

Report of Examination of

Western Reserve Life Assurance Co. of Ohio
Columbus, Ohio

As of December 31, 2009

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Columbus, Ohio
February 23, 2011

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Honorable Joseph Torti III
Chairman, NAIC Financial Condition (E) Committee
Deputy Director and Superintendent
Insurance and Banking
State of Rhode Island
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920

Dear Directors:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Western Reserve Life Assurance Co. of Ohio

an Ohio domiciled, stock, life and accident and health insurance company, hereinafter referred to as the “Company”.

Scope of Examination

The Department last examined the Company as of December 31, 2004. The Department’s current examination covers the period of January 1, 2005 through December 31, 2009.

Representatives of the Iowa Insurance Division, as the coordinating state regulator of the insurance company affiliates of AEGON USA, LLC, led the multi-state coordinated examination that included representatives from the states of Arkansas, New York, Ohio and Vermont. The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For all years under examination, the Certified Public Accounting firm of Ernst & Young LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

Name	Principal Occupation
Charles T. Boswell	Chief Executive Officer, Western Reserve Life Assurance Co. of Ohio
Brenda K. Clancy	Executive Vice President and Chief Operating Officer, AEGON USA, LLC
John R. Hunter	Chief Financial Officer - Life and Protection, Western Reserve Life Assurance Co. of Ohio
Arthur C. Schneider	Senior Vice President and Chief Tax Officer, AEGON USA, LLC
Timmy L. Stonehocker	Chairman of the Board, Western Reserve Life Assurance Co. of Ohio

Officers

As of the examination date, the following officers were serving in the designated position:

Name	Title
Brenda K. Clancy	President
William H. Geiger	Secretary, Group Vice President, Compliance & Corporate Counsel
Eric J. Martin	Vice President and Corporate Controller

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company is wholly owned by AEGON USA, LLC ("AEGON USA"), an Iowa domiciled holding company that conducts substantially all of its insurance operations through subsidiary companies. AEGON USA's ultimate parent is Vereniging AEGON Netherlands Membership Association, organized under the laws of The Netherlands. All of the U.S. domiciled AEGON companies share senior and investment management, as well as support services.

Territory and Plan of Operations

The Company is licensed to operate in the District of Columbia, Guam, Puerto Rico, and all states except New York. Operations are focused on variable universal life and variable annuity contracts. The Company utilizes a diversified distribution system including financial planners, independent representatives, financial institutions and stockbrokers. The majority of the Company's new life insurance, and a portion of new annuities, are written through an affiliated marketing organization.

During 2009, the largest states in terms of direct premium and annuity considerations were as follows: California, \$251.6 million (32.6%); Illinois, \$76.3 million (9.9%); Texas, \$64.2 million (8.3%); and all other jurisdictions, \$378.5 million (49.2%).

The following schedule illustrates the Company's 2009 premiums and annuity considerations for life and accident and health contracts:

<u>Line of Business</u>	<u>Direct</u>	<u>Assumed</u>	<u>Ceded</u>	<u>Net Premium</u>
Ordinary life insurance	\$ 584,837,822	\$ 3,556,697	\$ 87,784,732	\$ 500,609,787
Ordinary individual annuities	110,258,147	-	17,120,904	93,137,243
Group life insurance	1,967,833	-	657,424	1,310,409
Group annuities	58,290,874	-	-	58,290,874
Group accident and health	<u>12,818,581</u>	<u>-</u>	<u>11,543,593</u>	<u>1,274,988</u>
Totals	<u>\$ 768,173,257</u>	<u>\$ 3,556,697</u>	<u>\$ 117,106,653</u>	<u>\$ 654,623,301</u>

Reinsurance

Effective October 1, 2008, the Company recaptured various guaranteed minimum death benefit riders included in certain of its variable annuity contracts that were previously ceded to Transamerica International Re (Bermuda) Ltd. ("TIRE"), an affiliate, under a 2001 reinsurance agreement.

The Company entered into an indemnity reinsurance agreement effective December 31, 2008, with TIRE, to cede on a 100% quota share basis the net liabilities associated with certain of the Company's variable annuity products on a coinsurance and modified coinsurance basis. The initial premium was \$2 billion.

Significant Operating Results

The Company reported the following net gains from operations, after dividends to policyholders and federal income taxes, by line of business during the examination period:

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Ordinary life insurance	\$ 101,086,373	\$ 41,001,315	\$ 106,442,046	\$ 79,069,377	\$113,044,863
Ordinary individual annuities	40,018,446	(100,507,769)	21,514,038	30,802,416	(5,175,863)
Ordinary supplementary contracts	(113,303)	(476)	3,069,616	5,071	(491,355)
Group life insurance	(752,656)	22,401	(604,788)	284,197	(1,171,387)
Group annuities	(397,838)	(81,620)	3,857,441	1,482,900	(1,076,992)
Group accident and health	<u>78,460</u>	<u>69,591</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 139,919,482</u>	<u>\$ (59,496,558)</u>	<u>\$ 134,278,353</u>	<u>\$ 111,643,961</u>	<u>\$ 105,129,266</u>

Financial Statements

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus

Summary of Operations

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2009**

Bonds	\$ 781,753,754
Common stock	32,187,141
Mortgage loans on real estate	12,504,703
Real estate properties occupied by the company	37,082,494
Cash, cash equivalents, and short term investments	149,149,970
Contract loans	378,682,564
Other invested assets	<u>6,363,379</u>
Subtotal, cash and invested assets	1,397,724,005
Investment income due and accrued	8,072,997
Uncollected premiums in course of collection	34,781
Deferred premiums, agents' balances and installments	3,445,667
Amounts recoverable from reinsurers	2,689,272
Other amounts receivable under reinsurance contracts	684,471
Current federal and foreign income tax recoverable	2,316,683
Net deferred tax asset	142,939,580
Guaranty funds receivable or on deposit	781,226
Receivables from parent, subsidiaries, and affiliates	18,156,015
Company owned life insurance	68,798,362
Accounts receivable	8,917,972
Miscellaneous assets	<u>1,619,723</u>
Total assets, excluding Separate Accounts	1,656,180,754
From Separate Accounts	<u>7,165,200,678</u>
Total assets	<u>\$ 8,821,381,432</u>

Statement of Assets, Liabilities, Capital and Surplus
December 31, 2009

Aggregate reserve for life contracts	\$ 1,716,595,337
Aggregate reserve for accident and health contracts	811,354
Liability for deposit-type contracts	15,141,000
Contract claims: life	19,997,863
Premiums and annuity considerations received in advance	40,459
Other amounts payable on reinsurance	4,343,556
Interest maintenance reserve	25,879,074
Commissions to agents due or accrued	56,649
General expenses due or accrued	13,716,776
Transfers to Separate Accounts due or accrued	(619,014,407)
Taxes, licenses and fees due or accrued	6,614,620
Unearned investment income	9,933,195
Amounts withheld or retained by company as agent or trustee	721,123
Amounts held for agents' account	44,796
Remittances and items not allocated	24,099,073
Asset valuation reserve	8,484,464
Reinsurance in unauthorized companies	15,923,028
Funds held under reinsurance treaties with unauthorized reinsurers	4,912,593
Payable to parent, subsidiaries and affiliates	22,516,999
Amounts incurred under modified coinsurance agreements	21,468,738
Derivatives	<u>748,196</u>
Total liabilities, excluding Separate Accounts	1,293,034,486
From Separate Accounts	<u>7,165,200,678</u>
Total liabilities	<u>8,458,235,164</u>
Common capital stock	2,500,000
Increase in admitted deferred tax assets pursuant to SSAP No. 10R	46,065,933
Gross paid in and contributed surplus	149,627,109
Unassigned funds	<u>164,953,226</u>
Total capital and surplus	<u>363,146,268</u>
Total liabilities, capital and surplus	<u>\$ 8,821,381,432</u>

**Summary of Operations
As of December 31, 2009**

Premiums and annuity considerations for life and A&H contracts	\$ 654,623,301
Considerations for supplementary contracts w/ life contingencies	1,628,055
Net investment income	48,370,825
Amortization of interest maintenance reserve	(83,491)
Separate Accounts net gain from operations	47
Commissions and expense allowances on reinsurance ceded	43,775,610
Reserve adjustments on reinsurance ceded	(29,698,283)
Income from fees associated with Separate Accounts	342,328,960
Miscellaneous income	27,200,588
Income earned on company owned life insurance	<u>2,474,246</u>
Total	<u>1,090,619,858</u>
Death benefits	82,897,358
Matured endowments	19,264
Annuity benefits	28,747,721
Disability benefits and benefits under A&H contracts	572,145
Surrender benefits and withdrawals for life contracts	696,517,253
Interest and adjustments on contract or deposit-type contract funds	1,116,891
Payments on supplementary contracts with life contingencies	777,951
Increase in aggregate reserves for life and A&H contracts	<u>(18,033,470)</u>
Total	792,615,113
Commissions on premiums	122,959,956
General insurance expenses	98,957,976
Insurance taxes, licenses and fees	18,938,439
Increase in loading on deferred and uncollected premiums	470,072
Net transfers from Separate Accounts	(124,118,148)
Investment interest expense on funds withheld	99,904
Fines and penalties	<u>266</u>
Total	<u>909,923,578</u>
Net gain from operations before dividends and taxes	180,696,280
Dividends to policyholders	25,641
Federal income taxes incurred	<u>40,751,157</u>
Net gain from operations before realized capital losses	<u>139,919,482</u>
Net realized capital gains (losses)	<u>(24,264,209)</u>
Net income	<u>\$ 115,655,273</u>

Statement of Changes in the Capital and Surplus Account
(in thousands)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Capital and surplus, Dec. 31, prior year	<u>\$280,092</u>	<u>\$488,703</u>	<u>\$467,098</u>	<u>\$391,449</u>	<u>\$277,921</u>
Net income (loss)	115,655	(59,128)	131,655	111,989	104,546
Change in net unrealized cap. gains (losses)	161	1,738	638	(28,376)	17,411
Change in net deferred income tax	9,428	(7,620)	8,842	9,595	22,511
Change in non-admitted assets	49,263	7,856	(6,561)	(42,577)	(27,593)
Change in liability for reins. unauthor. cos.	(14,749)	(1,174)	-	259	(259)
Change in asset valuation reserve	(4,104)	2,715	(1,238)	7,026	(2,828)
Surplus (contributed) withdrawn - Sep. Acct.	-	1	(1)	537	1,906
Other changes in surplus in Sep. Acct.	-	(1)	1	(678)	(2,147)
Cumulative changes in acct. principles	(6)	-	-	2	-
Surplus paid-in	(7)	(1,625)	(522)	1,674	-
Change in surplus as a result of reinsurance	(8,331)	3,543	(1,209)	(970)	(1,185)
Dividends to stockholders	(65,000)	(200,000)	(110,000)	(2,000)	-
Aggregate write-ins for gains in surplus	<u>744</u>	<u>45,084</u>	<u>-</u>	<u>19,168</u>	<u>1,166</u>
Net change in surplus for the year	<u>83,054</u>	<u>(208,611)</u>	<u>21,605</u>	<u>75,649</u>	<u>113,528</u>
Capital and surplus, Dec. 31, current year	<u>\$363,146</u>	<u>\$280,092</u>	<u>\$488,703</u>	<u>\$467,098</u>	<u>\$391,449</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3907.14 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Aggregate Reserves

The Company's Board of Directors appointed Donald Krouse, FSA, MAAA, Vice President and Actuary of Transamerica Life Insurance Company, an affiliate, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Krouse prepared an Actuarial Memorandum supporting the Opinion in connection with the preparation of the Company's December 31, 2009 Annual Statement.

Carl Harris, FSA, MAAA of Insurance Strategies Consulting, LLC, was retained by the Department to perform an actuarial review and report on the assumptions and procedures used by the Company in the determination of its reserves.

Peter Weber, ASA, MAAA, Life Actuary with the Department, reviewed the actuarial report prepared by Mr. Harris. In addition, Mr. Weber performed supplemental procedures as he considered necessary. Based on his analysis, Mr. Weber determined that the reserves presented in the Company's 2009 Annual Statement are consistent with requirements in Ohio law.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

Total Assets	<u>\$ 8,821,381,432</u>
Liabilities	\$ 8,458,235,164
Capital and Surplus	<u>363,146,268</u>
Total Liabilities, Capital and Surplus	<u>\$ 8,821,381,432</u>

Subsequent Events

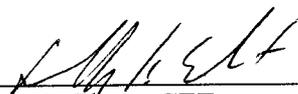
In 2010, Mr. Stonehocker resigned and was replaced by Mr. Darryl Button on the Company's Board of Directors. Ms. Clancy currently serves as Chairman of the Board and President of the Company.

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company and its affiliates during the course of this examination.

In addition to the undersigned, David T. Finkler, CPA and Peter A. Weber, ASA, MAAA, of the Department participated in this examination.

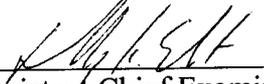
Respectfully,



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2009.

 5/24/11
Assistant Chief Examiner Date

State of Ohio

County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 24 day of May, 2011.


(Notary Public)

3-28-2016
My Commission Expires

KIMBERLY ANN LOWRY
NOTARY PUBLIC • STATE OF OHIO
Recorded in Franklin County
My commission expires Mar. 28, 2016