



AEGON USA

Monumental Life Insurance Company
Transamerica Financial Life Company

Transamerica Life Insurance Company
Transamerica Occidental Life Insurance Company

RATING: Q2
Other Ratings as of: December 2008
Moody's: Aa3
S & P: AA
Best: A+

State of Domicile: Iowa
Holding Company: AEGON NV
Type: Stock
Incorporated: 1904

Aegon USA, USA, a subsidiary of Dutch-based Aegon NV, operates in the Americas and represents the parent company's largest single operation, accounting for a majority of the consolidated entity's income and assets. The group's core businesses are life insurance, pension and retirement products, annuities, and institutional products like GICs and funding agreement backed-notes. Aegon USA also offers various accident and health insurance products. Aegon USA is organized into five lines of business: (1) Life and Protection, (2) Individual Savings and Retirement, (3) Pension and Asset Management, (4) Institutional Products, and (5) Reinsurance.

Aegon USA has demonstrated the ability to prosper and grow organically, but over the past several years acquisitions have fueled growth. The company gained a top tier position in the U.S. life insurance industry through its acquisition of Transamerica Corporation in 1999. The acquisition added a life reinsurance business, a Canadian life insurance subsidiary and over \$50 billion in assets. In 2001, Aegon USA purchased J.C. Penney Life (renamed Stonebridge Life Insurance Company in 2002) for \$1.3 billion. The acquisition provided more product diversification in the areas of supplemental life and health insurance as well as strengthened the firm's positioning in the direct insurance market. In December 2007, Aegon USA acquired Merrill Lynch Life Insurance Company and ML Life Insurance Company of New York for \$1.25 billion in cash. The deal includes excess surplus of approximately \$425 million. The acquisition will add substantial scale to Aegon USA's variable annuity business and enhance a strong relationship with Merrill Lynch.

Aegon USA operates through eight life insurance subsidiaries, of which five: Monumental, Peoples Benefit (merged into Monumental in October 2007) and the three Transamerica companies reside in our Credit Universe. We consolidate the financial data of these five companies in our analysis due to the close interaction among them, and refer to this consolidated company as Aegon USA in this report.

Aegon USA's consolidated annual statutory net gains from operations improved in 2007 after reaching a 5-year low in 2006. In 2007, net gains totaled \$264 million compared to \$28 million in 2006 and \$354 million in 2005. Much of the rebound from 2006 to 2007 was caused by eliminating over 60% of the losses in Aegon USA's individual life business, which experienced statutory losses of \$182 million in 2007 compared to losses of \$457 in 2006. Aegon USA's group annuity line had its earnings drop for the fourth consecutive year (\$121 million vs. \$356 million vs. \$633 million vs. \$763 million). Aegon USA's individual annuity line achieved a net gain of \$113 million, which followed up last years net gain of \$124 million after posting small net losses for several years. Aegon USA's other lines posted a net gain of \$115 million, substantially larger than any of the past five years. Higher than average realized capital gains helped Aegon USA post a consolidated net income of \$630 million, larger than the

past two year's net income of \$247 million in 2006 and \$391 million in 2005. As a result, the aggregate return on assets and return on equity rose to 0.60% and 8.59%, respectively, from 0.23% and 3.42% in 2006. By comparison, our universe averages for 2007 were 0.90% and 11.91%, respectively.

Aegon USA's consolidated capital and surplus position decreased 5.4% in 2007 to \$7.0 billion as unrealized capital gains and the increase in net income helped to offset dividends to the parent company. In previous years, Aegon USA has benefited from parental support to combat significant losses in its investment portfolio. As investment performance and capital levels have improved over the past few years, Aegon USA has been less reliant on Aegon NV for support. The consolidated risk-adjusted surplus ratio of 175.5% at the end of 2007 was above our universe average of 163.4%, demonstrating Aegon USA's capital adequacy. Further, outstanding surplus notes totaled just \$160 million by year-end 2007.

The asset mix within Aegon USA's aggregate investment portfolio differs slightly to the average insurer in our Credit Universe. Bond represent 71.3% of invested assets compared to our universe average of 70.8%. Non-investment grade bond declined further to 4.5% (compared to our universe average of 5.2%) of invested assets from 5.2% in 2006. Mortgages increased to 15.2% (compared to our universe average of 13.9%) of invested assets from 13.8% in 2006. 94.8% of Aegon USA's mortgages are commercial mortgages, which is substantially higher than the universe average of 87.9%. The remainder of the investment portfolio consists of roughly average allocations to preferred and common stock (84.9% of which is with affiliates), and alternative investments. Higher risk investments include sizeable allocations to mortgages, specifically commercial mortgages, and asset-backed securities with exposure to subprime mortgages. Although these are highly rated investments, significant strain has been felt with these holdings.

The investment portfolio continues to maintain above average asset liquidity, though it has fallen to 79.54% in 2007 from 81.1% in 2004. Cash flow generation has been negative the past three years after being significantly positive, averaging nearly \$6 billion from 2002 to 2004. However, a decrease of \$430 million in 2005 was followed by a more substantial net cash loss of \$8.5 billion in 2006 and the trend continued with a \$10.9 billion loss in 2007. If capital and liquidity is needed, the companies within the Aegon USA organization have several available options. These include inter-company loan agreements through which they can borrow funds from one another. Further, because of the importance of the U.S. operations to its parent company, Aegon NV would likely infuse capital should the need arise.

In light of Aegon USA's broad and expanding life insurance and annuity product offerings, diverse distribution capabilities, adequate capital positioning and substantial parent company and inter-company support, we find the company deserving of our Q2 credit rating.

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Strengths:

- Proven support of a large established parent company (Aegon NV)
- Inter-company support structure within Aegon USA
- Leading position in domestic life insurance and annuity products

Weaknesses:

- Substantial exposure to equity market related products (variable annuities)
- Volatile statutory earnings and below average operating performance

Key Statistics — Monumental Life Insurance Company

(\$ millions)	2007	2006	2005	2004	2003	CAGR/ Average
General Account Assets	26,178	24,495	25,379	24,226	23,052	3.23%
Separate Account Assets	11,758	10,900	9,395	9,358	8,749	7.67%
Total Assets	37,935	35,395	34,774	33,584	31,801	4.51%
Capital and Surplus	572	1,549	1,429	1,392	1,564	-22.24%
Net GFO	285	200	362	424	364	-5.91%
Net Income	361	283	355	467	275	7.05%
Return on Assets (Stat.)	1.43%	1.14%	1.43%	1.97%	1.19%	1.43%
Return on Equity (Stat.)	29.61%	17.17%	22.63%	29.96%	17.78%	23.43%
Risk Adjusted Surplus Ratio	89.1%	156.8%	142.6%	142.2%	148.9%	135.9%

Key Statistics — Transamerica Financial Life Insurance Company

(\$ millions)	2007	2006	2005	2004	2003	CAGR/ Average
General Account Assets	8,340	8,245	8,102	8,098	7,621	2.28%
Separate Account Assets	9,431	8,557	8,411	7,692	7,189	7.02%
Total Assets	17,772	16,803	16,513	15,790	14,810	4.66%
Capital and Surplus	813	888	802	691	626	6.75%
Net GFO	117	98	118	110	94	5.48%
Net Income	125	93	117	79	78	12.48%
Return on Assets (Stat.)	1.50%	1.14%	1.44%	1.01%	1.15%	1.25%
Return on Equity (Stat.)	14.67%	11.04%	15.64%	12.05%	13.58%	13.39%
Risk Adjusted Surplus Ratio	227.5%	240.1%	240.2%	217.3%	193.4%	223.7%

Source: Company reports and SEC filings.

Key Statistics — Transamerica Life Insurance Company

(\$ millions)	2007	2006	2005	2004	2003	CAGR/ Average
General Account Assets	40,749	45,055	45,265	30,207	25,675	12.24%
Separate Account Assets	32,760	28,875	23,662	13,878	12,263	27.85%
Total Assets	73,509	73,930	68,927	44,085	37,937	17.98%
Capital and Surplus	1,990	2,043	1,843	1,289	747	27.75%
Net GFO	12	218	289	89	255	-53.65%
Net Income	241	332	299	129	214	3.05%
Return on Assets (Stat.)	0.56%	0.74%	0.79%	0.46%	0.87%	0.68%
Return on Equity (Stat.)	11.98%	14.90%	13.95%	8.08%	15.12%	12.81%
Risk Adjusted Surplus Ratio	147.7%	140.4%	158.4%	152.6%	94.0%	138.6%

Key Statistics — Transamerica Occidental Life Insurance Company

(\$ millions)	2007	2006	2005	2004	2003	CAGR/ Average
General Account Assets	28,235	27,768	26,860	24,838	23,133	5.11%
Separate Account Assets	2,777	2,576	2,828	3,362	3,442	-5.23%
Total Assets	31,012	30,344	29,687	28,200	26,574	3.94%
Capital and Surplus	3,598	2,892	1,933	2,542	1,952	16.52%
Net GFO	-150	-489	-416	498	210	N/A
Net Income	-98	-461	-379	531	171	N/A
Return on Assets (Stat.)	-0.35%	-1.69%	-1.47%	2.21%	0.78%	-0.10%
Return on Equity (Stat.)	-3.02%	-18.36%	-15.56%	21.69%	7.57%	-1.54%
Risk Adjusted Surplus Ratio	244.6%	220.3%	185.4%	228.6%	184.2%	212.6%

Source: Company reports and SEC filings.



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