

June 2011



Aegon USA
Monumental Life, Transamerica Financial Life, Transamerica Life
Credit Summary Report

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

Ratings as of: June 2011
Moody's: A1
S & P: AA-
Fitch: AA-

AEGON USA represents a major part of Netherlands-based AEGON NV America's business unit, and is the parent of Monumental Life Insurance Co., Transamerica Financial Life Insurance Co., and Transamerica Life Insurance Co. AEGON USA focuses primarily on life insurance, health insurance, and asset accumulation products. The U.S. group ranks among the top ten providers of individual life insurance and among the top two providers of individual annuities. Historically, AEGON USA has been a major provider of institutional investment products, such as GICs and funding agreements, but the group has decided to deemphasize its spread-based business and pursue fee-based revenues from asset management and retirement services. AEGON USA has strong distribution diversity, with key channels that include independent and captive agents, financial institutions, and direct-to-consumer marketing.

AEGON NV has stated its four strategic priorities are to reallocate capital to businesses with higher growth and return prospects, improve growth and returns from existing businesses, reduce financial market risk, and manage the group as an international company. As part of a capital preservation strategy, AEGON received EUR3 billion from the Dutch government during the fourth quarter of FY08, a portion of which was down streamed to the US operations to restore statutory capital levels that had been depleted by investment losses. As of 1Q11, AEGON has repaid all but EUR750mm of the capital support, with the remainder to be reimbursed by the end of 1H11 with internal funds and proceeds from recent divestitures. The company has also embarked on a restructuring plan to focus on cost reductions and a de-risking initiative to reduce its sensitivity to the financial markets, which includes running off its institutional spread business in the U.S. Recently, AEGON announced the sale of its reinsurance operations, Transamerica Re, for approximately \$1.2b (EUR900mm) which will be upstreamed to the parent and used to repay the Dutch government. Reinsurance is a high risk business with significantly more earnings volatility than direct life insurance, and the divestiture of this unit is a large step forward in the group's de-risking initiative.

For FY10, AEGON NV reported operating earnings of \$2.1b (+60% y/y) on revenues of \$63b (flat), driven by strong performance in asset management and savings & retirement as a result of the improvement in the financial markets. At the Americas division, FY10 pre-tax operating earnings increased by almost 75% over prior year, as favorable equity markets led to strong sales of variable annuities and positive flows in the retirement segment, as well as fewer investment impairments. During 1Q11, AEGON reported pre-tax operating earnings of \$567mm on operating revenues of \$11.5b, representing a 7% decline and 1% increase on a y-o-y basis. The relatively weak results were driven by a higher than expected longevity reserve impact in the Netherlands, one-off provisions in the UK, and slightly weaker than expected profitability in the US operations. Profitability as measured by operating ROE of 9.8% was 2.5pp lower than at 1Q10; a combination of lower operating earnings and a higher level of shareholders' equity from recent issuance. AGN Americas (70% of OI) reported a tepid 3% y/y increase in operating earnings during 1Q11, as higher fee income related to growth in pensions, variable annuities, and retail mutual funds was sufficient to offset lower spread income. VA earnings were robust at 35% y/y growth, but life and protection results were held back by adverse mortality.

Investment results were generally favorable, as further improvement in the capital markets led to strong gains in alternative investment income, fewer impairments, and relatively stable capital adequacy. AEGON NV held \$185b of general account invested assets at YE10, with 76% allocation to fixed income investments; 94% of which are investment grade. High risk investment exposures include CMBS (7% of FI), RMBS (7%), other ABS (6%), HY corporate bonds (3%), and commercial mortgages (9%). Full year credit impairments of \$602mm, mostly related to losses on RMBS and commercial real estate investments, were much improved compared to \$1.8b of impairments reported a year ago. AEGON's net unrealized gain position of \$661mm was a reversal of \$2.8b in net unrealized losses at YE09. The company still has gross unrealized losses of \$780mm on US RMBS and \$561mm on US financial institutions, which could lead to further impairments if credit conditions worsen. With 55% of general account assets in the U.S., AEGON has greater exposure to U.S. structured assets than most of its European peers, but impairments have steadily declined over the past two years. Further impairments in the investment portfolio will likely lead to lower profitability and reduce statutory capital. Mitigating this concern is the fact that the US operations are of strategic importance to the parent company, representing the majority of consolidated revenue and assets, and would undoubtedly receive capital support if necessary.

AGN reported a European IGD solvency capital ratio of 198%, above its 175% minimum target and representing \$5.2b of excess capital. Core capital of \$25.4b (+32% y/y) was boosted by earnings growth, AOCI, and positive foreign currency impacts. At the U.S. life insurance group, AEGON held \$2.9b of surplus capital representing an RBC ratio of 412%. Despite a 4% y/y decline in total adjusted capital to \$9.2b, AEGON America's capital position remains strong and has benefited from certain risk reduction measures that included the sale of lower-rated structured security investments, a run off of the institutional business, increased hedging of variable annuity liabilities, and an increased use of reinsurance. AEGON NV held \$7b in cash & equivalents at YE10, which covers upcoming debt maturities by almost 2x. During 2010, AEGON USA paid upstream dividends totaling \$2.3b and received capital support of \$468mm. AEGON NV's group shareholders' equity increased by 23% y/y to \$31b, driven by earnings growth and improvement in asset valuation reserves. Financial leverage as measured by debt-to-capital was reduced to 37% at YE10, down from 40% at YE09, mostly as a result of improved shareholders' equity.

Moody's and S&P maintain a negative outlook on AEGON and its subsidiaries, reflecting the inherent risk the company faces in regards to sensitivity of its business to investment market volatility, as well as persistently weak economic conditions. In July 2010, Fitch Ratings downgraded the long term ratings of AEGON and its operating companies by one notch, reflecting concerns regarding higher than expected capital and earnings volatility due to credit investment losses and equity volatility exposure linked to guaranteed benefits on variable annuities. De-risking through asset and business divestments, hedges against annuity risk, and dividend curtailment have helped AEGON preserve its capital adequacy and will contribute to stronger statutory profitability going forward. AEGON USA has a strong competitive position supported by well recognized brands in Transamerica and Monumental, economies of scale, and strong distribution capabilities across diverse business lines.

Aegon USA

Monumental Life | Transamerica Financial Life | Transamerica Life

Strengths:

- Strong focus on profitable wealth accumulation, life insurance, and pension products
- Well-diversified business lines, product offerings, and distribution channels
- Strong capital adequacy and effective enterprise risk management capabilities

Weaknesses:

- Significant equity market and interest rate exposure
- Investment exposures to riskier assets, including non-agency RMBS, CMBS and commercial mortgages
- Challenges in implementing its de-risking strategy while mitigating any potential impact on its competitive position

Key Statistics - Monumental Life Insurance

(\$ millions)	2010	2009	2008	2007	2006	CAGR/Avg
General Account Assets	21,339	24,332	26,720	26,178	19,637	2.10%
Separate Account Assets	11,512	10,396	8,811	11,758	261	157.71%
Total Assets	32,851	34,728	35,531	37,936	19,898	13.35%
Capital & Surplus	1,174	1,437	1,236	732	876	7.59%
NET GFO	22	436	529	285	92	-30.07%
Net Income	-1	192	344	361	155	N/A
Return on Assets (Stat.)	0.00%	0.55%	0.97%	0.95%	0.78%	0.65%
Return on Capital (Stat.)	-0.04%	13.36%	27.83%	49.32%	17.69%	21.63%
RBC Ratio (ACL)	1326.8%	651.2%	920.2%	555.2%	666.8%	824.0%

Key Statistics - Transamerica Financial Life Insurance

(\$ millions)	2010	2009	2008	2007	2006	CAGR/Avg
General Account Assets	10,045	9,703	9,684	8,340	8,245	5.06%
Separate Account Assets	14,267	11,234	9,109	9,431	8,557	13.63%
Total Assets	24,312	20,937	18,793	17,771	16,802	9.68%
Capital & Surplus	795	912	806	813	888	-2.73%
NET GFO	136	460	(324)	117	98	8.54%
Net Income	70	275	(297)	125	93	-6.86%
Return on Assets (Stat.)	0.29%	1.31%	-1.58%	0.70%	0.55%	0.26%
Return on Capital (Stat.)	8.81%	30.15%	-36.85%	15.38%	10.47%	5.59%
RBC Ratio (ACL)	783.1%	848.6%	655.4%	1035.5%	1085.1%	881.5%

Key Statistics - Transamerica Life Insurance Co.

(\$ millions)	2010	2009	2008	2007	2006	CAGR/Avg
General Account Assets	68,516	68,250	76,467	40,749	45,055	11.05%
Separate Account Assets	38,371	33,206	27,405	32,760	28,875	7.37%
Total Assets	106,887	101,456	103,872	73,509	73,930	9.65%
Capital & Surplus	4,298	5,027	4,927	1,990	2,043	20.43%
NET GFO	475	601	(895)	12	218	21.50%
Net Income	418	(100)	(528)	241	332	5.93%
Return on Assets (Stat.)	0.39%	-0.10%	-0.51%	0.33%	0.45%	0.11%
Return on Capital (Stat.)	9.73%	-1.99%	-10.72%	12.11%	16.25%	5.08%
RBC Ratio (ACL)	803.0%	866.0%	823.2%	585.8%	623.8%	740.4%

Sources: Company Reports and SEC filings

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