

AEGON USA Group

Primary Credit Analyst:

Matthew Carroll, New York (1) 212-438-3112; matthew_carroll@standardandpoors.com

Secondary Credit Analyst:

Mark Button, London (44) 20-7176-7045; mark_button@standardandpoors.com

Table Of Contents

Major Rating Factors

Rationale

Outlook

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

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

Enterprise Risk Management: Strong

Accounting

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

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

Capitalization: Efforts To De-Risk The Balance Sheet Help Maintain Very Strong Capital Adequacy

Financial Flexibility: Strong

AEGON USA Group

Major Rating Factors

Strengths:

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

Weaknesses:

- Investment exposures to nonagency RMBS, CMBS, and commercial mortgages.
- Operating earnings volatility resulting from market-sensitive product guarantees and diminished earnings stemming from tightening spreads.

Operating Companies Covered By This Report

Financial Strength Rating

Local Currency

AA-/Negative/--

Rationale

The insurer financial strength ratings on the AEGON USA group of companies primarily reflect their very strong business profile, 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 and fixed annuity sales and a top 20 producer of variable annuity sales. The U.S. life insurance and annuities markets remain very competitive, and competitors' pricing and product design actions will affect sales.

The group benefits from balanced sources of earnings, including mortality and morbidity margins, interest spreads, and fees. Underlying earnings before tax decreased significantly in 2008 and 2009 from their peak in 2007, mainly because of declining equity markets and spread compression. The impact of lower equity markets on variable annuity account balances resulted in accelerated deferred acquisition costs (DAC) amortization and higher reserves for guaranteed minimum death and living benefits. Although variable annuity guaranteed minimum withdrawal benefits (GMWBs) are well hedged, AEGON USA generally does not hedge guaranteed minimum death benefits (GMDBs) and older guaranteed minimum income benefits (GMIBs), which exposed the group to significant losses during the recent equity market declines. Spreads tightened mainly because the group raised its cash balances to bolster liquidity for the runoff of its institutional guaranteed spread business. Standard & Poor's Ratings Services expects that underlying earnings before tax will rebound to about \$1.6 billion in 2010 and that the macro hedge implemented in the second quarter of 2009 will provide some downside protection against equity market declines.

Capital adequacy and liquidity remain very strong, owing to management's aggressive actions to de-risk the balance sheet. Significant actions include the placement of the institutional guaranteed spread business into runoff, announced in February 2009, the implementation of an equity market macro hedge in the summer of 2009, and a higher allocation of investments to cash and short-term positions while reducing holdings of hedge funds. We view the potential for additional investment losses from asset classes such as nonagency residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), and commercial mortgage loans as significant

and a potential risk to maintaining 'AA' capital requirements.

Outlook

The negative outlook on AEGON N.V. and the AEGON USA group of companies reflects our view of the risk that AEGON could fail to meet our expectations because of the sensitivity of its business to investment markets during a period of heightened risk and volatility. Our negative outlook also recognizes that AEGON continues to face tough economic and financial market conditions in its core markets. We could lower our ratings if adverse trends in net flows emerge (excluding institutional products), capital adequacy falls below 'AA' levels, or debt leverage exceeds 15%. Although we do not consider this a likely scenario, we could also lower the ratings if the conditions for European Commission state aid approval are significantly more far-reaching than anticipated.

We likely would revise our outlook to stable if economic and financial market conditions improve and AEGON N.V.'s underlying performance demonstrates resilience, as measured by new sales and persistency. Sustainable underlying earnings in excess of €1.8 billion, investment-related losses of less than €600 million in 2010, and a material improvement in holding company cash flows 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 for a diversified earnings profile, with a well-balanced mix of individual insurance, fixed and variable annuities, pensions, asset management, reinsurance, and institutional products.

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 the universal life insurance product and fixed and variable annuities. The company's breadth of distribution outlets is a key element in maintaining its competitive position, but sales will be somewhat susceptible to competitor activity in terms of pricing and product features.

Table 1

AEGON USA Group/Selected Statistics					
	--Year ended Dec. 31--				
(Mil. \$)	2009	2008	2007	2006	2005
Capital adequacy ratio (%)	N.A.	AA	AA	191.0	214.0
Statutory earnings adequacy ratio (%)	N.A.	N.A.	N.A.	195.7	156.0
Liquidity ratio (%)	N.A.	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

AEGON USA Group/Competitive Position					
	--Year ended Dec. 31--				
(Mil. \$)	2009	2008	2007	2006	2005
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
Major lines					
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

Individual life insurance and protection

Life and accident and health (A&H) products generated \$5.2 billion and \$2.4 billion in premium income, respectively, in 2009. Life products are distributed through an exceptionally diverse array of channels, targeting specific market segments. Transamerica Insurance and Investment Group targets the upper-middle and affluent markets, career agents target the middle- to upper-income segments, World Financial Group targets the middle-income market, and the Monumental Life Division targets the lower- and middle-income markets. In addition, AEGON Direct Marketing Services develops direct response campaigns using database technologies, while Transamerica Worksite Marketing offers voluntary payroll deduction life and supplemental health insurance. A&H offerings include accidental death and dismemberment, critical illness, short-term disability, and long-term care insurance.

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. Retail new life sales totaled \$566 million in 2009, down 15% from 2008, which resulted from the economic downturn and is in line with the industry.

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 entered into a strategic alliance with Merrill Lynch, bolstering its distribution in the variable annuities business. Fixed annuity production remained robust in 2009, while variable annuity deposits increased slightly over the prior year.

Employer solutions and pensions

Employer solutions and pensions includes retirement plans, terminal funding single-premium group annuities for defined benefit pension plans, synthetic guaranteed investment contracts (GICs), and a variety of asset management products and services. Diversified Investment Advisors targets the mid- to large-plan market (\$10 million-\$500 million), while Transamerica Retirement Services targets the small-plan market. Total pension written sales increased 22% to \$8.3 billion, despite the tough economic conditions.

Reinsurance

Transamerica Re maintains its position as one of the top three producers of life reinsurance in the U.S. market, and it operates in Europe, Asia, and Latin America. Standardized life production of \$205 million in 2009 was down 15% from the prior year. Transamerica Re also reinsures fixed and variable annuities and guarantees, on a limited basis.

Institutional guaranteed products and BOLI/COLI

AEGON has been a leading issuer of synthetic GICs and institutional spread-based products, such as GICs, funding agreements, and funding agreement-backed medium-term notes. In February 2009, AEGON announced plans to run off its institutional spread-based business to reduce credit risk and release capital. The economic downturn has significantly affected bank-owned life insurance (BOLI)/corporate-owned life insurance (COLI) standardized life production, which totaled \$4 million in 2009.

Prospective

We expect AEGON USA, through its diverse distribution channels, to generate retail life sales that meet or exceed industry growth rates. AEGON USA likely will manage fixed annuity production to a level that offsets outflows, while variable annuity production will depend on equity market performance and competitors' pricing actions and product features. We expect AEGON USA to maintain strong momentum in the pensions business.

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

To maintain growth, 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 plan services. 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. Four 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, reduce financial markets risk, and manage AEGON as an international company.

Operational management

AEGON successfully 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). Variable annuity GMWB riders are well hedged, but declining equity markets have created large net amounts at risk for GMDB riders and older GMIB riders, which the group generally did not hedge. Increased reserve requirements for GMDB and GMIB riders significantly affected earnings and capital during 2008 and 2009. Management has responded with significant initiatives to preserve capital, including de-risking the investment portfolio, winding down the institutional spread business, implementing a macro hedge against equity market declines, and reducing dividends to the parent holding company.

Enterprise Risk Management: Strong

We have upgraded our assessment of the enterprise risk management (ERM) framework to strong, reflecting the significant advances that AEGON Group has made in developing its framework and the fact that this is now becoming embedded in its business. The financial crisis, together with the receipt of state aid, has accelerated the advancement of certain aspects of AEGON's ERM framework. Recent capital raising has provided significant flexibility for AEGON during a period of heightened risk and uncertainty and has 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'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 increase the 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, and this reflects the strong risk culture at the group level and the operating unit level. AEGON is making good progress embedding its economic framework. For example, risk and risk-adjusted return considerations are an important part of many decision-making processes and pricing, 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 over 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 by using 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 these to the risk limits. We assess AEGON's emerging risk process as adequate. AEGON is a member of the CRO forum working group. We currently view AEGON's risk models as adequate, with the development of an integrated internal model outstanding.

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 are subject to market-related volatility. The life, A&H, and fixed annuities businesses remain strong and stable sources of earnings, offset by more volatile results from market-sensitive businesses--particularly variable annuities, which produced losses in 2008 and 2009. Excluding the institutional guaranteed products business (which includes the runoff institutional spread business), AEGON Americas' underlying earnings before tax totaled \$1.013 billion in 2009, compared with \$1.029 billion in 2008 and a record \$2.353 billion in 2007 (IFRS basis).

Relative to 2007, 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. Underlying earnings before tax (including institutional guaranteed products) rebounded to \$849 million in the second half of 2009 from \$283 million in the first half of the year. In 2010, we expect AEGON Americas to produce underlying earnings before tax of \$400 million-\$425 million per quarter for a total of more than \$1.6 billion for the full year.

Table 3

AEGON USA Group/Summary Operating Statistics					
--Year ended Dec. 31--					
(Mil. \$)	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					
--Year ended Dec. 31--					
(Mil. \$)	2009	2008	2007	2006	2005
General expenses	1,316.5	1,355.0	1,321.0	1,246.0	1,259.0
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
Accident and health					
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 Has Some Exposure To Stressed Asset Classes

Investment policies promote diversification among asset classes at the legal entity, business unit, and country unit level. And, the group 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 Dec. 31, 2009, the \$123.56 billion AEGON Americas portfolio consisted of corporate bonds (44.8%); cash, Treasuries, and agencies (16.1%); commercial mortgage loans (11.5%); CMBS (6.4%); RMBS and housing-related ABS (5.7%); nonhousing-related ABS (5.5%); policy loans (2.3%); and all other (7.7%). AEGON has very small allocations to riskier asset classes. High-yield corporate bonds represent 3.7%, equity-like investments account for 3.1%, and real estate comprises 1.2% of AEGON Americas' general account investments as of Dec. 31, 2009.

Table 5

AEGON USA Group/Investment Statistics					
	--Year ended Dec. 31--				
(Mil. \$)	2009	2008	2007	2006	2005
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
Portfolio composition					
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
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 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% of the mortgage loans (by value) 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) remain high at \$1.33 billion, although 96.5% of the \$9.163 billion portfolio (at amortized cost) remains rated investment grade. Gross unrealized losses of \$1.51 billion in the \$6.56 billion (amortized cost) RMBS portfolio and \$906 million in the \$2.80 billion (amortized cost) housing-related ABS portfolios are also significant. 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 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 \$19.8 billion as of Dec. 31, 2009, serving as a very strong liquidity buffer.

Table 6

AEGON USA Group/Liquidity And Reserves Statistics					
	--Year ended Dec. 31--				
(Mil. \$)	2009	2008	2007	2006	2005
Allocation of reserves					
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 (%)	N.A.	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

N.A.--Not available.

Capitalization: Efforts To De-Risk 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 de-risking 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.

Table 7

AEGON USA Group/Capitalization Statistics					
	--Year ended Dec. 31--				
(Mil. \$)	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 (%)	N.A.	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

Table 7

AEGON USA Group/Capitalization Statistics (cont.)					
Stockholders' dividends to net operating income (%)	24.5	(97.1)	292.0	136.0	100.0

*Includes annuity and fund deposits. N.A.--Not available.

Prospective

Deteriorating credit quality and impairments, largely related to commercial mortgages, CMBS, nonagency RMBS, and housing-related ABS, could negatively affect capital adequacy in the near term. We expect strong statutory operating earnings and a prudent dividend policy to offset credit losses and to help maintain very strong capital adequacy.

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 regulation XXX and AG38 (AXXX) reserve requirements 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 billion.

Ratings Detail (As Of April 28, 2010)*

Operating Companies Covered By This Report

Merrill Lynch Life Insurance Co.

Financial Strength Rating

Local Currency

AA-/Negative/--

Counterparty Credit Rating

Local Currency

AA-/Negative/--

Senior Unsecured (2 Issues)

AA-

ML Life Insurance Co. of NY

Financial Strength Rating

Local Currency

AA-/Negative/--

Issuer Credit Rating

Local Currency

AA-/Negative/--

Senior Unsecured (1 Issue)

AA-

Monumental Life Insurance Co.

Financial Strength Rating

Local Currency

AA-/Negative/A-1+

Issuer 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/--

Ratings Detail (As Of April 28, 2010)***(cont.)****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+

Issuer Credit Rating

Local Currency

AA-/Negative/A-1+

Western Reserve Life Assurance Co. of Ohio

Financial Strength Rating

Local Currency

AA-/Negative/--

Issuer Credit Rating

Local Currency

AA-/Negative/--

Related Entities**AEGON N.V.**

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+

Domicile

Arkansas

*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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