamerica International Re (Bermuda) Ltd., Transamerica International Reinsurance Ireland Ltd., and Transamerica Life International (Bermuda) Ltd., which reinsure business that U.S. affiliates issue.

The U.S.-domiciled life insurers file statutory statements in their respective states of domicile. In recent years, AEGON USA recaptured business from international subsidiaries, which it then ceded to domestic reinsurance entities. Under statutory accounting rules, the recaptures resulted in losses that AEGON USA reported in earnings, while the subsequent ceding of the business produced offsetting gains that the group must report directly in surplus. Without giving effect to the transactions, consolidated statutory pretax operating income for the U.S.-domiciled entities would have been \$3.1 billion in 2009, \$179 million in 2008, and \$1.5 billion in 2007, rather than the reported gain of \$2.9 billion in 2009, loss of \$978 million in 2008, and gain of \$1.0 billion in 2007.

Standard & Poor's uses its financial product company (FPC) methodology to assess the specific credit, financial market, and operational risk characteristics of certain spread-based products, including medium-term note

programs, GICs, and municipal investment contracts. The purpose of the FPC model is to determine the appropriate amount of capital required to cover expected losses based on a statistical level of confidence that is commensurate with the rating on the company.

## Operating Performance: Diverse Sources Of Earnings Are Subject To Market-Related Volatility

AEGON USA enjoys balanced sources of earnings from interest spreads, mortality and morbidity margins, and fee-based products. However, overall results have been subject to market-related volatility. The life, A&H, fixed annuity, and pension businesses remain strong and stable sources of earnings, but they are offset by more volatile results from market-sensitive businesses--particularly variable annuities, which produced losses in 2008 and 2009.

Underlying earnings before tax rebounded to \$1.525 billion in the first nine months of 2010 compared with \$633 million through the first nine months of 2009, led by a recovery in variable annuities and increased earnings from fixed annuities and pensions. Earnings in 2008 and 2009 were hurt by equity market declines, which resulted in losses in the variable annuities business, lower asset-based fees, and higher employee benefit plan expenses. Also, higher allocations to cash and short-term investments contributed to spread compression.

On Dec. 1, 2010, AEGON announced plans to wind down its BOLI/COLI business and consolidate its Louisville operations with other existing U.S. locations. The decision to wind down the BOLI/COLI business, which had contributed underlying earnings before tax of \$47 million in 2009, will result in a write-off of goodwill and other intangible assets of \$210 million. These actions will result in a headcount reduction of 400 to 500 employees and a restructuring charge of \$80 million, of which \$60 million will be charged in 2010. We expect annual cost savings to be \$70 million after these changes are completed. Excluding the impact of these actions, we expect underlying earnings before tax of about \$2.050 billion in 2010 and \$1.850 billion in 2011. The decline in 2011 reflects the expected sale of Transamerica Reinsurance, which we expect to contribute about \$115 million to underlying earnings before tax in 2010, and a reclassification of BOLI/COLI to run-off businesses, as well reduced fixed annuity earnings due to lower balances.

**Table 3**

Aegon USA Group/Summary Operating Statistics					
(Mil. \$ unless otherwise noted)	--Year ended Dec. 31--				
	2009	2008	2007	2006	2005
Pretax income	3,078.0	179.2	1,461.0	1,406.0	1,755.0
Net income	1,039.3	158.9	1,309.0	1,052.0	1,256.0
Statutory earnings adequacy ratio (%)	N.A.	N.A.	N.A.	195.7	156.0
Return on revenue (%)	13.09	0.92	5.70	5.80	7.80
Return on assets (%)	1.71	0.10	0.80	0.80	1.10

N.A.--Not available.

**Table 4**

Aegon USA Group/Operating Statistics					
(Mil. \$ unless otherwise noted)	--Year ended Dec. 31--				
	2009	2008	2007	2006	2005
General expenses	1,316.5	1,355.0	1,321.0	1,246.0	1,259.0

Table 4

<b>Aegon USA Group/Operating Statistics (cont.)</b>					
General expense ratio (%)	6.2	4.2	4.1	4.5	4.8
Expense ratio (%)	9.8	9.6	8.9	13.1	11.5
Unit expenses (in whole dollars)	37.2	42.0	44.0	41.0	45.0
General expenses as a percentage of total assets	0.7	0.8	1.0	1.0	1.0
Commission ratio (%)	13.8	12.8	14.0	14.3	18.6
Lapse ratio (ordinary only) (%)	9.1	8.5	6.6	7.1	8.0
Mortality ratio (%)	93.1	108.6	107.3	125.1	114.2
Investment spread (%)	2.1	3.0	3.0	2.7	2.6
<b>Accident and health</b>					
Loss ratio (%)	62.1	65.4	69.5	76.2	71.8
Expense ratio (%)	33.4	34.1	33.2	34.3	33.8
Combined ratio (%)	95.4	99.5	102.7	110.5	105.6

## Investments And Liquidity: A Well-Diversified And Highly Liquid Portfolio That Has Some Exposure To Stressed Asset Classes

Investment policies promote diversification among asset classes at the legal entity, business unit, and country unit level. The group also establishes name limits across asset classes to control concentration risks, which results in a very well-diversified portfolio. Portfolio management teams, comprising division risk managers, asset liability managers, and portfolio managers, establish liability-driven benchmarks that consider the ALM needs of the products being supported, resulting in asset-allocation strategies that are well integrated with product and cash flow needs. As of Sept. 30, 2010, the \$129.93 billion AEGON Americas portfolio consisted of corporate bonds (46.2%); cash, Treasuries, and agencies (16.6 %); commercial mortgage loans (10.2%); CMBS (7.1%); RMBS (5.8%); nonhousing-related asset-backed securities (ABS; 5.4%); policy loans (2.2%); and other investments (6.5%). AEGON has very small allocations to riskier asset classes. High-yield corporate bonds represented 3.2%, equity and hedge fund investments accounted for 2.7%, and real estate comprised 1.1% of AEGON Americas' general account investments as of Sept. 30, 2010.

Table 5

<b>Aegon USA Group/Investment Statistics</b>					
	<b>--Year ended Dec. 31--</b>				
<b>(Mil. \$ unless otherwise noted)</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Net investment income	5,014.1	6,026.9	6,305.9	6,226.7	6,166.2
Total invested assets	104,464.3	114,765.6	113,062.9	110,403.8	111,383.0
Net realized capital gains	(1,221.9)	227.7	393.6	228.1	53.8
High-risk assets to total invested assets (%)	11.7	12.1	13.0	14.4	10.4
Net investment yield (%)	4.57	5.29	6.00	5.50	5.40
Five-year realized capital gains to invested assets (%)	0.24	0.28	0.21	0.12	0.08
<b>Portfolio composition</b>					
Cash, cash equivalents, and short-term investments (%)	8.1	6.0	3.0	1.9	1.2
Bonds (%)	64.0	61.2	61.0	64.8	71.5
Mortgage-backed securities (%)	8.3	9.1	11.0	9.8	8.2

Table 5

Aegon USA Group/Investment Statistics (cont.)					
Mortgages (%)	12.6	13.4	14.0	13.4	13.1
Policy loans (%)	2.6	2.4	2.0	1.5	1.4
Stocks (%)	0.7	3.7	3.0	4.4	1.0
Real estate (%)	0.2	0.2	0.0	0.1	0.2
Other (%)	3.6	4.0	5.0	4.1	3.4

Overall portfolio quality is high. However, exposures to underperforming asset classes such as commercial mortgage loans and CMBS, RMBS and housing-related ABS, and capital securities of financial institutions could result in elevated losses. Refinancing risk for commercial whole loans and CMBS collateral remains high. AEGON USA extended the majority of its \$1 billion in U.S. mortgage loans that matured in 2009, and it paid off only 19%. Borrowers exercised extension options on about 32% (by value) of the mortgage loans and negotiated extensions on another 41%, including \$364 million with rate increases. Gross unrealized losses related to U.S. holdings of CMBS (including collateralized debt obligations backed by commercial real estate loans and CMBS) have declined to \$709 million from \$1.33 billion as of Dec. 31, 2009, although 96.2% of the \$9.515 billion portfolio (at amortized cost) remains rated investment grade. Gross unrealized losses in the \$6.32 billion (amortized cost) RMBS portfolio have declined to \$908 million as of Sept. 30, 2010, from \$1.51 billion as of Dec. 31, 2009, and to \$536 million from \$906 million over the same period in the \$2.44 billion (amortized cost) housing-related ABS portfolio. Unrealized losses are most severe for securities backed by subprime and negative amortization collateral. Holdings of financial institution capital securities, such as trust preferred, hybrids, Tier 1, and Upper Tier 2 securities, also have significant unrealized losses.

### Liquidity

AEGON USA has successfully managed significant liquidity needs associated with the planned runoff of its institutional spread-based business in the U.S. During 2009, the group reduced its institutional guaranteed products account balances by \$11.5 billion to \$21.3 billion, and the group expects to reduce these balances by another \$8.5 billion in 2010. AEGON Americas has a highly liquid investment portfolio, with cash, Treasuries, and agencies of \$21.5 billion as of Sep. 30, 2010, serving as a very strong liquidity buffer. The Standard & Poor's liquidity ratio is an extremely strong 394%.

Table 6

(Mil. \$ unless otherwise noted)	--Year ended Dec. 31--				
	2009	2008	2007	2006	2005
<b>Allocation of reserves</b>					
Individual life	31.1	23.5	26.0	23.0	20.0
Group life	3.0	2.8	2.0	2.0	2.0
Individual annuities	26.0	28.9	28.0	31.0	35.0
Group annuities (including guaranteed investment contracts)	27.7	34.9	33.0	35.0	35.0
Accident and health	6.2	5.4	5.0	4.0	3.0
Other	5.9	4.6	5.0	4.0	4.0
Liquidity ratio (%)	393.8	342.9	268.0	252.0	219.0
Surrenderable annuities to total reserves (%)	N/A	34.1	34.0	30.0	27.0
Liquid assets to total assets (%)	N/A	63.0	61.0	64.0	66.0

## Capitalization: Efforts To Minimize Risk On The Balance Sheet Help Maintain Very Strong Capital Adequacy

Very strong capital adequacy supports AEGON's U.S. operations. AEGON is committed to maintaining capital adequacy consistent with Standard & Poor's 'AA' requirements, as demonstrated by its significant risk-reduction initiatives in 2008 and 2009, as well as its curtailing of dividends to the parent holding company. AEGON has implemented a macro hedge to mitigate the impact of market volatility on reserve and capital requirements for variable annuity guarantees, and it has reduced its exposure to credit and interest rate risk by winding down its institutional spread business. In addition, AEGON has reduced its investments in hedge funds, which are assessed a relatively high capital charge. We expect AEGON USA to resume paying significant dividends to the holding company in 2010 and 2011 in order to facilitate repayment of state aid received during the financial crisis. However, we expect capital to remain consistent with 'AA' capital adequacy.

**Table 7**

Aegon USA Group/Capitalization Statistics					
(Mil. \$ unless otherwise noted)	--Year ended Dec. 31--				
	2009	2008	2007	2006	2005
Total assets	180,266.8	179,775.6	197,391.0	178,382.0	172,137.0
General account assets	109,087.9	119,865.5	117,269.0	117,091.0	118,376.0
Total liabilities excluding separate accounts (excluding asset valuation reserve)	99,583.1	110,567.3	108,298.0	108,240.0	109,650.0
Total adjusted capital (including asset valuation reserve)	9,579.8	9,369.4	9,067.0	8,933.0	8,806.0
Unrealized capital gains	(784.3)	(197.1)	213.0	(63.0)	(107.0)
Capital adequacy ratio (%)	AA	AA	AA	191.0	214.0
Company action level to NAIC risk-based capital ratio (%)	362.0	350.0	336.0	365.0	383.0
High-risk assets to total adjusted capital ratio (%)	128.0	148.4	156.0	141.0	134.0
Surplus from operating earnings after dividends (%)	583.3	219.2	4,191.0	(185.0)	373.0
Stockholder dividends/net income	168.3	157.3	103.4	90.5	119.0
Net premiums to gross premiums (%)	68.7	64.3	71.0	69.0	75.0
Net reserves to gross reserves (%)*	78.5	78.3	87.0	89.0	91.0
Stockholders' dividends	553.7	1,050.6	1,891.0	457.0	680.0
Stockholders' dividends to net operating income (%)	24.5	(97.1)	292.0	136.0	100.0

N.A.--Not available.

## Financial Flexibility: Strong

AEGON USA derives its strong financial flexibility from a track record of statutory earnings and organic capital generation, from its demonstrated ability to finance the reserve requirements set out by the National Association of Insurance Commissioners' Model Regulation XXX and Actuarial Guide 38 through a variety of means, and from its parent, AEGON N.V. The parent further enhanced its financial flexibility by securing €3 billion of additional capital from the Dutch State through AEGON's largest shareholder, Vereniging AEGON (Association AEGON), of which it has repaid €1.5 billion.

**Ratings Detail** (As Of January 6, 2011)\*

**Operating Companies Covered By This Report**

**Ratings Detail (As Of January 6, 2011)\*(cont.)****Monumental Life Insurance Co.**

Financial Strength Rating

*Local Currency*

AA-/Negative/A-1+

Counterparty Credit Rating

*Local Currency*

AA-/Negative/A-1+

**Stonebridge Life Insurance Co.**

Financial Strength Rating

*Local Currency*

AA-/Negative/--

Issuer Credit Rating

*Local Currency*

AA-/Negative/--

**Transamerica Advisors Life Insurance Co.**

Financial Strength Rating

*Local Currency*

AA-/Negative/--

Issuer Credit Rating

*Local Currency*

AA-/Negative/--

Senior Unsecured (2 Issues)

AA-

**Transamerica Advisors Life Insurance Co. of NY**

Financial Strength Rating

*Local Currency*

AA-/Negative/--

Issuer Credit Rating

*Local Currency*

AA-/Negative/--

Senior Unsecured (1 Issue)

AA-

**Transamerica Financial Life Insurance Co.**

Financial Strength Rating

*Local Currency*

AA-/Negative/A-1+

Issuer Credit Rating

*Local Currency*

AA-/Negative/A-1+

**Transamerica International Re (Bermuda) Ltd.**

Financial Strength Rating

*Local Currency*

AA-/Negative/--

Issuer Credit Rating

*Local Currency*

AA-/Negative/A-1+

**Transamerica International Reinsurance Ireland Ltd.**

Financial Strength Rating

*Local Currency*

AA-/Negative/--

Issuer Credit Rating

*Local Currency*

AA-/Negative/A-1+

**Transamerica Life (Bermuda) Ltd.**

Financial Strength Rating

*Local Currency*

AA-/Negative/--

**Transamerica Life Insurance Co.**

Financial Strength Rating

*Local Currency*

AA-/Negative/A-1+

<b>Ratings Detail</b> (As Of January 6, 2011)*(cont.)	
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Negative/A-1+
<b>Western Reserve Life Assurance Co. of Ohio</b>	
Financial Strength Rating	
<i>Local Currency</i>	AA-/Negative/--
Issuer Credit Rating	
<i>Local Currency</i>	AA-/Negative/--
<b>Related Entities</b>	
<b>AEGON N.V.</b>	
Issuer Credit Rating	A-/Negative/A-2
Commercial Paper	A-2
Junior Subordinated (9 Issues)	BBB
Senior Unsecured (9 Issues)	A-
Subordinated (1 Issue)	A-
Subordinated (1 Issue)	BBB+
<b>Domicile</b>	Iowa
*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.	

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