

Report of Statutory Examination
As of December 31, 2009
of
Stonebridge Life Insurance Company

NAIC Company Code 65021

NAIC Group Code 0468

by the

Vermont Department of Banking, Insurance, Securities
and Health Care Administration
Division of Insurance



The attached report of examination made of the condition and affairs as of December 31, 2009 of:

Stonebridge Life Insurance Company

Rutland, VT

was recently completed by duly qualified examiners of the State of Vermont Department of Banking, Insurance, Securities and Health Care Administration.

Due consideration has been given to the comments of the examiners regarding the operations of Stonebridge Life Insurance Company and its financial condition, as reflected in this report. This report is hereby, as of this date, approved, adopted, filed and made an official record of this Department.

IN WITNESS WHEREOF, I have
hereunto set my hand, and affixed the
official seal of this Department at the
City of Montpelier this 13th day of
June, 2011.

Susan L. Fonegan, Acting Commissioner
Stephen W. Kimbell, Commissioner

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Stonebridge Life Insurance Company

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February 23, 2011

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Deputy Director and Superintendent of
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Stephen W. Kimbell
Commissioner of Banking, Insurance,
Securities and Health Care Administration
89 Main Street
Montpelier, VT 05620-3101

Dear Commissioners and Superintendents:

Pursuant to your instructions and in compliance with statutory requirements, an examination has been made for the examination period ended December 31, 2009 of the financial condition, business affairs, transactions, and accounts and records of:

Stonebridge Life Insurance Company

Statutory Home Office Location

187 West Street, Rutland, VT, 05702

The following examination report is respectfully submitted.

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Scope of Examination

The National Association of Insurance Commissioners (NAIC) favors the association examination system, which allows a representative number of states to adequately plan and devote resources to the financial examinations of multi-state licensed insurers. Our association examination was conducted in coordination with the Arkansas, Iowa, New York and Ohio Insurance Departments' examinations of the financial condition and activities of the following affiliated companies (listed by state of domicile):

- Arkansas: Transamerica Advisors Life Insurance Company ("TALIC") – NAIC #79022
- Iowa: Monumental Life Insurance Company ("MLIC") – NAIC #66281
Transamerica Life Insurance Company ("TLIC") – NAIC #86231
- New York: Transamerica Advisors Life Insurance Company of NY ("TALICNY") - NAIC #82848
Transamerica Financial Life Insurance Company ("TFLIC") – NAIC #70688
- Ohio: Stonebridge Casualty Insurance Company ("SCIC") – NAIC #10952
Western Reserve Life Assurance Co. of Ohio ("WRLAC") – NAIC #91413

The Reports on Examination of these companies (Companies) will be issued under separate cover by their domicile state.

We have performed our association examination of Stonebridge Life Insurance Company (the Company) as of December 31, 2009. The prior examination of the Company was conducted as of December 31, 2004. The current examination covered the period January 1, 2005 through December 31, 2009. As necessary, the examination team reviewed transactions occurring subsequent to December 31, 2009, but prior to the date of this report (i.e. the completion date of the examination).

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We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (FCEH). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating 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, and, when applicable, to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Reliance on Outside Entities

Pursuant to Vermont Regulations, the Company requested the independent accounting firm of Ernst & Young LLP to make available for review, all work papers pertinent to the audit of the Company's financial statements for the year ended December 31, 2009. The examiners reviewed their work papers and considered possible similarities in the examination approach and that of Ernst & Young. It was noted that Ernst & Young performed a consolidated audit of the ultimate U.S. Parent; AEGON USA, LLC (AEGON USA) and its affiliates.

The Companies' Internal Audit Department ("IAD"): IAD is headquartered in Cedar Rapids, IA, and has a staff of 45 auditors located primarily in Cedar Rapids, but others are located at a few key business locations. In addition to the traditional IAD function, the IAD Director manages the Operational Risk Management ("ORM") process, and also the Sarbanes Oxley ("SOX") / Model Audit Rule group. The Companies' SOX program began in 2006; the first year foreign filers were obligated to comply with the regulation. IAD leverages the risk assessment programs executed by other groups within the Companies' business areas including: ORM, IT Risk, SOX, and Investment Risk areas. The examiners requested several audit reports determined to be significant, or completed in areas considered to be significant. The examiners found them to be complete, informative and prepared in a professional and thorough manner. In addition, the

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emphasis placed on control testing and risk assessment was completed in a very thorough and competent manner. The examiners exercised professional judgment and determined that the work completed by IAD provided a strong basis for reliance, and the workpapers were utilized to the extent possible.

Summary of Significant Findings

There were no significant findings noted as a result of this examination.

Subsequent Events

On December 30, 2010, The Vermont Department of Banking, Insurance, Securities & Health Care Administration (the Department) approved a Reinsurance Agreement effective October 1, 2010 between the Company and an affiliate, Transamerica International Re (Bermuda), Ltd. (TIRE). The transaction materially impacted several balance sheet and income statement items. The agreement ceded certain whole life, graded death benefit whole life and term life insurance policies on a coinsurance funds withheld basis. The Company released reserves of \$853.5 million, paid consideration of \$693.7 million and received a ceding commission of \$125.3 million. Additionally, an interest maintenance reserve in the amount of \$22.4 million was transferred to TIRE. The transaction generated a \$200 million gain, net of tax, which was credited directly to unassigned surplus. \$1.2 million was amortized into earnings during 2010. As of December 31, 2010, the Company had \$898.4 million recoverable from TIRE, an unauthorized reinsurer, collateralized by a letter of credit and funds withheld. The Department also approved a request for permission for the Company to issue a \$130 million extraordinary dividend and return of capital to Commonwealth General Corporation, the Company's immediate parent. It was comprised of a \$107 million extraordinary dividend and a \$23 million return of capital.

The Department did not perform subsequent events review procedures between the date of this report and the date of issuance. However, in March of 2011, the Department became aware of a significant jury award in Los Angeles Superior Court against the Company involving an

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accident-indemnity policy. As of the issue date of this report, a judgment has not yet been entered. The Company has filed a Motion for a Judgment Notwithstanding the Verdict. The trial court has not yet ruled on that post trial Motion.

Subsequent to December 31, 2009, the CEO of AEGON USA retired and was replaced by Mark Mullin, a senior executive with a seasoned tenure with AEGON USA.

In 2010, the Company moved its statutory home office address to 187 West Street, Rutland Vermont.

Company History

The Company was chartered as the Vermont Accident Insurance Company by the Vermont legislature in 1900 and incorporated on November 19, 1900. The Company officially commenced business on May 7, 1906, writing business on the advance premium mutual plan until February 15, 1949, at which time the Company converted to a stock company.

In 1967, the Company was acquired by J.C. Penney Company, Inc. and subsequently renamed J.C. Penney Life Insurance Company. Effective January 1, 1979, J.C. Penney Insurance Company (California) and J. C. Penney Life Insurance Company (Vermont) were merged, with the surviving company being domiciled in Vermont.

On June 18, 2001, Commonwealth General Corporation, a Delaware holding company, acquired J.C. Penney Life Insurance Company and its subsidiary Stonebridge Insurance Company, from J.C. Penney Company, Inc.

Effective April 1, 2002, Stonebridge Insurance Company (Wisconsin) was merged into J.C. Penney Life Insurance Company. On May 17, 2002, J.C. Penney Life Insurance Company changed its name to Stonebridge Life Insurance Company.

Effective July 1, 2007 Veterans Life Insurance Company, an affiliated Illinois domiciled

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insurance company merged into the Company.

The Company is the parent of three Vermont domiciled captive insurance companies (MLIC Re I, Inc., Pine Falls Re, Inc. and Stonebridge Reinsurance Company), which provide reinsurance to affiliated companies.

All outstanding shares of Stonebridge Life Insurance Company are owned by Commonwealth General Corporation (Delaware), which is 100% owned by AEGON U.S. Holding Corporation, which is owned by Transamerica Corporation (Delaware). Transamerica Corporation is owned by The AEGON Trust (Delaware), which is owned by AEGON International B.V. (the Netherlands). AEGON International B.V., through its parent AEGON N.V. is ultimately controlled by Vereniging AEGON, a Netherlands Membership Association.

Corporate Records

The Company's registered office is located in Rutland, Vermont. The Company's main administrative offices and the majority of its corporate functions take place in Cedar Rapids, Iowa. Examiners reviewed the minutes of the Board of Directors and key committees thereof and determined that the minutes adequately approve and support Company transactions and events and that the meetings and minutes are in compliance with the Company's articles and by-laws.

Management and Control

The Companies are fully integrated and share certain senior and investment management, as well as support services. The corporate governance framework of AEGON USA and its subsidiary Companies has been approved by its Board of Directors and the Dutch Supervisory Board. AEGON USA's corporate governance is aimed at identification and fulfillment of sound strategic and financial objectives, and is to be supported by relevant business planning and proactive resource allocation. The Company's Directors and Officers as of December 31, 2009 were as follows:

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Directors

Craig D. Vermie	Martha A. McConnell
Marilyn Carp	Brian A. Smith
Brenda K. Clancy	Darryl D. Button
Glyn D. Mangum Jr.	

Officers

Marilyn Carp,	President and Chairman of the Board
Craig D. Vermie,	SVP, Secretary and General Counsel
Eric J. Martin,	VP and Corporate Controller

It was noted that many of the above Officers and Directors also serve other affiliate companies, in line with the group's strategy of full integration of the U.S. operations across entities.

Management, Administrative and Cost Sharing Agreements with Affiliates

- AEGON USA Realty Advisors, LLC, an affiliate, provides investment, advisory, legal, accounting, recordkeeping and various administrative services as detailed in an agreement with the Company.
- The Company is party to an investment management agreement with AEGON USA Investment Management, LLC (AIM), an affiliate, which provides that for a quarterly fee, AIM will perform research, portfolio management and periodic reporting for the Company.
- The Company operates under a common cost allocation service arrangement with other affiliated companies based upon generally accepted accounting principles. Operating divisions perform specified administrative functions in connection with the operation of the various insurance companies in consideration of actual costs of services rendered.
- The Company operates under a common tax allocation agreement where the consolidated federal income tax returns are filed for the benefit of individual affiliated companies.

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Fidelity Bonds and Other Insurance

A review of the insurance coverages maintained for the entire United States domiciled AEGON companies found adequate coverage is maintained protecting the Company's various interests, including a Fidelity Bond issued by Federal Insurance Company (Chubb) in the amount of \$5 million, which is in accordance with NAIC recommendations.

Pension and Other Postretirement Plans

The Company's employees participate in a qualified defined benefit plan sponsored by AEGON USA. Benefits are based on years of service and compensation history. The Company has no legal obligation for the plan. Pension expense was \$5.2 million in 2009. The Company's employees also participate in a defined contribution plan sponsored by AEGON USA which is qualified under sec. 401(K) of the IRS Code. Employer matching expense related to this plan was \$2.2 mil. in 2009. Senior management benefit from a supplemental retirement plan sponsored by AEGON USA designed to provide benefits in excess of those provided through the qualified plan. In addition to pension benefits, the Company also participates in plans sponsored by AEGON USA that provide post-employment medical, dental and life insurance benefits for certain qualifying employees. The Company expensed \$0.6 million related to these benefits in 2009.

Territory and Plan of Operations

The Company is licensed in 49 states, and the District of Columbia, and provides traditional ordinary life, credit, and accident and health insurance through credit card issuers. A branch office was located in Toronto, Canada to facilitate Canadian operations until late in the year, at which time the Company withdrew its license in Canada.

Growth of the Company

The table below highlights the Company's growth since the last Statutory Examination which was performed as of December 31, 2004:

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All amounts are presented in thousands

	12/31/2004	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009
Life Insurance in Force	\$10,035,846	\$9,917,375	\$9,400,250	\$11,164,371	\$10,993,928	\$11,095,270
Premium Income	590,183	541,830	529,475	534,995	518,714	509,900
Total Admitted Assets	1,860,351	1,882,528	1,885,014	2,206,086	2,138,240	2,024,829
Total Liabilities	1,748,504	1,740,113	1,759,024	1,964,552	1,965,794	1,842,688
Total Surplus	109,347	139,915	123,490	239,034	169,946	179,641
Net Gains from Operations	126,874	158,164	125,608	111,967	209,942	141,210

Note: Veterans Life Insurance Company merged into the Company in 2007, amounts presented above prior to 2007 have not been restated for the effect of the merger.

Mortality and Loss Experience

The Company reported the following benefit, withdrawal and surrender activity in 2009:

Death Benefits	\$ 133,743,073
Annuity Benefits	\$ 2,271
Disability Benefits and Benefits under A&H Contracts	\$ 101,848,356
Surrender Benefits and Withdrawals	\$ 13,551,791

Total Premium, investment and other income for the above period was approximately \$625 million.

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Reinsurance

Ceded-Life/Annuity

In the normal course of business, the Company's life cessions are a minor portion of the Company's operations. In 2009, the Company took reserve credits of \$15.8 million representing approximately 1.5% of the aggregate reserves for life contracts of just over \$1 billion. However, as discussed in greater detail in the Subsequent Events section above, a significant reinsurance agreement effective October 1, 2010 between the Company and an affiliate, Transamerica International Re (Bermuda), Ltd. (TIRe) was the driving force behind a material reduction in the Company's aggregate reserves for life contracts.

Ceded-Accident & Health (A&H)

The Company does not routinely engage in significant A&H cessions, however as a result of a 1994 agreement, long term care business is 100% ceded to Senior Health Insurance Company of Pennsylvania, which is an unauthorized reinsurer. A trust agreement is in place to collateralize the reserve credit taken by the Company. As of December 31, 2009, the value of the trust was approximately \$271 million, collateralizing \$199.6 million of reserve credits, which is significant relative to the Company's total aggregate reserves for A&H contracts of \$542 million and Capital & Surplus of \$182 million at December 31, 2009.

Assumed

For both A&H and Life business, aside from the agreement with an affiliate detailed below, the Company does not engage in significant reinsurance assumptions. Total assumed premium of \$38 million in 2009 amounts to approximately 7% of total direct premium. The only material assumption agreement is with an affiliate, Monumental Life (Iowa). This agreement represented \$37.9 million of the total assumed premium in 2009.

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Accounts and Records

The Company's accounts and records are electronic and are maintained in accordance with management services contracts with the Company's affiliates. General accounting and policy accounting files are maintained by the Companies' operating divisions, which are primarily based in Cedar Rapids, Iowa.

There are numerous software applications that are key in the Company's accounts and records; chief among them is the general ledger Accounting System ("GEAC"). The GEAC general ledger, Oracle queries (reporting tool), and FAR system (reporting tool) are the primary sources of financial accounting information for statutory, GAAP, and IFRS accounting purposes for the AEGON companies.

Examiners contracted with specialists from Eide Bailly, LLP to evaluate the Companies' information systems. The evaluation included an assessment of general computer controls set forth in the FCEH Exhibit C and certain significant application system controls. No significant or material reportable findings were noted by the examiners related to accounts & records or information technology controls.

Statutory Deposits

The Company maintains Statutory or other Special Deposits in seven states with an aggregate book value of \$2.8 million at December 31, 2009.

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Financial Statements

Statutory Statement of Assets
as of December 31, 2009

Assets:	2009
Bonds	\$ 1,394,347,925
Preferred stocks	13,800
Common stocks	505,333
First liens - mortgage loans on real estate	181,270,737
Properties occupied by the company	32,405,284
Cash; cash equivalents; and short-term investments	90,779,620
Contract Loans	33,394,612
Other invested assets	17,147,480
Receivables for securities	49,562,827
Subtotals; cash and invested assets	1,799,427,618
Investment income due and accrued	<hr/> 17,733,181
Uncollected premiums and agents' balances in the course of collection	(12,616,544)
Deferred premiums; agents' balances and installments booked but deferred	67,000,722
Amounts recoverable from reinsurers	716,907
Other amounts receivable under reinsurance contracts	8,687
Current federal and foreign income tax recoverable and interest thereon	3,564,604
Net deferred tax asset	122,639,853
Guaranty funds receivable or on deposit	378,717
Receivables from parent; subsidiaries and affiliates	16,293,777
Aggregate write-ins for other than invested assets	9,681,846
Total Assets	<hr/> \$ 2,024,829,368 <hr/>

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Statutory Statement of Liabilities and Surplus
as of December 31, 2009

Liabilities, Surplus, and Other Funds	2009
Aggregate reserve for life contracts	\$ 1,078,299,082
Aggregate reserve for accident and health contracts	541,864,437
Liability for deposit-type contracts	28,175,286
Contract Claims: Life	24,076,681
Contract Claims: Accident & Health	48,827,925
Premiums and annuity considerations received in advance	710,511
Other amounts payable on reinsurance including assumed and ceded	519,005
Interest maintenance reserve	49,830,176
Commissions to agents due or accrued	331,942
General expenses due or accrued	27,598,150
Taxes; licenses and fees due or accrued; excluding federal income taxes	5,002,714
Unearned investment income	1,292,492
Amounts withheld or retained by company as agent or trustee	5,716,704
Amounts held for agents' account; including agents' credit balances	464,022
Remittances and items not allocated	7,462,526
Asset valuation reserve	13,894,455
Funds held under reinsurance treaties with unauthorized reinsurers	500,248
Payable to parent; subsidiaries and affiliates	8,121,698
Total liabilities	1,842,688,054
Common capital stock	2,500,000
Aggregate write-ins for other than special surplus funds	64,664,907
Gross paid in and contributed surplus	86,780,515
Unassigned funds	28,195,892
Surplus and common stock total	182,141,314
Totals of liabilities; common and preferred stock and surplus	\$ 2,024,829,368

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Statutory Summary of Operations
for the year ending December 31, 2009

Summary of Operations:	2009
Premiums and annuity considerations for life and accident and health contracts	\$ 509,900,037
Net investment income	91,036,945
Amortization of Interest Maintenance Reserve	5,382,311
Commissions and expense allowances on reinsurance ceded	13,924,877
Aggregate write-ins for miscellaneous income	4,652,169
Totals	624,896,339
Death benefits	133,743,073
Matured endowments	49,349
Annuity benefits	2,271
Disability benefits and benefits under accident and health contracts	101,848,356
Surrender benefits and withdrawals for life contracts	13,551,791
Interest and adjustments on contract or deposit-type contract funds	632,215
Increase in aggregate reserves for life and accident and health contracts	(7,818,694)
Totals	242,008,361
Commissions on premiums; annuity considerations and deposit-type contract funds	11,345,110
Commissions and expense allowances on reinsurance assumed	15,257,251
General insurance expenses	157,078,054
Insurance taxes; licenses and fees; excluding federal income taxes	12,467,036
Increase in loading on deferred and uncollected premiums	(3,520,499)
Aggregate write-ins for deductions	32,029
Totals	434,667,342
Net gain from operations after dividends to policyholders and before federal income taxes	190,228,997
Federal and foreign income taxes incurred (excluding tax on capital gains)	49,019,102
Net gain from operations after dividends to policyholders and federal income tax	141,209,895
Net realized capital gains or (losses)	(6,196,047)
Net Income	\$ 135,013,848

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Statutory Capital and Surplus Account
December 31, 2009

Capital & Surplus:

Capital and surplus; December 31, 2008	\$	172,446,071
Net income		135,013,848
Change in net unrealized capital gains (losses) less capital gains tax		(126,273,610)
Change in net unrealized foreign exchange capital gain (loss)		1,909,268
Change in net deferred income tax		(14,255,927)
Change in nonadmitted assets		28,639,974
Change in asset valuation reserve		5,305,646
Cumulative effect of changes in accounting principles		(280,133)
Paid in (surplus adjustments)		(28,730)
Dividends to stockholders		(85,000,000)
Aggregate write-ins for gains and losses in surplus		64,664,907
Net change in capital and surplus for the year		9,695,243
Capital and surplus; December 31, 2009	\$	182,141,314

Summary of Recommendations

No findings or recommendations resulted from this examination.

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Conclusion

As a result of this examination, the financial condition of the Company as of December 31, 2009 and related increases and decreases since the prior exam was determined to be as follows:

	<u>2004</u>	<u>2009</u>	<u>Increase (Decrease)</u>
Admitted assets	\$ 1,860,350,570	\$ 2,024,829,368	\$ 164,478,798
Liabilities	\$ 1,748,503,880	\$ 1,842,688,054	\$ 94,184,174
Capital & Surplus	\$ 111,846,690	\$ 182,141,314	\$ 70,294,624

In addition to the undersigned, Kaj Samsom, CFE, and regulators and their appointees from Arkansas, Iowa, New York and Ohio also participated in this examination. We wish to express our appreciation to the officers and employees of the Company for the courteous cooperation extended during the course of the examination.

Respectfully submitted,



Kenneth L. McGuckin, CFE

Chief Examiner

Vermont Department of Banking, Insurance, Securities,
and Health Care Administration

STATE OF VERMONT

COUNTY OF WASHINGTON

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Kenneth L. McGuckin, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

Kenneth L. McGuckin

Kenneth L. McGuckin

Subscribed and sworn to before me
this 31 day of May, 2011

Fredrick M. Barrett
Notary Public



Fredrick M. Barrett
Notary Public State of Vermont at Large
My Commission Expires February 10, 2015