

December 2009



AEGON USA
 Monumental Life • Transamerica Financial Life • Transamerica Life
Credit Summary Report

RATING: Q2
Other Ratings as of: December 2009
Moody's: A1
S & P: AA-

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

AEGON USA represents the major part of Dutch-based AEGON NV Americas' business unit and is the parent company's largest single operation, accounting for a majority of the consolidated entity's assets. Subsidiaries of AEGON USA include Monumental Life Insurance, Transamerica Financial Life Insurance and Transamerica Life Insurance Company. AEGON USA focuses primarily on life insurance, health insurance, asset accumulation products, and reinsurance. It ranks among the top ten providers of individual life insurance and among the top two among providers of individual annuities. AEGON USA has been a major provider of institutional investment products, such as GICs and funding agreements. AEGON USA has announced plans to downsize this business and its investments in structured and alternative products as a result of the financial turmoil. Key distribution channels include financial institutions, independent and institutional agents, direct marketing, and financial planners.

In October 2008, AEGON NV announced it had secured EUR 3 billion of capital from the Dutch State, which \$1.3 billion was down-streamed to Aegon USA, in order to maintain a capital buffer in excess of AA requirements. In November 2008, the company announced that it intended to focus on capital preservation, cost reductions, and the development of contingency plans for continued deterioration in financial markets. As part of a strategic review to ensure a reduction in sensitivity to financial markets, AEGON decided to run off its institutional spread-based business in the Americas. AEGON has submitted a restructuring plan to the European Commission, required of all financial institutions that received support during the financial crisis; although plans have yet to be approved, it is unlikely they will be required to divest significant operations like ING has been required to do. AEGON's capital position has improved this year and the company announced it will repay EUR 1 billion to the Dutch government following a successful equity issue.

Equity market risk inherent in the variable annuity portfolio has negatively impacted AEGON USA's profitability, with lower fees from asset balances and higher required levels of reserves for guaranteed benefits. AEGON Americas reported a loss of \$2 billion for the full year 2008, stemming from \$1.1 billion in impairment charges on mortgaged-backed securities and corporate bonds and \$2.4 billion in mark-to-market losses on credit derivatives and products with guarantees. The AEGON USA life

subsidiaries ended 2008 with average risk-based capital of 312%. Although comfortably in compliance with NAIC guidelines, the ratio would have been lower without the benefit of the \$1.3 billion capital contribution from the parent company. Transamerica Life had an RBC ratio of 412% at yearend, Monumental Life's RBC ratio was 460%, and Transamerica Financial's was 328%.

Rating agencies responded to 2008 results with downgrades, citing diminished liquidity in AEGON USA's institutional markets division, the likelihood of continuing pressure on capital adequacy from investment losses, significant exposure to the equity markets in the variable annuities book, albeit mitigated by a hedging program, and the prospect of weaker earnings.

AEGON Americas returned to profitability in the second quarter of 2009. Net underlying earnings in the Americas (\$359 million for the third quarter, \$645 million YTD) were impacted by lower spreads, reduced fees and accelerated deferred policy acquisitions costs. Fair value items declined \$97 million, the result of a \$252 million hedging loss on the variable annuity portfolio. Realized losses on investments were \$98 million from trading in its bond portfolio. Impairments totaled \$287 million (\$1.1 billion YTD), which \$117 million was in structured assets.

AEGON USA still has significant exposure to higher risk assets. At the end of the third quarter, AEGON Americas had \$125 billion in investments, including \$22 billion in structured assets, \$50 billion in investment grade corporates, \$6.5 billion in high yield and emerging markets debt, \$15 billion in commercial real estate, and \$3.6 billion in equities. Below investment grade holdings have expanded significantly this year, and now stand at \$7.3 billion. The structured portfolio has significant exposure to subprime and Alt-A securities. Unrealized losses in the structured portfolio were \$5 billion, including \$1.4 billion in the CMBS portfolio and \$1.4 billion in subprime and second lien residential mortgages. Unrealized losses in the investment grade corporate portfolio are mainly in the financial sector. Further impairments in the investment portfolio, as well as diminished earnings, will likely lead to lower risk-based capital ratios in 2009. However, AEGON USA remains of strategic importance to its parent company, as the largest part of its revenue and assets, and as such is likely to receive support if necessary.

AEGON USA

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Strengths:

- Leading market positions in individual life insurance and annuity products
- Diverse distribution channels
- Strategic importance to parent company, AEGON NV

Weaknesses:

- Large exposure to higher-risk securities
- Exposure to volatility in equity markets
- Large book of variable annuities with secondary guarantees

Key Statistics - Monumental Life Insurance

(\$ millions)	2008	2007	2006	2005	2004	CAGR/ Average
General Account Assets	26,720	26,178	24,495	25,379	24,226	2.48%
Separate Account Assets	8,811	11,758	10,900	9,395	9,358	-1.49%
Total Assets	35,531	37,935	35,395	34,774	33,584	1.42%
Capital and Surplus	1,263	732	876	885	937	7.75%
Net GFO	529	285	200	362	424	15.23%
Net Income	344	361	283	355	467	1.20%
Return on Assets (Stat.)	0.90%	1.43%	1.14%	1.43%	1.97%	-14.70%
Return on Equity (Stat.)	26.10%	29.61%	17.17%	22.63%	29.96%	-2.35%
NAIC RBC Ratio	460%	278%	334%	300%	276%	13.62%

Key Statistics - Transamerica Financial Life Insurance

(\$ millions)	2008	2007	2006	2005	2004	CAGR/ Average
General Account Assets	9,864	8,340	8,245	8,102	8,098	4.57%
Separate Account Assets	9,108	9,431	8,557	8,411	7,692	4.31%
Total Assets	18,792	17,772	16,803	16,513	15,790	4.45%
Capital and Surplus	806	813	888	802	691	3.92%
Net GFO	-324	117	98	118	110	N.M.
Net Income	-297	125	93	117	79	N.M.
Return on Assets (Stat.)	-1.62%	1.50%	1.14%	1.44%	1.01%	N.M.
Return on Equity (Stat.)	-32.9%	14.67%	11.04%	15.64%	12.05%	N.M.
NAIC RBC Ratio	328%	518%	542%	434%	334%	-0.45%

Sources: Company reports and SEC filings.

AEGON USA

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Key Statistics - Transamerica Life

(\$ millions)	2008	2007	2006	2005	2004	CAGR/ Average
General Account Assets	76,467	40,749	45,055	45,265	30,207	26.14%
Separate Account Assets	27,405	32,760	28,875	23,662	13,878	18.54%
Total Assets	103,872	73,509	73,930	68,927	44,085	23.89%
Capital and Surplus	4,927	1,990	2,043	1,843	1,289	27.51%
Net GFO	-895	12	218	289	89	N.M.
Net Income	-528	241	332	299	129	N.M.
Return on Assets (Stat.)	-0.60%	0.56%	0.74%	0.79%	0.46%	N.M.
Return on Equity (Stat.)	-11.70%	11.98%	14.90%	13.95%	8.08%	N.M.
NAIC RBC Ratio	412%	293%	312%	343%	329%	5.79%

Sources: Company reports and SEC filings.

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STRATEGIES

► A BNY MELLON ASSET MANAGEMENT COMPANYSM

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