



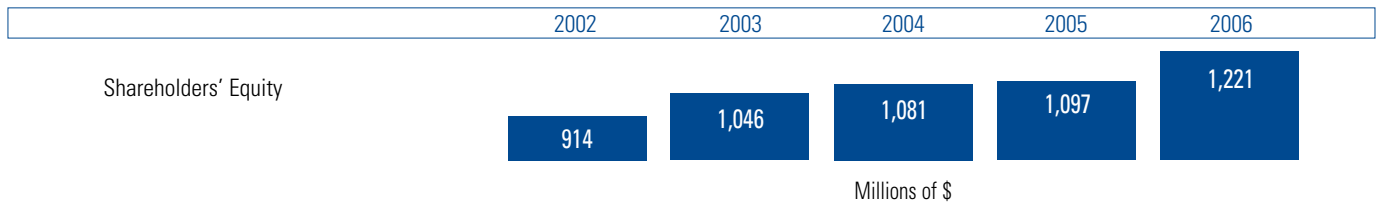
Positioned for Growth

Financial Statements 2006

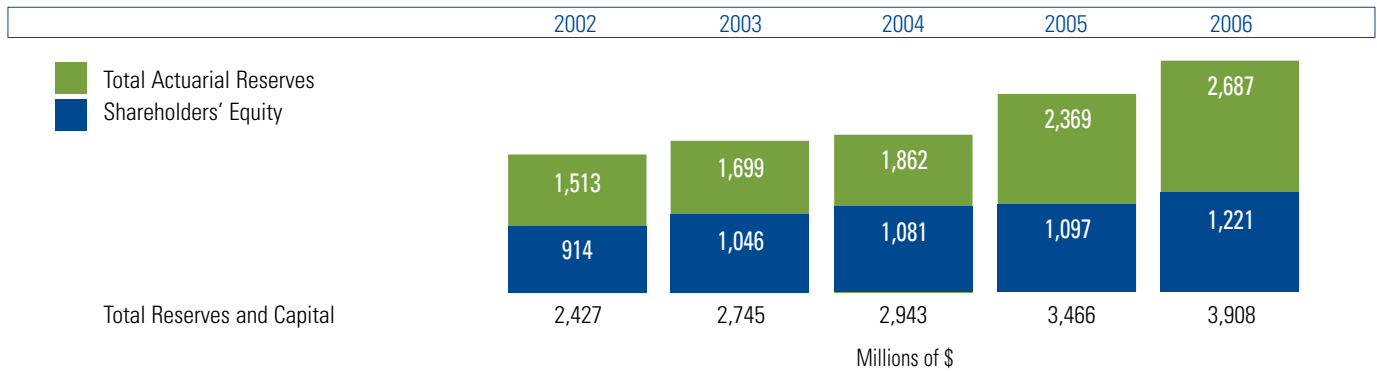


HIGHLIGHTS

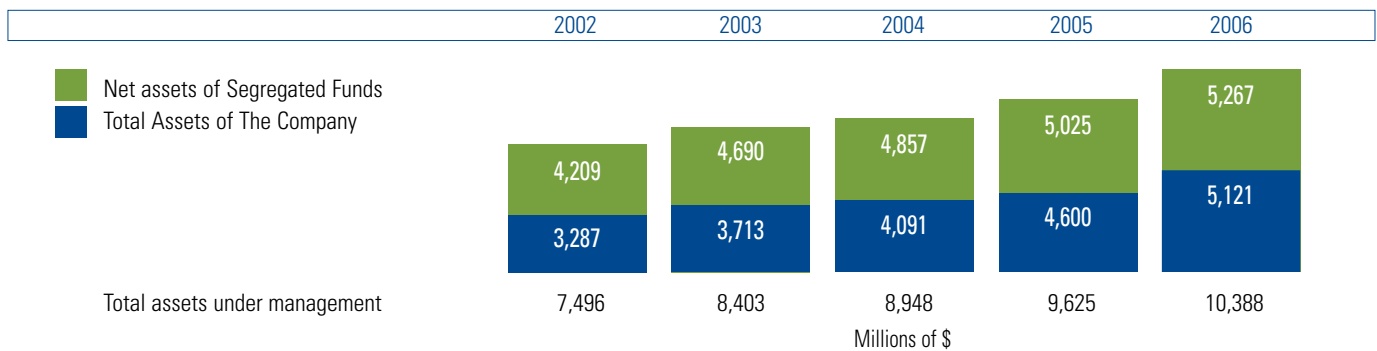
Capital



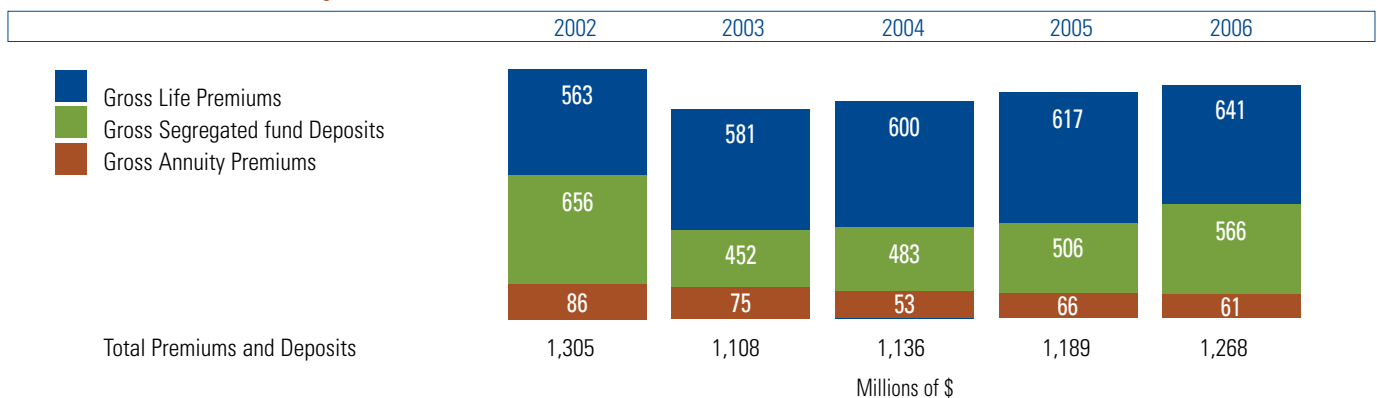
Total Reserves and Capital



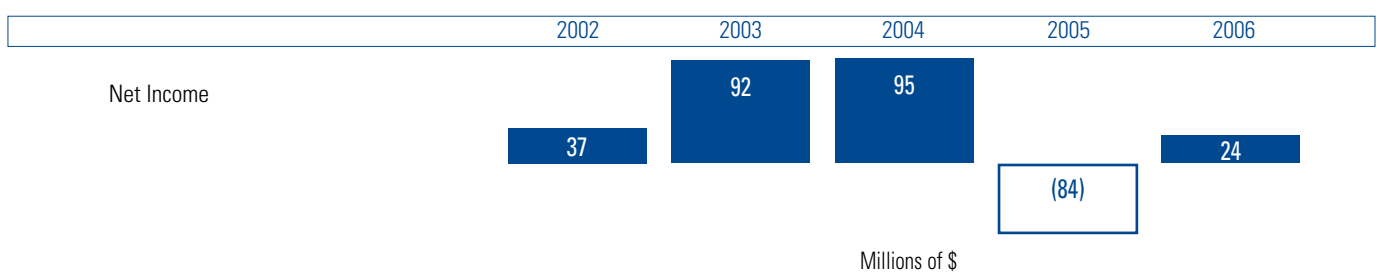
Total Assets Under Management



Total Premiums and Deposits



Net Income



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PRESIDENT'S MESSAGE

In 2006, Transamerica Life Canada was successful in strengthening and refining the business fundamentals that will underpin our future growth. We are pleased to report we significantly strengthened our balance sheet and still achieved a profit of \$23.5 million. We also implemented new programs to manage risk and reduce earnings volatility. Today, our balance sheet is stronger, our financial reserves are deeper, and we have more capital invested in the business.

Our sales efforts were sharply focused on our core products: universal life insurance, term insurance and segregated funds. This focus paid off as we reached a significant milestone of \$100 million in annualized premiums for new life insurance sales. Our efforts throughout the year to build deeper partnerships with our sales partners was rewarded with growth in every one of our distribution channels.

Risk management continued to be an important theme for Transamerica. This is reflected in our continuing commitment to rigorous corporate governance, including our compliance to the Code of Conduct by all directors, officers and employees, an annual conflict of interest review for all officers, and full compliance with an ever-expanding set of regulatory and internal requirements.

Risk management is also reflected in our fiscal discipline. The interests of our stakeholders are protected by a well-developed risk management framework that includes such features as a sophisticated asset/liability management strategy and a low-risk, high-quality investment portfolio that boasts an average A credit rating.

Transamerica continues to be supported and advised by the deep global resources of our parent, AEGON N.V. In 2006, the company posted strong financial results, including a 32 percent increase in operating earnings before tax. Through acquisition and organic growth, AEGON N.V. realized expansion plans in Mexico, Poland, India, China and the U.S., and built a stronger profile among the international investment community and the public at large. As a member of the AEGON group of companies, Transamerica continues to benefit from AEGON's truly global perspective on the insurance and investment business.

In 2006, Transamerica continued to evolve as a "learning organization." Our investment in employee development took many forms, including performance development programs designed to reward proactive learning initiatives, participation in professional training, and continuous knowledge enhancement. We also placed emphasis on clearly communicating our company's strategic direction and objectives with employees, the high point of which was an all-employee meeting with the AEGON N.V. executive board in June.

Transamerica's *in the spirit of hope* charitable giving program has long been a pillar of our culture. In 2006, we developed the program's mission statement in order to focus on charities dedicated to preventing the leading causes of mortality among Canadians – heart disease, stroke, cancer and diabetes. We established a key partnership with the Heart & Stroke Foundation, starting with a research award to Dr. Massimo Cimini for his innovative work in cardiac regeneration. Our employees also demonstrated considerable generosity once again in 2006, particularly with their enthusiastic participation in a highly successful fundraising campaign for United Way.

Looking ahead to 2007 and beyond, our company is well positioned for future growth. The fundamental mission of Transamerica Life Canada will not change. We remain committed to creating better futures for all of our stakeholders – our customers, our employees, and our community. This has been our mission since Transamerica first opened our doors in Canada nearly 80 years ago, and we are pleased to say that 2006 saw us take concrete steps to ensure that our mission will endure for many more years to come.

On behalf of the officers and employees of Transamerica Life Canada, thank you for your continued confidence.

Yours truly,

A handwritten signature in black ink, appearing to read "Paul Reaburn". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Paul Reaburn
Chairman, President and Chief Executive Officer

TRANSAMERICA LIFE CANADA

Transamerica Life Canada is one of Canada's leading life insurance companies, with more than \$10.3 billion in total assets under management, total gross premium revenue of \$700 million, and a top 5 marketshare position for its key product lines in 2006.

For nearly 80 years, Transamerica Life Canada has striven to create better futures for all of its stakeholders – customers, distributors, business partners and employees – through our core values of respect, quality, transparency and trust.

Through a national network of 18,000 independent advisors, Transamerica provides a full spectrum of innovative and flexible life insurance and segregated fund products, services and solutions – all designed to improve the lives of Canadians from every walk of life.

With headquarters in Toronto, Transamerica Life Canada employs over 700 people in locations across the country, providing challenging and rewarding careers in the continually evolving financial services industry.

As a life insurance company, Transamerica Life Canada has a close understanding of the health and wellness issues that impact Canadians. That's why we commit funds annually to our *in the spirit of hope* charitable giving program, and support our neighbours and communities by donating these funds to health-related and other worthy non-profit organizations.

Please visit www.transamerica.ca to learn more about Transamerica Life Canada.

AEGON

Local Knowledge. Global Power.

Transamerica Life Canada is a member company of AEGON, one of the world's largest life insurance and pension companies, and a strong provider of investment products. With headquarters in The Hague, the Netherlands, AEGON companies employ 29,000 people and serves millions of customers in over 20 markets throughout the Americas, Europe and Asia.

In the year ended December 31, 2006, AEGON had a market capitalization of more than EUR 23 billion, net income totaling EUR 2.8 billion, and total assets of EUR 315 billion.

Supported by its global resources and broad expertise, AEGON relies on the knowledge of local management to identify and serve the evolving needs of its customers. AEGON further seeks to deliver innovative products and services through multi-channel distribution networks best suited to local markets.

Respect, quality, transparency and trust constitute AEGON's core values as the company continually strives to meet the expectations of customers, shareholders, employees and business partners. AEGON is driven to deliver new thinking and its ambition is to be the best in the industry.

To learn more, please visit www.aegon.com.

Ratings as of December 31, 2006

Transamerica Life Canada

Financial Strength Ratings

A.M. Best	A
Standard & Poor's	A

AEGON USA

Financial Strength Ratings

A.M. Best	A+
Fitch	AA+
Moody's	Aa3
Standard & Poor's	AA

AEGON N.V.

Credit Ratings

Fitch	AA
Moody's	A2
Standard & Poor's	A+

MANAGEMENT DISCUSSION AND ANALYSIS

Transamerica Life Canada (“Transamerica” or “The Company”) is a wholly owned member company of AEGON N.V., which is one of the world’s largest life insurance and pension companies.

Transamerica achieved a net income of \$24 million for 2006 compared to net loss of \$84 million for 2005. Income before income taxes in 2006 totaled \$11 million compared to \$143 million of losses before tax in 2005. The pre tax losses of the prior year were the result of some significant reserve strengthening. The Company continued to significantly strengthen its balance sheet and reserves during 2006. The balance sheet and reserve strengthening in 2006 was primarily attributable to the following items:

1. The Company received an additional \$100 million of contributed capital from its ultimate parent company.
2. Segregated fund lapse rates were revised to vary by the remaining term to the next potential claim payout for maturity. This revision to the segregated fund lapse assumptions resulted in an increase in reserves of \$62 million in 2006.
3. Term life liabilities were strengthened to reflect a higher expectation of lapses at each renewal date, for policies where the renewal premium rate increases compared to the premium rate in the initial term. These revisions in the term life premium renewal assumptions resulted in an increase in reserves of \$54 million in 2006.
4. The tax benefits resulting from investment in exchange traded funds and other unit trusts have been reflected as a reduction to actuarial liabilities. The Company assumes that this beneficial tax treatment will only exist for a limited number of years. In 2005 the Company adopted, as a result of emerging industry practice, a more conservative stance regarding these tax implications, reducing the number of years of tax benefits reflected in the valuation. A \$55 million increase was made to reserves in respect of the unit trust investment strategy during 2006 due to this increased level of conservatism.

The balance sheet and reserve strengthening in 2005 was primarily attributable to the following items:

1. The Company received an additional \$100 million of contributed capital from its ultimate parent company.
2. Revisions in the segregated fund lapse assumptions resulted in an increase in reserves of \$102 million in 2005. The assumption changes made in 2005 reflected improved identification of the grouping of policies for lapse assumptions plus more conservative renewal assumptions.
3. Revisions in investment return assumptions resulted in an increase in reserves of \$93 million in 2005. The increase in 2005 was primarily the result of a reduction in interest rates and a flattening of the yield curve during 2005, and not as a result of any material change in asset liability matching. In applying the Canadian Asset Liability Method (CALM) to establish its liabilities, the Company selects future investment return assumptions based on several prescribed scenarios, and establishes a liability at least equal to the worst case scenario. As a result of the flattening of the yield curve at December 2005 and the general reduction in interest rates during that year, the worst case prescribed scenario changed during 2005. The valuation for 2005 was based on the implied forward curve within the existing yield curve.
4. Model changes and taxes resulted in an increase in reserves in 2005 of \$52 million associated with the removal of the funds withheld component of a reinsurance treaty.
5. Revision in the expense assumptions to reflect the updated expense study resulted in a decision to strengthen reserves in all lines of business totaling \$30 million in 2005.
6. The tax benefits resulting from investment in exchange traded funds and other unit trusts have been reflected as a reduction to actuarial liabilities. The Company assumes that this beneficial tax treatment will only exist for a limited number of years. In 2005 the Company adopted, as a result of emerging industry practice, a more conservative stance regarding these tax implications, reducing the number of years of tax benefits reflected in the valuation. A \$28 million increase was made to reserves in respect of the unit trust investment strategy during 2005 due to this increased level of conservatism.

The net impact of all reserve assumption changes and refinements for 2006 was a strengthening of reserves of \$183 million, compared to a reserve strengthening of \$317 million in 2005. If the impact of these reserve changes and refinements is excluded from earnings for both years, then the pre-tax earnings would have been \$194 million for 2006, \$20 million or 11% higher than the \$174 million of earnings that would have been present in 2005.

RESULTS OF OPERATIONS

The Company is active in two principal lines of business; life insurance and investment products. The life insurance line of business is comprised primarily of universal life, term insurance and term to 100 insurance. The life insurance line also includes a very small block of health insurance policies. The investment products line, while dominated by segregated funds, also includes significant blocks of single premium immediate annuity and deferred annuity policies. Finally, the Company generates income by investing its surplus assets.

The pre-tax earnings of \$11 million in the life insurance line of business in 2006 represented a \$107 million increase compared to the pre-tax loss of \$96 million in 2005. The net impact of reserve assumption changes and refinements related to the life insurance line was a net increase to reserves of \$101 million in 2006, compared to a \$177 million net increase to reserves in 2005. As a result, the impact of reserve assumption changes and refinements accounted for a \$76 million favourable variance in the pre-tax earnings between 2006 and 2005. Reserve increases made in 2005 related to the removal of the funds withheld component of a reinsurance treaty on the T100 portfolio and changes to the actuarial standards regarding the determination of the prescribed interest rate scenarios to be used in establishing actuarial reserves, accounted for the majority of the total year over year favourable variance from reserve assumption changes and refinements.

The pre-tax earnings of the life insurance line prior to the impact of the reserve assumption changes and refinements would have been \$112 million in 2006. The pre-tax earnings of the life insurance line prior to the impact of the reserve assumption changes and refinements would have been \$81 million in 2005. Thus, pre-tax earnings for the life insurance line of business prior to the impact of reserve assumption changes and refinements would have increased by \$31 million in 2006 from 2005. These increased earnings have resulted from growth in new and in force business.

The pre-tax losses of \$4 million in our investment products line of business in 2006 represented a \$30 million improvement compared to the pre-tax loss of \$34 million in 2005. The net impact of reserve assumption changes and refinements related to the investment products line was a net increase to reserves of \$82 million in 2006, compared to a \$140 million net increase to reserves in 2005. As a result, the impact of reserve assumption

changes and refinements accounted for a \$58 million favourable variance in the pre-tax earnings between 2006 and 2005. Assumption changes related to segregated fund persistency were largely responsible for the reserve assumption increases in both 2006 and 2005. The majority of the year over year favourable variance from reserve assumption changes and refinements was due to a \$40 million larger increase to reserves in 2005 related to segregated fund lapse rates and a \$14 million larger increase to reserves in 2005 related to maintenance expenses.

The pre-tax earnings for the investment products line prior to the impact of the reserve assumption changes and refinements would have been \$78 million in 2006. The pre-tax earnings for the investment products line prior to the impact of the reserve assumption changes and refinements would have been \$106 million in 2005. Thus, pre-tax earnings for the investments product line of business prior to the impact of reserve assumption changes and refinements would have decreased by \$28 million in 2006 compared to 2005. This decrease in investment product line earnings resulted from the initiation the hedging program described below.

During the fourth quarter of 2006, the Company initiated an extensive hedging program to assist in managing exposures related to the death benefit and maturity guarantees of some of its segregated fund policies. The Company initiated this hedging program to reduce the earnings volatility in the investment products line and to protect the Company from the downside risk associated with a potential significant decline in the value of equity markets. The new hedging program covers approximately 65% of the equity risk associated with the segregated fund guarantees. The actuarial reserves related to our segregated fund guarantees are released when equity market returns outperform the returns assumed in our valuation. Similarly, actuarial reserves are strengthened when equity market returns under-perform the return rates assumed in our valuation. Equity market returns were very strong in the fourth quarter of 2006; as a result the Company recorded a \$47 million loss from the hedging program. However, the reduction to actuarial reserves supporting segregated fund guarantees associated with this strong equity performance more than offset the hedging loss.

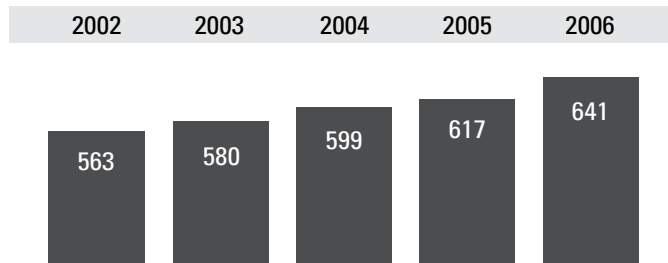
Under the new hedging program the Company sells futures on various stock market indices. By December 31, 2006 the amount of stock market index futures sold short in this program had a notional amount of \$836 million. Prior to 2006, the Company had made an insignificant investment in put options to manage a very small portion of this equity risk.

The surplus line of business generated a pre-tax earnings of \$5 million in 2006, compared to a pre-tax loss of \$13 million in 2005. Surplus line earnings in 2005 were reduced by \$17 million of non-recurring operating expenses.

GROWTH OF BUSINESS

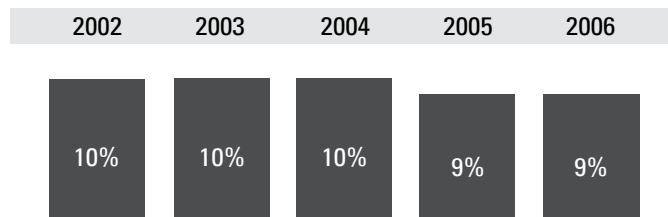
Total gross premium revenue rose to \$701 million in 2006, a 3% increase from the \$680 million revenue recorded in 2005. Life insurance premiums and deposits received on fixed rate investment products are reported as part of premium revenue in the Company’s income statement, while deposits to our segregated funds are not.

Gross Life Insurance Premiums (\$ in Millions)



In terms of new business premiums for the Canadian marketplace in 2006 Transamerica ranked #4 in the Universal life market with a 13% market share (2005 - #3 with 13% market share) and #4 in the term market with a 9% market share (2005 - #4 with 9% market share). In terms of new business premiums for the total individual insurance marketplace, Transamerica ranked #4 with 9% market share (2005 - #4 with 9% market share). With respect to segregated funds, Transamerica ranked #5 in the Canadian marketplace with an 8% market share with respect to net assets as at December 31, 2006.

Transamerica’s Share of the Total Individual Life New Business Market (%)



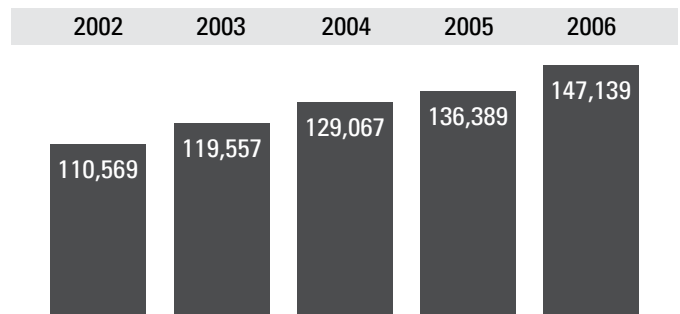
Total gross life insurance premium revenue rose to \$641 million in 2006, a 4% increase from the previous year. The increase in life insurance premium revenue arose from the new business sold during the year. Universal life premiums totalled \$375 million during 2006, a 4% increase from the \$360 million received in 2005. Similar to 2005, Universal Life premiums accounted for 58% of our total life premiums. Premium revenue from term life insurance totalled \$266 million in 2006, which was also a 4% increase from the previous year.

New annualized paid premiums sold for all of our life insurance products totalled \$100 million in 2006, a 15% increase compared to 2005. New annualized paid premiums for universal life policies increased by 14% to \$74 million in 2006. This increase in Universal Life sales for the Company was consistent with the 15% increase experienced by the Canadian industry as a whole in 2006. Our share of the universal life market remained steady at 13%, which ranked Transamerica at fourth place in the industry.

Sales of term life increased by 15% to \$26 million in 2006. The market for term insurance sales increased by 6% during 2006, compared to 2005 levels. Competition in the term life market continues to intensify. Transamerica’s share of the term life new business market remained at 9% in 2006, equal to the 9% level achieved in 2005. Transamerica’s current share of the market ranks us fourth in the industry.

Another indication of the strength of Transamerica’s sales performance is the year over year increase in the level of the Company’s life insurance in force. Gross life insurance in force at the end of 2006 was \$147 billion, which was an 8% increase from the \$136 billion in force at the end of 2005.

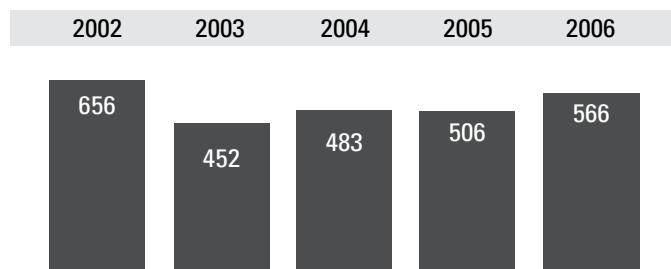
Growth of Life Insurance In Force – Gross Face Value (\$ in Millions)



New deposits to the Company’s fixed rate annuity line of business totalled \$61 million in 2006, which represented an 8% decrease from the \$66 million sold in 2005. New deposits from our single premium immediate annuity product increased by \$3 million, or 6%, to \$51 million year over year; while sales of other fixed rate annuities totalled \$10 million for the year, which represented a decrease of \$8 million from 2005. The decline in fixed rate annuity sales is consistent with the Company’s strategy of emphasizing the sale of segregated funds in its investment product strategy.

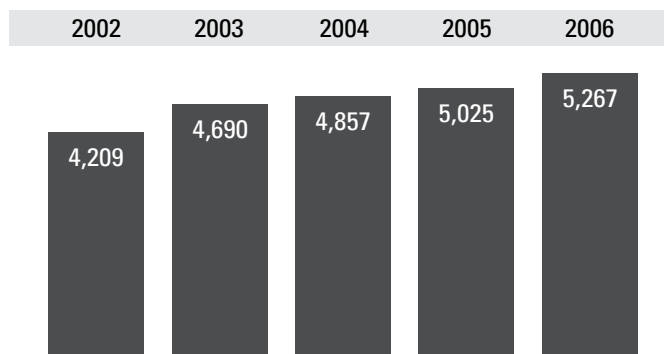
New deposits to segregated funds totalled \$566 million in 2006, which represented a 12% increase from the \$506 million received during 2005. The market for sales of segregated funds improved in 2006 due to increased investor confidence in equity markets and the continuing low interest rate environment.

Segregated Fund Deposits (\$ in Millions)



The level of segregated fund assets under management drives the level of management fee income that the Company earns. The level of assets under management changes due to sales, withdrawals and fund performance. The Company's segregated fund assets under management totaled \$5.27 billion at the end of 2006, which represented a 5% increase over the \$5.03 billion

Segregated Fund Assets Under Management (\$ in Millions)



under management at the end of the previous year. This represents an 8% share of the Canadian market, based on assets, which placed Transamerica fourth in the industry.

INVESTMENT PORTFOLIO

As at the end of 2006, investment assets totaled \$4.94 billion, up 11% from 2005. The Company's net investment income for 2006 was \$304 million, a 7% increase compared to the \$284 million earned in 2005. The increase in investment income is primarily attributable to income earned on the investments held to match universal life policyholder accounts, for which the investment performance flows through to the policyholders. The increase in investment income in 2006 was largely dampened by the segregated fund hedging program that was initiated in the fourth quarter of 2006. As previously described, investment income was reduced by \$47 million in 2006 due to the newly initiated segregated fund hedging program. The reduction to investment income was more than offset by a reduction to the segregated fund actuarial reserves.

Summary of General Account Investments

Asset Class	December 2006		December 2005	
	Portfolio (\$000)	Portfolio Mix	Portfolio (\$000)	Portfolio Mix
Short Term Investments	269,053	5.42%	228,577	5.10%
Bonds and Debentures	3,463,777	69.72%	3,187,620	71.14%
Mortgage Loans	49,381	0.99%	72,126	1.61%
Policy Loans	138,808	2.79%	109,692	2.45%
ETFs and Mutual Funds	1,003,073	20.19%	837,740	18.70%
Segregated Fund Seed Money	15,856	0.32%	13,959	0.31%
Other Invested Assets	4,406	0.09%	5,890	0.13%
Accrued Investment Income	23,770	0.48%	24,873	0.56%
Total	4,968,124	100.00%	4,480,477	100.00%

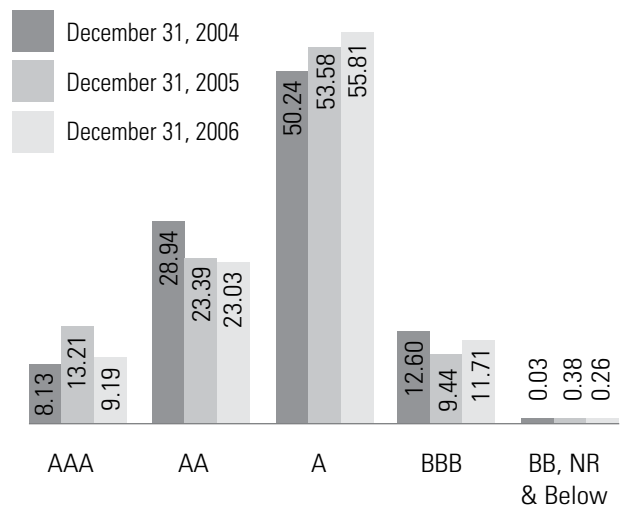
Transamerica’s universal life product provides policyholders with a wide range of choices in determining the interest credited rate that will be applicable to the account values of their policies. The policyholder can choose a guaranteed interest rate (guarantee periods run from 5 to 25 years), a floating daily rate, a rate that is tied to the movement of various stock and bond market indices, or a rate that is tied to the movement of various mutual funds. The policyholder can divide their account value up such that the interest credited rate for each portion is tied to different investment options (for example 25% in 5 year guaranteed interest, 50% tied to the S&P 500, and 25% in a basket of mutual funds). The policyholder can switch among these various options. While minimum interest rate guarantees exist on the guaranteed interest and daily interest options, there is no minimum interest rate for the index-linked options. As a result if the policyholder has 100% of their account value tied to a stock market index and that index fell by 40% in a given period, then the policyholder’s interest credited rate for that period would be minus 40%.

The company invests in assets that match the underlying investment risk of the total universal life account value. For the portion of account value that is tied to various equity markets, Transamerica invests primarily in exchange traded funds to match the account value allocated to each index. In some cases a cash/futures investment strategy is used to match the account value allocated to certain indices. Similarly, the Company invests in the underlying mutual funds to back account values that are tied to the movement of various mutual funds. If the investment income and losses related to the investments held to match the policyholder account values for these universal life policies are excluded, and if the \$47 million segregated fund hedging loss is excluded, then net investment income would be \$217 million in 2006, compared to \$199 million in 2005. The increase in investment income on this basis is explained by the growth in the insurance business and the increase in contributed capital.

In 2006, the net impact on earnings due to asset defaults was a charge of \$0.2 million, compared to nil in 2005. The increased provision related to one mortgage property.

Bonds and short term paper issued by Canada’s Federal and Provincial governments and by corporations account for 72% of the Company’s total assets. The security of this portfolio is further highlighted by the fact that 88% of the bonds in our portfolio are rated A or higher and less than half of 1% are rated below BBB. In addition 33% of the bond and short term portfolio is invested in government-guaranteed securities.

Asset Quality Ratings of Bonds & Short Term Investments (% of Total Bond Portfolio)



As noted above, the Company invests in exchange traded funds as this instrument best matches the movement in the actuarial liabilities related to equity-linked universal life policies. The investment in exchange traded funds is included as a component of equities on the Company’s balance sheet. By December 31, 2006 the Company had increased its investment in exchange traded funds to \$784 million, which was a 13% increase over the prior year.

The change in value of specified mutual funds is also available as an investment option for our universal life policies. The majority of the universal life account value that has interest credited rates based on mutual funds is tied to imaxx mutual funds. The imaxx mutual funds are the mutual funds managed by AEGON Fund Management Inc., which is an affiliated company of Transamerica. At December 31, 2006 Transamerica had invested \$219 million in mutual funds to back universal life policies; which was a \$73 million increase over the previous year end.

As at December 31 2006 only 1% of the Company’s investment assets were invested in mortgages, a significantly lower percentage than the Canadian Life Insurance industry average. The Company’s mortgage portfolio decreased by 31% to \$49 million during 2006, down from \$72 million in 2005. In keeping with our objective of maintaining a strong financial position, the proportion of the Company’s total mortgage portfolio invested in NHA insured mortgages sits at 35%.

FEES AND OTHER INCOME

Fees and other income increased 3% to \$123 million in 2006, up from \$119 million in 2005. An increase in the level of management fees earned on segregated funds accounted for the increase over the previous year. Management fees are charged daily to the segregated funds based on the level of net assets in each fund on that day. As a result, the level of management fee income earned in a given year is dependent upon the average level of assets being managed over the course of the year. The 3% increase in segregated fund management fees was consistent with the increase in segregated fund assets under management. Segregated fund assets under management grew to \$5.27 billion at the end of 2006, up from \$5.03 billion at the end of 2005.

POLICYHOLDER BENEFITS

Gross death claims (before reinsurance) on life insurance policies decreased by 7% to \$183 million in 2006. The Company continues to benefit from favourable mortality experience in its life lines, as death claims paid to policyholders continue to be lower than expected. Death claims net of reinsurance on life policies totaled \$61 million in 2006, down 16% from the 2005 level of \$73 million. The decrease in 2006 versus 2005 for net claims was due to the overall decline in the level of gross claims and due to the impact of some larger un-reinsured claims that occurred in 2005.

Death benefits paid on segregated fund policies fell significantly to \$11 million during 2006, compared to \$21 million in 2005. The continued strong equity market performance experienced throughout 2006 is primarily responsible for the reduction in the amount of death benefits paid on segregated fund deposit guarantees. The level of potential death benefit for a given policy is directly associated with the difference between the current market value of the policyholder's segregated fund and their guaranteed value. The Company refers to the amount that the guaranteed values exceed the fund values on all policies as the net amount at risk. Strong equity market performance during the fourth quarter of 2005 and throughout 2006 has caused the net amount at risk to decline significantly, which in turn leads to a reduction in the value of potential death benefits. The net amount at risk declined by \$279 million over the period from September 30, 2005 to December 31, 2006. The net amount at risk at September 30, 2005 was \$1.2 billion, compared to \$0.9 billion at December 31, 2006.

In total, the level of surrenders and maturities was virtually unchanged between 2006 and 2005 at \$107 million. However, surrenders and maturities for life insurance products were \$22 million higher in 2006. This increase was due to a greater volume of partial surrenders made by Universal Life policyholders. Surrenders and maturities for our fixed rate annuities were \$22 million lower than for the previous year. The level of surrenders and maturities for our fixed annuity block has been declining over the past several years as the size of this block declines.

In 2005 the Company negotiated an amendment to eliminate the funds withheld component of one of its reinsurance treaties. With the elimination of the funds withheld component, the amount held as an experience account of the reinsurer was released, resulting in an amount of \$75 million being credited to the experience rating refunds on the Company's statement of income (loss). Actuarial liabilities were increased by a corresponding \$75 million which represented the value of the funds withheld. The amendment to this treaty resulted in a further increase in actuarial reserves of \$52 million as the elimination of the funds withheld component increased the Company's discounted future tax provision.

ACTUARIAL LIABILITIES

The provision for future policyholder benefits for 2006 was \$319 million, which was a \$187 million decrease from the \$506 million recorded in 2005. The change in the level of actuarial reserves from year to year depends upon changes in business volumes, experience factors, assumptions and refinements to the calculation. As a result, the reserve change is comprised of two main components: reserves set aside on new and existing business; and reserve changes that have resulted from revised assumptions and refinements to the calculation methodology.

Reserves Set Aside on New and Existing Business

The change in reserves that resulted from reserves set aside on new and existing business for all lines of business was a reserve increase of \$136 million for 2006. This amount represented a \$53 million decrease from the prior year's reserve increase of \$189 million.

The change in reserves that resulted from reserves set aside on new and existing business for the investment products line of business was a net reduction to reserves of \$58 million for 2006. This amount represented an \$10 million decrease from the prior year's reserve decrease of \$48 million. The positive variance between 2006 and 2005 resulted primarily from the segregated fund reserve reductions associated with the relatively stronger performance of equity markets experienced in 2006. However, as noted earlier, the impact from this improved reserve release was offset by the cost of the new segregated fund hedging program.

The change in reserves that resulted from reserves set aside on new and existing business for the life insurance line of business was a reserve increase of \$194 million for 2006. This amount represented a \$43 million decrease over the prior year's reserve increase of \$237 million. The major item leading to the \$24 million year over year decrease was the \$75 million increase to reserves recorded in 2005 associated with the removal of the funds withheld component of a reinsurance treaty as described earlier. If the \$75 million increase to reserves recorded in 2005 associated with the removal of the funds withheld component of a reinsurance treaty is excluded, then the increase to life product reserves set aside on new and existing business would have been \$32 million higher in 2006 compared to 2005; this increase is mainly associated with the growth in the index linked component of the universal life block.

As noted earlier, certain universal life insurance policies issued by the Company allow the policyholder to select an interest credited rate that is tied to the movement of certain stock exchange indices. Transamerica invests in assets that match the movement of these indices. The investments made by the Company for this purpose are carried at fair value, consistent with the valuation of the policy liabilities, and the related gains and losses are recorded immediately in investment income. The positive or negative returns in these indices are then flowed through to the policyholder and are reflected as an increase or reduction to policyholder liabilities. The provision for actuarial reserves was larger in 2006 compared to 2005 due to the better performance in 2006 of U.S. and other foreign stock market indices. The actuarial reserves supporting universal life policies were increased by \$119 million in 2006 as a result of increased returns on these indices. This represented a \$46 million increase over 2005, which had a \$73 million increase to actuarial reserves due to gains in the equity indices.

Changes in Reserves Resulting from Revised Assumptions and Refinements to Calculations

Each year the Company reviews the assumptions used in calculating the actuarial reserves and makes adjustments to these assumptions based on emerging experience. The change in reserves that resulted from assumption changes and calculation refinements was a reserve increase of \$183 million for 2006. This amount represented a \$134 million decrease over the prior year's net reserve increase of \$317 million. The \$183 million increase in reserves in 2006 is comprised of the following components:

- Revisions in the segregated fund lapse assumptions resulted in an increase in reserves of \$63 million in 2006, compared to an increase in 2005 of \$102 million. The assumption changes made in 2006 reflect enhancements made to the dynamic lapse rate assumptions, which now vary by the remaining term-to-maturity in addition to the degree of in-the-moneyness (MV/GV ratio) and other relevant factors. In 2005 the assumption changes reflected improved identification of the grouping of policies for lapse assumptions plus more conservative renewal assumptions.
- Revisions in the life persistency assumptions resulted in an increase in reserves of \$71 million in 2006, compared to an increase in 2005 of \$10 million. The most significant change in 2006 was to the renewal assumption on some term products that resulted in a reserve increase of \$54 million. The Term liabilities were strengthened to reflect a higher expectation of lapses at each renewal date, for policies where the renewal premium rate increases compared to the premium rate in the initial term.
- Mortality assumptions in the life lines resulted in a decrease in reserves of \$6 million in 2006, compared to an increase of \$4 million in 2005.
- Revision in the expense assumptions to reflect the updated expense study resulted in strengthening in all lines totalling \$6 million in 2006, compared to an increase of \$30 million in 2005.
- Revisions in investment return assumptions resulted in a release of reserves of \$18 million in the current year, compared to an increase in reserves of \$93 million in 2005. The reduction in liabilities in 2006 related to investment returns is primarily impacted by changes to the actuarial standards in regards to the determination of the base interest rate scenario to be used, and the prescribed interest rate scenarios to be tested. In applying the Canadian Asset Liability Method (CALM) to establish its liabilities, the Company selects future investment return assumptions based on several prescribed scenarios, and establishes a liability at least equal to the worst case scenario. At December 2005, as a result of the scenario testing, the valuation was based on the implied forward curve within the existing yield curve. At December 2006, as a result of the scenario testing, the valuation is based on a scenario where the reinvestment rates grade from the current yield curve to an ultimate reinvestment rate that is based on historical average long term interest rates.
- Model changes and taxes resulted in an increase in reserves in 2006 of \$9 million, compared to an increase of \$49 million in 2005. The increase in 2005 included a \$52 million reserve increase associated with the removal of the funds withheld component of a reinsurance treaty on the Term to 100 portfolio.
- The tax benefits resulting from investment in exchange trade funds and other unit trusts have been reflected as a reduction to actuarial liabilities. The Company assumes that this beneficial tax treatment will only exist for a limited number of years. As a result of emerging industry practice in this regard, the Company continued to adopt a more conservative stance during 2006 regarding these tax implications. A \$55 million increase was made to reserves in respect of the unit trust investment strategy during 2006 due to this increased level of conservatism, compared to \$28 million in 2005.

MARKETING AND OPERATING EXPENSES

Marketing and operating expenses totaled \$101 million in 2006, which represented a \$15 million decrease from 2005. This decrease was attributable to the recording of specific non-recurring expense items in 2005, comprised of restructuring expenses of \$7 million and a \$10 million charge recorded with respect to the sub-let of vacant space at the Company's head office. Expenses increased \$2 million, year over year, if the non-recurring items recorded in 2005 are excluded. This increase resulted from the increased new business production in our life insurance and segregated fund product lines.

MINIMUM CONTINUING CAPITAL AND SURPLUS REQUIREMENTS FOR INSURERS ("MCCSR")

The Office of the Superintendent of Financial Institutions ("OSFI") sets requirements for the minimum level of capital that insurance companies must hold. OSFI requires each company to calculate its minimum required capital using a risk-based formula that takes into consideration the risk profile of the company's assets and liabilities. The formula also determines the ratio of available capital over required capital; this ratio is referred to as the MCCSR ratio. Calculation of the available capital amount is also made according to a prescribed formula.

This required capital must be maintained, in addition to other actuarial reserves, to provide an additional solvency margin to ensure sufficient assets are maintained in Canada in order to satisfy policyholder claims as they become due. OSFI has issued a supervisory guideline that stipulates that Canadian insurance companies should maintain an MCCR ratio of at least 150%. Accordingly, capital held to satisfy the minimum MCCR requirements is unavailable for distribution to the shareholders. The Company's MCCR ratio at December 31, 2006 was 185%, compared to 177% at the end of 2005.

CAPITAL TRANSACTIONS

The Company received additional contributed surplus of \$100 million in each of the years of 2006 and 2005. In both years, AEGON Canada Inc and AEGON International N.V. contributed additional capital in cash of \$73 million and \$27 million respectively.

FUTURE ACCOUNTING POLICY CHANGES

The following new accounting standards issued by the CICA became effective commencing on January 1, 2007: Handbook Section 1530, Comprehensive Income (Section 1530), Handbook Section 3855, Financial Instruments – Recognition and Measurement (Section 3855), and Handbook Section 3865, Hedges (Section 3865). Furthermore, OSFI has issued Guideline D-10, Accounting for Financial Instruments Designated as Fair Value Option, which provides additional guidance to certain federally regulated financial institutions, including life insurance companies. This OSFI Guideline also became effective commencing on January 1, 2007 in conjunction with the adoption of Handbook Section 3855. A summary of the accounting changes that stem from these new standards are provided in note 2 to the financial statements. The Company estimates that these new standards will not have a material impact on the Company's results or financial position other than their impact on the MCCR ratio. The Company expects that its MCCR ratio would decline by approximately 7 percentage points if the impact of the accounting changes were fully reflected as at January 1, 2007. However, OSFI has provided for a two year phase in for the impact of the accounting changes on the MCCR ratio. As a result of the phase in, the MCCR ratio as at January 1, 2007 is not expected to be materially different from the December 31, 2006 ratio of 185%.

The Ministry of Finance for Canada has announced its intention to align the current Canadian tax laws and regulations with the new accounting standards. However, detailed legislative guidance on the implementation of the proposed changes has not yet been released. Accordingly, the impact of the proposed changes is not yet determinable.

SOURCES OF EARNINGS

Transamerica began including an analysis of the sources of the Company's earnings commencing with the Company's 2004 annual report. Management believes that the on going reporting of the Company's sources of earnings will help readers to better understand how the Company generates its earnings, and will provide readers with an indication of the Company's earnings trend.

Source of earnings analysis is a methodology for identifying and quantifying the various sources of income of an insurance company. It is a presentation of net income in a different format from the traditional income statement form. Based on guidance from the Canadian Institute of Actuaries (CIA) and the Office of the Superintendent of Financial Institutions (OSFI), the following components of net income are disclosed:

Expected Profit from In Force Operations:

This is the profit anticipated to be earned from the business on hand at the beginning of the period. For the most part, this consists of the anticipated current period release of provisions for adverse deviation inherent in the actuarial liabilities. This category also includes expected fee income net of amortization of deferred acquisition expenses for the segregated fund line.

Impact of New Business:

This component represents the income recognized at the point of sale for contracts issued in the year. This would include premiums net of commissions, expenses, and actuarial liabilities established at the time of issue. A loss does not necessarily indicate that the product is ultimately unprofitable, as professional standards from the CIA require that actuarial liabilities include appropriate provisions for adverse deviation, which are to be released over time.

Experience Gains and Losses:

This component represents the impact on income of differences between actual experience during the period and the levels anticipated at the beginning of the period. Income arising from the issue of new business, after the point of sale, is also included in this component.

Management Actions and Changes in Assumptions:

This component includes the changes in actuarial liabilities arising from a number of causes, including, but not limited to: changes in investment strategy, revised assumptions concerning future experience based on updated and emerging actual experience, refinements in the liability determination based on emerging standards from the CIA or from OSFI, changes due to a conversion or improvement of the valuation systems, etc.

Other:

This component is the residual item not addressed in the previous categories. It is expected to consist of relatively small balances which can't be easily attributed to the other categories.

Earnings on Surplus:

This component refers to the net income earned on the Company's surplus funds. This income is allocated to the respective lines of business based on the average level of regulatory capital required to support the line.

Taxes:

Taxes are shown in aggregate for the Company and not allocated back to the respective lines for this disclosure.

The sources of earnings for 2006 are highlighted in the following chart:

Source of Earnings Statement for the period ended December 31, 2006 (\$millions)

					2006	2005
	Life	Annuities	Health	Segregated Funds	Total	Total
Expected Profit from In Force Operations	61.3	1.6	0.8	50.7	114.4	80.9
Impact of New Business	16.5	(0.5)	—	(3.6)	12.4	6.2
Experience Gains and Losses	12.4	(9.7)	(2.2)	14.9	15.4	(39.5)
Management Actions and Changes in Assumptions	(100.7)	(2.7)	—	(79.3)	(182.7)	(226.3)
Other	—	—	—	—	—	0.4
Earnings on Operations before Taxes	(10.5)	(11.3)	(1.4)	(17.3)	(40.5)	(178.3)
Earnings on Surplus						
Allocated	22.4	1.3	0.1	23.0	46.8	48.4
Unallocated	—	—	—	—	4.6	(12.9)
Income Before Income Taxes	11.9	(10.0)	(1.3)	5.7	10.9	(142.8)
Income Taxes					12.6	59.1
Net Income					23.5	(83.7)

The expected profits from in force operations of \$114.3 million (2005 - \$80.9 million) was primarily the result of the release of provisions for adverse deviation and net expected management fees. The allocated earnings on surplus of \$46.8 million (2005 - \$48.4 million) is a result of the investment of the capital allocated to each line of business. The unallocated earnings on surplus represent income items that have not been specifically allocated to a line of business. The total of expected profit on in force operations and the allocated earnings on surplus for 2006 was \$161.1 million compared to \$129.3 million in 2005.

The overall gain from new business reflects the impact of initial acquisition costs and the establishment of provisions for adverse deviation on the current year's sales. New business gains are determined at the point-of-sale, based on valuation assumptions in effect at the time of sale. Since the majority of valuation assumption changes were made in Q3 and Q4, a significant portion of the new business gains in 2006 have been measured using valuation assumptions in effect at December 31, 2005. The impact of changing valuation assumptions is quantified as management actions and changes in assumptions.

Experience gains and losses arise due to fluctuations in premiums, expenses, investment income, management fee income, and claims and other benefits payments. The impact of reserve adjustments related to applying the Canadian Asset Liability Method (CALM) are disclosed as part of experience gains and losses in the Source of Earnings presentation, rather than as part of management actions and changes in assumptions. Similarly, changes in actuarial liabilities arising from discounted future tax adjustments are also disclosed as experience gains and losses, as these adjustments are primarily the result of underlying experience gains or losses that affect the projections of future taxable income. The net experience gains reported for the two life products and

the annuity products are almost entirely due to changes from CALM and discounted future tax adjustments. The CALM change resulted from changes to actuarial standards in regards to the determination of the base interest rate scenario to be used, and the prescribed interest rate scenarios to be tested, as noted in the actuarial liabilities section of this report. The net experience gain reported in 2006 for segregated funds was primarily due to the strong performance of Canadian equity markets during the year, net of hedge costs of \$47 million arising from a newly implemented hedging program in Q4 2006.

Management actions and changes in assumptions for 2006 included the following items: normal change in best estimate assumptions due to updated experience studies, refinement of valuation methods, and changes in asset portfolio and investment strategy. The sources of gains and losses related to management actions and changes in assumptions have already been itemized in the actuarial liabilities section of this report.

For traditional life products the main items contributing to the net gain of \$27 million were expected profits of \$28 million, new business earnings of \$10 million, and allocated earnings on surplus of \$8 million, offset by a \$24 million reserve increase from revisions to persistency assumptions and mortality assumptions. For universal life the main items contributing to the net loss of \$15 million were expected profits of \$33 million, new business earnings of \$6 million, and allocated earnings on surplus of \$14 million, offset by a \$55 million reserve increase that resulted from reducing the number of years of expected tax benefits from using the unit trust investment strategy and by a \$27 million reserve increase from revisions to persistency. For segregated funds the main items contributing to the net gain of \$6 million were expected profits of \$51 million and allocated earnings on surplus of \$23 million, offset by a \$62 million reserve increase from revisions to persistency assumptions (term-to-maturity lapse rates).

RISK MANAGEMENT

Enterprise Risk Management (ERM) provides the framework under which all risk management activities within Transamerica are coordinated. ERM is the ongoing process of developing, implementing, and monitoring financial and non-financial strategies with the ultimate goal of increasing shareholder value within a given set of risk tolerances. The objective of ERM is to ensure that significant risks are identified, risk limits are defined, risks are appropriately managed, and that risk management activities are properly monitored on an on going basis. Transamerica has in place an established organization, framework, and policies and procedures for managing the significant risks associated with its business.

The Board of Directors is ultimately responsible for the Company's risk management, and regularly monitors risk management policies and practices. It is part of the mandate of the Investment, Audit and Conduct Review Committees of the Board to facilitate the Board's risk management monitoring.

RISK IDENTIFICATION, MONITORING AND MEASUREMENT

The Company's Risk and Capital Committee (RCC) is comprised of senior management. The RCC is responsible for overseeing the planning, directing, and controlling of the impact on the Company of risks arising from its operations. This includes identification of material risks, prioritization of action plans relating to risk, direct the implementation of risk strategies, development of measurement systems for risks, establishment of policies and procedures to manage risks, development of risk tolerance limits, and monitoring positions against approved risk tolerance limits.

Risk Management, under the direction of Transamerica's Chief Risk Officer, contributes to the achievement of Transamerica Life Canada's risk management and governance objectives. Risk Management identifies and assesses, in a pro-active manner, financial, credit, and operational risks facing the company and the development of plans to manage and mitigate these risks into the future. It oversees the Company's risk management culture and ensures current risk management policies and procedures are consistent with regulatory standards and industry best practices. Risk Management works with management to articulate the risk appetite and risk profile of the Company.

The Company employs a continuous process for extreme event monitoring, which includes the use of Market Risk Tolerance Limits (MRTL), quarterly shock testing, and annual Dynamic Capital Adequacy Testing (DCAT). The Company has established market risk tolerance limits that set out the maximum target income and capital sensitivity of its business lines to changes in interest rates and equity markets. These limits are based on the sensitivity of earnings and capital against a set of internally prescribed market shocks. The DCAT analyses the Company's regulatory capital adequacy over a five year projected timeframe by stress-testing a number of significantly adverse but plausible scenarios.

INVESTMENT RISK MANAGEMENT

The Company manages its investments in accordance with an Investment Policy, approved by the Investment Committee of the Board of Directors, which establishes aggregate limits and constraints for interest rate, credit, equity, liquidity, currency, and derivative risks.

Interest Rate Risk

Interest rate risk is the potential adverse impact on Transamerica's earnings and economic value due to changes in interest rates. Interest rate risk exposure is measured regularly on all asset and liability segments and is kept within the guidelines specified in the Investment Policy through a collaborative effort between the liability and asset managers.

Transamerica's Asset Liability Management Committee meets regularly to review the impact of market changes and new business on the portfolios and lines of business.

Management reports quarterly to the Investment Committee of the Board on asset/liability mismatch and any interest rate risk to which the Company is exposed. The investment managers work within guidelines approved by the Investment Committee, which limit the amount of asset/liability mismatch that the Company will accept.

Credit Risk

Credit risk includes the risk of default on scheduled payments of either interest or principal. Credit quality guidelines form an integral part of Transamerica's Investment Policy. Transamerica controls credit risk in its investment portfolio through detailed credit and underwriting policies. A diversification policy sets aggregate counterparty exposure limits by issuer and industry, based on the issuer's credit rating. Loss provisions are established for assets that are currently impaired and the Company holds a general provision for possible future asset defaults within its actuarial liabilities.

The credit quality of the assets held is monitored by the investment managers and reported to the Investment Committee of the Board of Directors.

Liquidity Risk

The objective of liquidity management is to ensure that the Company has the ability to generate sufficient cash or its equivalents, in a timely and cost effective manner, to meet its commitments as they fall due. The Company's liquidity policy sets out the policies and procedures to ensure Transamerica meets this objective. The Company manages liquidity risk by closely matching the terms and cash flows of its assets and liabilities. Because the vast majority of assets are invested in highly marketable securities, liquidity is available when needed. In addition, the Company has arrangements to raise funds through bank lines of credit, if required.

The liquidity of Transamerica's assets and liabilities is measured quarterly and monitored against the guidelines contained in the Company's liquidity policy. The results are reported quarterly to the Investment Committee of the Board of Directors.

Equity Risk

Equity risk is the potential adverse impact on the Company from movements in individual equity prices or from general movements in the value of the stock market. Transamerica is exposed to equity risk through direct investment of its assets in equities, and through the guarantees within its products. The equity risk exposure is measured and monitored on a regular basis by senior management, and reported to the Investment Committee of the Board of Directors.

The death and maturity guarantee provisions included in the Company's segregated fund policies represents the Company's most significant exposure to equity risk. These guarantee benefits are contingent and only payable on death or maturity. The Company establishes actuarial liabilities for the guaranteed benefit payments of these policies. The liability is calculated as the present value of the projected guaranteed benefit payments, net of reinsurance and the fee income allocated to support the guarantees, based on a set of stochastic investment return scenarios, and considering future mortality and lapse rates. The actuarial liabilities established must fall within a confidence range defined as the Conditional Tail Expectation (CTE). The acceptable range of CTE as established by the CIA is 60% to 80%. CTE 60 indicates that the reserves of the Company would be determined using the most adverse forty percent of the stochastic investment return scenarios and CTE 80 the most adverse twenty percent. The Company has used CTE 75 for the establishment of its reserves for both 2006 and 2005.

In monitoring the equity exposure of its segregated funds the Company tracks the net amount at risk of all of its funds. The net amount at risk is the excess of guaranteed values over fund values on all policies where the guaranteed value exceeds the fund value, net of amounts that are reinsured. The Company also tracks the expected guarantee cost for its funds. The expected guarantee cost represents the amount by which the average present value of all the stochastic investment return scenarios described above exceeds, or is less than, the expected fee income allocated to support guarantees. As at December 31, 2006 the fund value of all segregated funds totaled \$5.27 billion (2005 - \$5.03 billion), the net amount at risk totaled \$0.9 billion (2005 - \$1.1 billion).

Segregated Fund Reserves Analysis as at December 31, 2006
(in millions)

	2006	2005
Total Reserves for Segregated Funds at CTE-75	418.60	390.20
Expected Payout at CTE-0	30.10	6.90
Excess of Reserves over Expected Payout	388.50	383.30

Derivative Risk

Transamerica uses derivative products predominantly for hedging purposes. A limited amount of derivative products are used to provide equity exposure for some of the longer duration actuarial liabilities. The Company maintains minimum credit rating requirements that counterparties must meet in order to be approved as derivative counterparties, and limits the total amount of the exposures that may be entered into with any one counterparty. The Investment Committee of the Board of Directors reviews the outstanding derivatives exposure of the Company on a quarterly basis.

BUSINESS RISK MANAGEMENT

Business risks include those common to all businesses, as well as those that tend to be specific to the life insurance industry, such as underwriting risk, claims risk, and actuarial risk.

Underwriting and liability risk is exposure to financial loss resulting from the selecting and classifying risks to be insured, the adjudication of claims and the management of contractual product options and the use of reinsurance. The Company manages these risks by establishing policies and procedures for underwriting, claims adjudication, reinsurance, and the development of assumptions used to calculate actuarial reserves.

Reinsurance risk is exposure to financial loss resulting from reinsurer insolvency. The Company manages this risk by evaluating the financial condition of its reinsurers and monitoring their credit risk on a quarterly basis. The Company only contracts business with reinsurers who are registered with the Office of the Superintendent of Financial Institutions.

Product design and pricing risk is the exposure to financial loss resulting from transacting insurance, annuity, and segregated fund business where actual costs and liabilities exceed the expected costs and liabilities assumed in pricing. The Company manages this risk through policies and procedures which establish the processes to be followed and limits to be adhered to in the design and pricing of new products.

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes, technology or human performance, or from external events. Its impact can be financial loss, loss to reputation, loss of competitive position, or regulatory censure.

While operational risk can never be fully eliminated, Transamerica endeavours to minimize it by ensuring that trained and competent people, as well as appropriate infrastructure, controls, and systems are all in place throughout the Company.

Since 1996, Transamerica has proactively been conducting an annual self-assessment of internal controls.

The Company's Chief Compliance Officer provides a report at each Audit Committee meeting, and is responsible for providing reasonable assurance that the Company complies with all legal and regulatory requirements. In addition, internal auditors review the adequacy of the internal controls, reporting quarterly to management and the Audit Committee.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for preparing the accompanying financial statements. This responsibility includes selecting appropriate policies and making estimates and other judgements consistent with Canadian generally accepted accounting principles including the requirements of the Superintendent of Financial Institutions Canada.

The Board of Directors oversees management's responsibilities for financial reporting. An Audit Committee of non-management Directors is appointed by the Board to review the financial statements and report to the Directors prior to their approval of the financial statements for issuance to the shareholders and policyholders.

Management is also responsible for maintaining systems of internal control that provide reasonable assurance that financial information is reliable, that all financial transactions are properly authorized, that assets are safeguarded, and that the Company adheres to legislative and regulatory requirements. These systems include the communication of policies and standards of business conduct throughout the Company. Such policies and standards are designed to prevent conflicts of interest and unauthorized disclosure of information. Internal controls are reviewed and evaluated by the Company's internal auditors.

The Audit Committee also conducts such review and inquiry of management and the internal and external auditors as it deems necessary towards establishing that the Company is

employing an appropriate system of internal control, is adhering to legislative and regulatory requirements and is applying the Company's policies and standards of business conduct. Both the internal and external auditors have full and unrestricted access to the Audit Committee, with and without the presence of management.

The Office of the Superintendent of Financial Institutions Canada conducts periodic examinations of the Company. These examinations are designed to evaluate compliance with provisions of the Insurance Companies Act of Canada and to ensure that the interests of policyholders and the public are safeguarded.

The Appointed Actuary, who is a member of management, is appointed by the Board to discharge the various actuarial responsibilities required under the Insurance Companies Act of Canada and conducts the valuation of the Company's actuarial liabilities. The report of the Appointed Actuary accompanies these financial statements.

The Company's external auditors, Ernst & Young LLP, Chartered Accountants, conduct an independent audit of the financial statements and meet separately with both management and the Audit Committee to discuss the results of their audit. The auditors' report to the shareholders and policyholders accompanies these financial statements.



Paul Reaburn, FCIA
Chairman, President and
Chief Executive Officer

Toronto, Ontario
February 13, 2007



Paulette Kennedy, CA
Senior Vice-President and
Chief Financial Officer

Toronto, Ontario
February 13, 2007

APPOINTED ACTUARY'S REPORT

To the Shareholders and Policyholders of Transamerica Life Canada

I have valued the policy liabilities of the Company for its balance sheet at December 31, 2006 and their change in the statement of income (loss) for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

Toronto, Ontario
February 13, 2007

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the results of the valuation.



Les Rehbeli
Fellow, Canadian Institute of Actuaries

AUDITORS' REPORT

To the Shareholders and Policyholders of Transamerica Life Canada

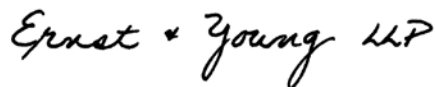
We have audited the balance sheet and statement of segregated funds net assets of Transamerica Life Canada ("the Company") as at December 31, 2006 and the statements of income (loss), cash flow, changes in shareholders' equity and changes in segregated funds net assets for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis,

Toronto, Ontario
February 13, 2007

evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company and its Segregated Funds as at December 31, 2006 and the results of its operations and its cash flows and the changes in the net assets of its Segregated Funds for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

BALANCE SHEET

As at December 31, 2006	Note	2006	2005
(thousands of dollars)			
ASSETS			
Cash and cash equivalents	3	\$ 139,689	\$ 125,704
Short-term investments	3	78,110	94,709
Bonds and debentures	3	3,463,777	3,187,620
Equities	3	1,003,073	837,740
Mortgage loans	3	49,381	72,126
Other invested assets	3, 4	71,516	28,013
Loans to policyholders	3	138,808	109,692
Total Invested Assets		\$ 4,944,354	\$ 4,455,604
Premiums in the course of collection		2,066	1,958
Accrued investment income		23,770	24,873
Amounts receivable under reinsurance agreements		4,888	2,366
Other assets	11	135,503	123,918
Future income taxes receivable	7	10,647	—
Total Assets		\$ 5,121,228	\$ 4,608,719
Segregated Funds Net Assets	13	\$ 5,266,501	\$ 5,025,455
LIABILITIES			
Actuarial liabilities under insurance and annuity contracts	5	\$ 2,687,547	\$ 2,368,599
Amounts on deposit		19,736	16,031
Policy claims in the course of settlement		13,108	11,407
Amounts on deposit from reinsurers	6	604,823	566,693
Amounts payable under reinsurance agreements		15,945	13,016
Future income taxes payable	7	—	14,616
Other liabilities	12	90,090	120,850
Deferred realized net gains	3	469,248	400,325
Total Liabilities		\$ 3,900,497	\$ 3,511,537
SHAREHOLDERS' EQUITY			
Capital stock	9	\$ 802,705	\$ 802,705
Contributed surplus	9	200,000	100,000
Retained earnings	10	218,026	194,477
Total Shareholders' Equity		\$ 1,220,731	\$ 1,097,182
Total Liabilities and Shareholders' Equity		\$ 5,121,228	\$ 4,608,719
Segregated Funds Contract Liabilities	13	\$ 5,266,501	\$ 5,025,455

(See accompanying notes)

ON BEHALF OF THE BOARD OF DIRECTORS

Approved by:



Director



Director

STATEMENT OF INCOME/(LOSS)

For the year ended December 31, 2006	Note	2006	2005
(thousands of dollars)			
REVENUE			
Premiums:			
Life insurance		\$ 415,797	\$ 405,104
Annuities		60,563	65,870
Net investment income	3	303,993	284,055
Other income	13	122,982	118,919
Total Revenue		\$ 903,335	\$ 873,948
POLICY BENEFITS AND EXPENSES			
Benefits:			
Death claims		\$ 78,995	\$ 102,059
Maturity and surrender values		106,724	107,343
Annuity benefits		68,403	51,737
Interest credited to policyholders		1,679	1,276
Experience rating refund	6	—	(74,763)
Policyholder dividends	10	405	467
Total Benefits		\$ 256,206	\$ 188,119
Provision for future benefits:			
Actuarial liabilities for insurance and annuity contracts	5, 6	\$ 318,948	\$ 506,256
Sales commissions and bonuses		158,579	145,837
Interest expense on deposits from reinsurers	6	46,893	48,748
Marketing and operating expenses	8	100,921	115,554
Policy related taxes, licenses and fees		10,827	12,374
Total Policy Benefits and Expenses		\$ 892,374	\$ 1,016,888
Income (loss) before income taxes		\$ 10,961	\$ (142,940)
Income tax provision	7	(12,588)	(59,082)
Net Income/(Loss) for the Year		\$ 23,549	\$ (83,858)

(See accompanying notes)

STATEMENT OF CASH FLOWS

For the year ended December 31, 2006	2006	2005
(thousands of dollars)		
OPERATING ACTIVITIES		
Net Income/(loss)	\$ 23,549	\$ (83,858)
Items not affecting cash:		
Decrease/(increase) in accrued investment income	1,103	(7,097)
Increase in other assets	(11,693)	(7,352)
Future income taxes	(25,263)	(77,025)
Increase in actuarial liabilities	318,948	506,256
Increase in other insurance policy and contract liabilities	3,320	1,524
Increase/(decrease) in accounts payable and other liabilities	(25,656)	29,849
Increase/(decrease) in amounts on deposit from reinsurers	38,130	(32,302)
Decrease in net amounts due from reinsurers	(2,611)	(722)
Amortization of deferred realized and unrealized net gains	(23,879)	(22,335)
Net amortization of premium/(accrual of discount) on bonds and mortgage loans	(89,232)	(80,797)
Asset provisions	180	-
Unrealized gains on invested assets	(95,777)	(37,097)
Net Cash Provided By Operating Activities	\$ 111,119	\$ 189,044
FINANCING ACTIVITIES		
Contributed surplus	\$ 100,000	\$ 100,000
Net Cash Provided By Financing Activities	\$ 100,000	\$ 100,000
INVESTING ACTIVITIES		
Sales, maturities and scheduled redemptions of:		
Bonds and other fixed-term securities	\$ 2,624,093	\$ 2,564,095
Equities	79,017	57,388
Mortgage loans	22,569	13,691
Other invested assets	322,112	302,741
Purchases and issues of:		
Bonds and other fixed-term securities	(2,745,613)	(2,807,611)
Equities	(125,913)	(122,332)
Other invested assets	(364,592)	(302,143)
Short-term investments, net	20,309	(62,549)
Loans to policyholders	(29,116)	(30,833)
Net Cash Used in Investing Activities	\$ (197,134)	\$ (387,553)

STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended December 31, 2006	2006	2005
(thousands of dollars)		
Net increase/(decrease) in cash and cash equivalents during the year	13,985	(98,509)
Cash and cash equivalents, beginning of year	125,704	224,213
Cash and cash equivalents, end of year	\$ 139,689	\$ 125,704
Cash, end of year	—	—
Cash equivalents, end of year	139,689	125,704
Cash and cash equivalents, net, end of year	\$ 139,689	\$ 125,704
Interest paid	\$ —	\$ 277
Income taxes paid	\$ 28,130	\$ 10,900

(See accompanying notes)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2006

(thousands of dollars)

	Note	Common Shares	Preferred Shares	Contributed Surplus	Retained Earnings	Total Shareholders' Equity
Balance as at December 31, 2004		\$ 618,705	\$ 184,000	\$ —	\$ 278,335	\$ 1,081,040
Net earnings for the year					(83,858)	(83,858)
Additional contributed surplus, contributed in cash during the year	9			100,000		100,000
Balance as at December 31, 2005		\$ 618,705	\$ 184,000	\$ 100,000	\$ 194,477	\$ 1,097,182
Net earnings for the year					23,549	23,549
Additional contributed surplus, contributed in cash during the year	9			100,000		100,000
Balance as at December 31, 2006		\$ 618,705	\$ 184,000	\$ 200,000	\$ 218,026	\$ 1,220,731

(See accompanying notes)

STATEMENT OF CHANGES IN SEGREGATED FUNDS NET ASSETS

For the year ended December 31, 2006	2006	2005
(thousands of dollars)		
Additions to segregated funds:		
Deposits	\$ 566,119	\$ 505,857
Net realized and unrealized gains	439,595	370,938
Interest and dividend income	192,801	192,060
	<u>\$ 1,198,515</u>	<u>\$ 1,068,855</u>
Deductions from segregated funds:		
Payments to policyholders and their beneficiaries	\$ 810,853	\$ 760,186
Management fees	118,991	112,961
Other expenses, including GST on management fees	27,625	27,667
	<u>\$ 957,469</u>	<u>\$ 900,814</u>
Net additions to segregated funds for the year	\$ 241,046	\$ 168,041
Segregated funds net assets, beginning of year	5,025,455	4,857,414
Segregated funds net assets, end of year	<u>\$ 5,266,501</u>	<u>\$ 5,025,455</u>

STATEMENT OF SEGREGATED FUNDS NET ASSETS

As at December 31, 2006	2006	2005
(thousands of dollars)		
Investments, at market values:		
Cash and short-term investments	\$ 381,096	\$ 486,016
Bonds	396,820	402,316
Stocks, mutual funds and exchange traded funds	4,459,891	4,151,986
Other assets	81,774	34,436
Liabilities	(53,080)	(49,299)
Total segregated funds net assets	<u>\$ 5,266,501</u>	<u>\$ 5,025,455</u>

(See accompanying notes)

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 (thousands of dollars)

1. Basis of Presentation and Significant Accounting Policies

Transamerica Life Canada (the "Company") is a member company of AEGON N.V. headquartered in The Hague, The Netherlands. AEGON Canada Inc. owns approximately 73% of the outstanding common shares of the Company, while AEGON International N.V. owns the remaining 27%.

The Company provides protection and wealth management solutions, including individual life insurance, annuities and segregated funds, to the Canadian market through a large network of independent advisors.

The Company is registered under the Insurance Companies Act of Canada, which requires that financial statements be prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The preparation of financial statements, in conformity with Canadian GAAP, requires that management makes estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. The most significant estimation processes are related to the determination of actuarial liabilities. Although some variability is inherent in these estimates, management believes that the amounts provided are adequate.

The significant accounting policies used in the preparation of these financial statements are summarized below:

(a) Investments:

Investments are accounted for on the following bases:

(i) *Cash, cash equivalents and short-term investments:*

Short-term investments are carried at cost. Cash and cash equivalents are short-term investments with a maturity of less than 90 days.

(ii) *Bonds and debentures:*

Bonds and debentures are carried at amortized cost. The difference between the proceeds on the sale of a security and its amortized cost is considered to be an adjustment of future portfolio yield and is deferred on the balance sheet as deferred realized net gains and is amortized to income over the remaining term to maturity. Provisions are established where, in the opinion of management, there is no longer reasonable

assurance as to the timely collection of principal and interest. Changes to provisions are recognized immediately in income.

(iii) *Mortgages:*

Mortgages are carried at their outstanding principal balances, net of provisions for losses. Provisions for losses on impaired mortgages are recognized immediately in income. Impaired mortgage loans have been recorded at estimated realizable amounts that are measured by discounting the expected future cash flows at the effective interest rate inherent in the loans.

(iv) *Loans to policyholders:*

Loans to policyholders are carried at their unpaid balance and are fully secured by the cash surrender value of the policies on which the respective loans are made.

(v) *Other invested assets:*

The Company has investments in its segregated funds. These investments are recorded at market value. Unrealized gains and losses are included as part of net investment income.

Land leases represent an investment in more than 500 individual loans that are secured by the land beneath the residential property. These leases are carried at their outstanding principal balances.

(vi) *Equities:*

Equities are comprised of investments in exchange traded funds and mutual funds. Equities are carried at fair value or at moving average market value depending upon the liability that the equity supports.

Certain Universal Life insurance policies issued by the Company allow the policyholder to select an interest credited rate that is tied to the movement of certain stock exchange indices. Equities that are used to match the liabilities related to these Universal Life policies, are carried at fair value consistent with the valuation of the policy liabilities, and the related gains and losses are recorded immediately in investment income.

Equities that are invested in to support surplus or to match policy liabilities that are not related to the Universal Life policies described above, are carried at moving average market value whereby the carrying value is adjusted towards market value at 5% per quarter. Net realized gains and losses on the disposal of these equities are deferred and amortized to income at 5% per quarter on a declining balance basis.

(b) Policy liabilities:

Policy liabilities have been calculated using the Canadian Asset Liability Method. Policy liabilities represent an estimate of the amount, which together with future premiums and investment income, will be sufficient to pay future benefits, dividends and expenses on insurance and annuity contracts. Policy liabilities are determined using accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries ("CIA").

(c) Reinsurance ceded:

Premiums, provision for future policy benefits, policyholder benefits paid and commissions are recorded net of amounts ceded to, and recoverable from, reinsurers.

Amounts recoverable from reinsurers are estimated in a manner consistent with the policy liability associated with the reinsured policy.

The Company has funds withheld reinsurance arrangements with two unrelated reinsurance companies. Each of these treaties covers a distinct block of policies. Under the terms of these arrangements, the Company has ceded various sources of insurance risk to the reinsurers. However, the terms call for the Company to withhold funds representing all or a portion of the premiums owing upon ceding the risk, and to repay these funds, together with accumulated interest, in accordance with stipulated payment schedules. The funds withheld liabilities are classified as amounts on deposit from reinsurers on the Company's balance sheet. The interest accrued or paid on these funds withheld liabilities are classified as interest expense on deposits from reinsurers in the Company's income statement.

(d) Future income taxes:

Income taxes are accounted for using the liability method of tax allocation. Under this method, future tax assets and liabilities are recorded based on temporary differences between the carrying amounts of assets and liabilities and their respective tax bases and identifying those differences that will reverse on realization or settlement. These future tax assets and liabilities are recorded at the tax rates that are expected to apply when the differences reverse.

(e) Segregated funds:

Certain policy contracts allow the policyholder to invest in segregated investment funds managed by the Company for the benefit of these policyholders. The investment returns on these funds accrue directly to the policyholders. As a result, the funds are segregated from the Company's general funds and are presented separately in these financial statements. The assets of these funds are carried at their year-end market values.

Income earned by the Company for the management of these funds is included in other income. The Company also provides minimum death and maturity value guarantees to policyholders of these funds. The liability associated with these guarantees is included in the Company's actuarial liabilities.

(f) Derivative financial instruments:

In the ordinary course of business, the Company uses various derivative financial instruments, such as interest rate swaps, equity futures and swaps, and credit derivatives to manage its asset/liability positions and to hedge against fluctuations in interest rates, foreign exchange rates, stock market indices and credit risk.

The company has adopted CICA Accounting Guideline 13 – Hedging Relationships ("AcG13"), which requires that conditions with respect to the identification, documentation, designation and effectiveness of each hedging relationship be satisfied in order to apply hedge accounting. Realized and unrealized gains and losses on derivatives that can be designated as effective hedges can be accounted for on the same basis of the underlying assets and liabilities. Realized and unrealized gains and losses on derivatives that are not designated as an effective hedge are either recorded immediately in income or amortized to income at 5% per quarter on a declining balance basis.

Certain Universal Life insurance policies issued by the Company allow the policyholder to select an interest credited rate that is tied to the movement of certain stock exchange indices. Equity futures and swaps, which are used to match the liabilities related to these Universal Life policies, are carried at fair value and the related gains and losses are recorded immediately in investment income.

Realized gains and losses from equity futures that are used to match policy liabilities that are not related to the Universal Life policies described above are credited to deferred gains (losses) and are amortized to income at 5% per quarter on a declining balance basis.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 (thousands of dollars)

1. Basis of Presentation and Significant Accounting Policies (continued)

(f) Derivative financial instruments (continued):

The Company has sold or acquired futures and put options on various stock market indices, as well as currency forwards, to assist in managing exposures related to the death benefit and maturity guarantees of some of its segregated fund policies. These futures, put options and currency forwards are carried at market value, with gains and losses recognized immediately in income.

Fair values of exchange-traded derivatives are based on quoted market prices. Fair values of interest rate swaps, which are traded over-the-counter, are determined using pricing models, which take into account current market prices of underlying instruments, interest rates, and exchange rates. Favourable positions are those contracts with a positive fair value. Unfavourable positions are those contracts with a negative fair value.

(g) Other assets:

Capital assets are reported as a component of other assets. Capital assets are comprised of furniture, computers, other equipment, leasehold improvements, leased equipment, and software. Capital assets are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of these assets. Leasehold improvements are depreciated over the remaining lease terms of the associated leases, with fifteen years being the longest lease term. All other capital assets are depreciated or amortized over periods that range from three to ten years.

(h) Revenue recognition:

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

Other income primarily includes fees earned from the management of segregated fund assets.

2. Future Accounting Policy Changes

In January 2005, the CICA issued three new accounting standards, Handbook Section 1530, Comprehensive Income (Section 1530), Handbook Section 3855, Financial Instruments – Recognition and Measurement (Section 3855), and Handbook Section 3865, Hedges (Section 3865). These new standards became effective for the Company commencing on January 1, 2007. In addition the CICA reissued Handbook Section 4210, Life Insurance Enterprises – Specific Items as section 4211, which requires life insurance enterprises to account for financial assets and liabilities and freestanding and embedded derivatives in accordance with the new financial instruments section. This new standard also became effective for the Company commencing on January 1, 2007.

On June 22, 2006, The Office of the Superintendent of Financial Institutions Canada issued Guideline D-10, Accounting for Financial Instruments Designated as Fair Value Option, which provides additional guidance to certain federally regulated financial institutions, including life insurance companies.

(a) Comprehensive Income:

Section 1530 introduces the concept of Comprehensive Income, which is comprised of Net Income and Other Comprehensive Income. Other Comprehensive Income (OCI) will track unrealized gains and losses on financial assets that are classified as available for sale. The Company's financial statements will be changed to include a Statement of Comprehensive Income, while the cumulative amount of OCI will be presented in a new category of shareholders' equity to be called Accumulated Other Comprehensive Income.

(b) Financial Instruments – Recognition and Measurement:

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. The new standard requires that all financial assets be classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities. All financial assets, including derivatives, will be measured at fair value with the exception of loans, receivables, and investments classified as held to maturity, which will be measured at amortized cost. Life insurance liabilities will be accounted for in accordance with Section 4211 and are specifically excluded from the requirements of Section 3855.

Financial assets and financial liabilities held-for-trading will be measured at fair value with gains and losses recognized in net income. Financial assets backing insurance liabilities will be classified as held-for-trading using the fair value option. As a result, changes in fair value between reporting periods for these assets will flow directly through net income. The impact of this on net income will predominantly be offset by corresponding changes in the value of actuarial liabilities.

The new standards require that all derivatives, including embedded derivatives, be recorded on the balance sheet at fair value. Changes in the fair values of derivatives will be recognized in net income, except for derivatives that are designated as cash flow hedges, the fair value change for which would be recognized in OCI.

Available-for-sale financial assets will be measured at fair value with unrealized gains and losses being recognized in OCI. Financial assets backing surplus will be classified as available-for-sale, as a result, changes in fair value between reporting periods for these assets will flow through OCI until gains or losses are realized on disposition of the assets.

The Company will no longer defer net realized gains on financial instruments, nor will it carry investments in equities at cost plus a moving average market value adjustment for unrealized gains and losses. The deferred net gains of \$469,248 reported on the balance sheet as at December 31, 2006 will be transferred to shareholder's equity, net of future income tax, as part of the transition to the new accounting requirements. With respect to the transfer to shareholders' equity of deferred net gains that back insurance liabilities, a largely offsetting adjustment to actuarial liabilities will also adjust shareholders' equity on transition. At December 31, 2006 the amount of deferred net gains backing insurance liabilities totaled \$419,880, while the amount backing surplus totaled \$49,368.

(c) Hedges:

Section 3865 specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for each of the permitted hedging strategies. In a fair value hedging relationship, the carrying value of the hedged item would be adjusted by gains and losses attributable to the hedged risk and recognized in net income. In a cash flow hedging relationship, the effective portion of the change in fair value of the hedging derivative would be recognized in OCI, while any ineffective portion would be recognized in net income. The Company does not currently designate any of its derivative investments as effective hedges for hedge accounting purposes.

The new accounting standard will be applied prospectively commencing January 1, 2007. The results of prior periods will not be restated. The fair value adjustment related to assets and liabilities that are classified as held-for-trading, the elimination of the December 31, 2006 balance of deferred net gains, and the resulting impact on actuarial liabilities will all be recognized in the opening balance of retained earnings as at January 1, 2007. The fair value adjustment related to financial assets classified as available-for-sale will be recognized in the opening balance of Accumulated Other Comprehensive Income as at January 1, 2007.

The new accounting standards are expected to contribute volatility within certain income statement line items, particularly for investment income and provisions for future benefits.

Management has not yet determined the financial impact of the adoption of these new standards on the financial statements of the Company.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 (thousands of dollars)

3. Portfolio Investments

(a) The carrying values and fair values of portfolio investments are as follows:

	2006	2006	2005	2005
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash, cash equivalents, and short term-investments	\$ 217,799	\$ 217,799	\$ 220,413	\$ 220,413
Bonds and debentures	3,463,777	4,097,253	3,187,620	3,914,497
Equities:				
Exchange traded funds	783,594	800,838	691,539	698,534
Mutual funds	219,479	220,544	146,201	147,061
Mortgage loans	49,381	55,290	72,126	79,228
Loans to policyholders	138,808	138,808	109,692	109,692
	\$ 4,872,838	\$ 5,530,532	\$ 4,427,591	\$ 5,169,425
Other invested assets:				
Segregated fund seed money	\$ 15,856	\$ 15,856	\$ 13,959	\$ 13,959
Land leases	3,765	3,765	4,373	4,373
Futures margins	51,254	51,254	8,164	8,164
Put options	641	641	1,517	1,517
	\$ 71,516	\$ 71,516	\$ 28,013	\$ 28,013
Total Invested Assets	\$ 4,944,354	\$ 5,602,048	\$ 4,455,604	\$ 5,197,438

Fair values for securities traded on recognized exchanges are determined by reference to quoted market prices. Fair values for fixed-term investments not traded on recognized exchanges are estimated based on the present value of future cash flows discounted at current market rates of interest for investments of similar term and quality. The fair values of cash and cash equivalents, short-term investments and loans to policyholders approximate their carrying values.

Certain Universal Life insurance policies issued by the Company allow the policyholder to select an interest credited rate that is tied to the movement of certain stock exchange indices. The Company uses a combination of investments in exchange traded funds, mutual funds, and a futures/cash investment strategy to hedge this risk and earn a return sufficient to cover the interest credited based on the movement of these indices plus a required spread. The mutual funds invested in by the Company are mostly **imaxx** mutual funds, which are the family of mutual funds managed by AEGON Fund Management Inc., which is a wholly owned subsidiary of AEGON Canada Inc.

- b) Over 91% of the Company's investments in bonds and debentures are made in Canadian issued securities. The Company also invests in Canadian dollar denominated corporate bonds of some foreign issuers. The following table summarizes the term to maturity and average yield of the Company's investment in bonds and debentures:

Bonds and Debentures					2006	2005
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total	Total
Government – Federal						
Carrying value	\$ 10,316	\$ 22,184	\$ 9,342	\$ 19,849	\$ 61,691	\$ 257,596
Average yield	3.49%	4.25%	4.18%	4.00%	4.11%	3.66%
Government – Provincial						
Carrying value	\$ –	\$ 30,076	\$ 46,415	\$ 817,402	\$ 893,893	\$ 828,029
Average yield	–	4.05%	7.54%	5.93%	5.95%	6.16%
Municipal, Public Authorities and Schools						
Carrying value	\$ –	\$ –	\$ 2,440	\$ –	\$ 2,440	\$ 3,254
Average yield	–	–	8.07%	–	8.07%	8.72%
Corporate						
Carrying value	\$ 103,579	\$ 945,716	\$ 351,708	\$ 809,808	\$ 2,210,811	\$ 1,885,446
Average yield	4.88%	4.72%	6.36%	6.94%	5.80%	5.99%
Foreign Issuers						
Carrying value	\$ –	\$ 175,387	\$ 65,585	\$ 53,970	\$ 294,942	\$ 213,295
Average yield	–	4.40%	4.86%	4.96%	4.60%	4.57%
Total Carrying Value	\$ 113,895	\$ 1,173,363	\$ 475,490	\$ 1,701,029	\$ 3,463,777	\$ 3,187,620

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 (thousands of dollars)

3. Portfolio Investments (continued):

- (c) Management actively reviews and monitors the credit quality of the investment portfolio. Provisions are established where, in the opinion of management, there is no longer reasonable assurance as to the timely collection of principal and interest. Investments in individual loans have been reduced by the following specific allowances for impairment:

			2006	2005
Individual Investment	Gross impaired investment	Specific allowance for investment impairment	Carrying amount	Carrying amount
Bonds and debentures	\$ 2,053	\$ 1,720	\$ 333	\$ 430
Mortgages	356	356	—	559
TOTAL	\$ 2,409	\$ 2,076	\$ 333	\$ 989

The continuity of specific allowance for investment impairment is as follows:

	2006	2005
Specific allowance, beginning of year	\$ 1,896	\$ 1,896
Provisions for investment impairment	—	—
Provisions released on disposal of investments	180	—
Specific allowance, end of year	\$ 2,076	\$ 1,896

In addition, the Company holds a general provision for possible future defaults within its actuarial liabilities of \$242,741 (2005 - \$196,477).

- (d) Net investment income reflects the following components:

	2006	2005
Interest	\$ 210,571	\$ 195,135
Net gains (losses) on equities, futures and swaps contracts that back index-linked universal life policies and are carried at fair value	134,412	85,188
Net realized and unrealized losses on put options, futures and forwards, plus interest, used to manage equity market risk related to the death and maturity guarantees of segregated fund policies	(47,989)	(441)
Other investment income (loss)	3,441	531
Amortization of deferred realized and unrealized net gains (losses) re:		
Bonds	17,230	18,148
Equities	6,685	4,187
Provisions for loan losses	(180)	—
Investment expenses	(8,679)	(7,772)
Investment income tax	(11,498)	(10,921)
	\$ 303,993	\$ 284,055

Certain Universal Life insurance policies issued by the Company allow the policyholder to select an interest credited rate that is tied to the movement of certain stock exchange indices. The Company uses a combination of investments in exchange traded funds and a futures/cash investment strategy to hedge this risk and earn a return sufficient to cover the interest credited based on the movement of these indices plus a required spread. Equities, futures, and swaps, which are used to match the liabilities related to these Universal Life policies, are carried at fair value consistent with the valuation of the policy liabilities, and the related gains and losses are recorded immediately in investment income. In the above table these gains and losses are identified as net gains/(losses) on equities, futures and swaps contracts that are carried at fair value. The change in policy liabilities that correspond to these gains and losses are included as part of change in actuarial liabilities set aside on new and existing business.

(e) Securities lending:

The Company engages in securities lending to generate additional income. Certain securities from its portfolio are loaned to other institutions for periods of time. Collateral, equivalent to 105% of the market value of the loaned securities, is lodged by the borrower with a lending agent, usually a securities custodian, and retained by the lending agent until the underlying security has been returned to the Company. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value fluctuates. As at December 31, 2006, the Company had loaned securities (which are included in invested assets) with a carrying value and market value of approximately \$150,211 and \$158,707, respectively.

(f) Pledged securities:

As part of its derivatives activities the Company has pledged securities as futures margins in the amount of \$51,254 (2005 - \$8,164). These securities are reported in other invested assets on the balance sheet.

4. Derivative Financial Instruments

As described in Note 1, the Company uses various derivative financial instruments to manage and reduce its exposure to fluctuations in risk, including interest rate, foreign exchange rate, equity and liquidity risk arising on policy liabilities, as part of an asset-liability management program.

The Company mitigates counterparty credit risk arising from derivative activities by limiting exposure to any single counterparty. The Company's policy establishes a minimum counterparty credit rating and sets out limits per transaction and credit exposure to a single counterparty.

Certain Universal Life insurance policies issued by the Company allow the policyholder to select an interest credited rate that is tied to the movement of certain stock exchange indices. The Company uses a combination of investments in exchange traded funds, mutual funds and a futures/cash investment strategy to hedge this risk and earn a return sufficient to cover the interest credited based on the movement of these indices plus a required spread. The investment in exchange traded funds is reported as part of equities on the balance sheet. The futures entered into for matching the liabilities of these Universal Life policies are marked-to-market and the unrealized gains and losses are recorded immediately in investment income. As a result, the notional amount of futures invested in as part of the above strategy that are outstanding at December 31, 2006 is \$82,649 (2005 - \$72,605).

The notional amount of futures outstanding at December 31, 2006, for which gains and losses are deferred and amortized to income at 5% per quarter, is \$162,504 (2005 - \$138,633). At December 31, 2006 the net deferred gain recorded on the balance sheet for these futures was \$43,198 (2005 - \$28,014). Futures margins of \$51,254 (2005 - \$8,164) are included in other invested assets on the balance sheet.

The Company also enters into credit derivatives to manage the credit exposure in its bond portfolio. Credit derivatives are contracts whose redemption value is linked to specific credit related events, such as bankruptcy, credit downgrade, non-payment or default. The notional value and fair value of credit derivatives at December 31, 2006 was \$84,842 and \$81 respectively (2005 - \$93,040 and (\$2,243)) with a maturity dates between May 2007 and December 2010.

The Company has sold or acquired futures and put options on various stock market indices, as well as currency forwards to assist in managing exposures related to the death benefit and maturity guarantees of some of its segregated fund policies. The futures, put options, and currency forwards are all carried at market value, with gains and losses recognized immediately in income. The put options have a carrying value of \$641 (2005 - \$1,517) and are included in other invested assets. The futures have a net carrying value of (\$4,687) (2005 - Nil) and are included in other assets. The currency forwards have a net carrying value of \$281 (2005 - Nil) and are included in other assets. Futures margins of \$39,638 (2005 - nil) are included in other invested assets on the balance sheet.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 (thousands of dollars)

4. Derivative Financial Instruments (continued)

The following table presents details on the notional amount and carrying values of these futures, put options and currency forwards that are used in managing exposures related to the death benefit and maturity guarantees of segregated fund policies:

				2006	2005		
Put options:							
Index	Notional Amount	Expiry Date	Carrying Value	Notional Amount	Expiry Date	Carrying Value	
S&P 500	\$ 19,917	Dec 2008	\$ 641	\$ 19,984	Dec 2008	\$ 1,517	
Futures:							
Index	Notional Amount	Maturity Date	Carrying Value	Notional Amount	Maturity Date	Carrying Value	
S&P TSE 60	\$ (437,625)	Mar 2007	\$ (614)	—	—	—	
S&P 500	\$ (182,987)	Mar 2007	\$ (736)	—	—	—	
DJ Euro STOXX 50	\$ (93,223)	Mar 2007	\$ (1,647)	—	—	—	
Russell 2000	\$ (78,688)	Mar 2007	\$ 637	—	—	—	
Nikkei 225 OSE	\$ (43,903)	Mar 2007	\$ (2,327)	—	—	—	
Net Carrying Value			\$ (4,687)	—	—	—	
Currency Forwards:							
Currency	Notional Amount	Maturity Date	Carrying Value	Notional Amount	Maturity Date	Carrying Value	
U.S. Dollar	\$ (4,000)	Mar 2007	\$ (42)	—	—	—	
Euro	\$ (19,000)	Mar 2007	\$ (60)	—	—	—	
Japanese Yen	\$ (44,000)	Mar 2007	\$ 383	—	—	—	
Net Carrying Value			\$ 281	—	—	—	

5. Actuarial Liabilities Under Insurance and Annuity Contracts

(a) Nature of actuarial liabilities:

Actuarial liabilities represent an estimate of the amount which, together with anticipated future premiums and investment income, will be sufficient to pay outstanding claims and future benefits, dividends and, expenses on policies in force.

Actuarial liabilities are determined using accepted actuarial practices, according to the standards established by the CIA.

The determination of actuarial liabilities is based on an explicit projection of cash flows with respect to policies in force. Best estimates of future experience are employed, adjusted to reflect the risks that actual results will deviate from the best estimates made. These risks vary in proportion to the length of the estimation period and the potential volatility of each component comprising the liabilities. To recognize uncertainty in establishing these best estimates and to allow for possible deterioration in experience, actuaries are required to include a margin in each assumption. As the probability of deviation from estimates declines, these provisions will be included in future income to the extent that they are not required to cover adverse conditions. When estimates of future experience are changed, the actuarial present value of such changes is recognized in income immediately.

For most lapse, mortality and expense assumptions, a range of allowable margins is prescribed by the CIA based on criteria such as time horizon, level of experience monitoring and availability of credible experience data. For investment return and mismatch risk, multiple scenario valuations are conducted by the Actuary using a cash flow valuation method in order to determine the appropriate provision for adverse deviations. For the capital market risk associated with minimum guarantees on segregated funds, stochastic investment models are employed based on guidance from the CIA.

(b) Policy assumptions:

The methods of determining the material assumptions made by the Company in the computation of actuarial liabilities are described in the following paragraphs. In all cases, the assumptions are supplemented with margins for adverse deviations. On an annual basis, the Actuary is required to perform a Dynamic Capital Adequacy Test which analyzes the Company's sensitivity to the various assumptions used in the valuation. This test involves projecting a set of future economic and experience scenarios in which one or more assumptions are altered in an adverse manner. This test provides the actuary with insight into which assumptions are most sensitive and therefore require closer monitoring and/or management action.

Policy claims and benefits:

Estimates of the amounts and timing of future claims and benefit payments are based on both the Company's and industry experience over extended periods. Although the pattern of claims and benefit payments may be close to that indicated by past experience, some deviation in that pattern is probable. Overall, mortality experience has exhibited a gradual declining trend. Consistent with guidance from the CIA, no future mortality improvements are assumed for life insurance, but some mortality improvements are assumed for single premium immediate annuity policies.

Policy lapse rates:

The Company bases its estimate of future lapse rates on previous experience for each block of policies and on industry experience where available.

For life products expected lapse rates vary by several factors, including, but not limited to, product design, age, smoking status and policy duration. The expected lapse rates for lapse-supported policies are reduced by a margin for adverse deviation. The expected lapse rates for non-lapse-supported policies are increased by a margin for adverse deviation.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 (thousands of dollars)

5. Actuarial Liabilities Under Insurance and Annuity Contracts (continued)

For segregated fund products expected lapse rates vary by several factors most notably the ratio of the current market value to the current guarantee value (MV/GV ratio), tax registration status, the time remaining to the potential date of claim (term to maturity), and the product. The expected lapse rates are reduced by a margin for adverse deviation where the MV/GV ratio is less than 1, and increased by a margin for adverse deviation where the MV/GV ratio is greater than 1.

Investment income:

The computation of actuarial liabilities takes into account projected net investment income on assets supporting actuarial liabilities including income expected to be earned or foregone on reinvestments or financing of mismatched cash flows. Uncertainties exist with respect to the projections of interest rates and the magnitude of credit losses from asset defaults. The Company provides for such uncertainties by incorporating provisions for credit losses into projections of investment income (in addition to the allowances for impairment applied as direct reductions to the carrying values of the invested assets). The Company uses various asset-liability management techniques to minimize its exposure to interest rate risk. The approximate impact of an immediate 1% increase in the general level of interest rates would be to reduce the provision for future policy benefits by approximately \$33,664 (2005 - \$89,961). Conversely, a 1% decrease in the general level of interest rates would increase the provision for future policy benefits by approximately

\$77,411 (2005 - \$143,623). The decrease in interest rate sensitivity from the prior year is a result of changes to the CIA actuarial standards in regards to the determination of the base interest rate scenario to be used, and the prescribed interest rate scenarios to be tested, within the valuation of the actuarial liabilities.

Policy maintenance expenses:

Amounts are included in actuarial liabilities to provide for the costs of administering policies in force and include the costs of premium collection, adjudication and processing of claims, periodic actuarial calculations, preparation and mailing of policy statements, related indirect expenses and overhead. The process of forecasting expenses requires estimates to be made of such factors as salary rate increases, productivity changes, business volumes and indirect tax rates. Estimates of future policy maintenance expenses are based on the Company's experience.

Actuarial standards require the inclusion of all cash flows associated with the policy liabilities in the determination of the policy liabilities. Included in these cash flows are the related income tax effects. Adjustments are made to reflect the existence of future tax assets or liabilities on the balance sheet.

Policyholder dividends:

Actuarial liabilities include the present value of estimated amounts of future policyholder dividends based on current dividend scales and expected future income attributable to participating policies.

(c) Changes in actuarial liabilities:

	2006	2005
Balance, beginning of year	\$ 2,368,599	\$ 1,862,343
Set aside on new and existing business	136,248	189,149
Net change resulting from management actions and changes in assumptions:		
Persistency	133,700	111,900
Mortality	(6,000)	3,750
Expenses	5,600	30,510
Investment returns	(14,700)	93,167
Taxes and other model refinements	9,100	49,060
Unit trust investment strategy for Universal Life	55,000	28,720
Balance, end of year	\$ 2,687,547	\$ 2,368,599

Persistency, mortality and expense assumptions were updated to reflect industry and Company experience studies. There were two main changes which resulted in the increase in liabilities in 2006 related to persistency. One change was to the lapse assumption for the valuation of segregated fund guarantees (\$62,000). The segregated fund lapse rates were revised to vary by the remaining term to the next potential claim payout for maturity (referred to as term to maturity) and has been further updated to reflect current experience. The second change was to the renewal assumption on some term products (\$54,000). The Term liabilities were strengthened to reflect a higher expectation of lapses at each renewal date, for policies where the renewal premium rate increases compared to the premium rate in the initial term.

The reduction in liabilities in 2006 related to investment returns is primarily the result of an increase in interest rates during 2006. It is also impacted by changes to the actuarial standards in regards to the determination of the base interest rate scenario to be used, and the prescribed interest rate scenarios to be tested. In applying the Canadian Asset Liability Method (CALM) to establish its liabilities, the Company selects future investment return assumptions based on several prescribed scenarios, and establishes a liability at least equal to the worst case scenario. At December 2005, as a result of the scenario testing, the valuation was based on the implied forward curve within the existing yield curve. At December 2006, as a result of the scenario testing, the valuation is based on a scenario where the reinvestment rates grade from the current yield curve to an ultimate reinvestment rate that is based on historical average long term interest rates.

The Company uses a combination of investments in exchange traded funds (unit trusts) and a futures/cash investment strategy to back certain equity linked universal life contracts. The tax benefits resulting

from investment in unit trusts have been reflected as a reduction to actuarial liabilities. The Company, however, assumes that this beneficial tax treatment will only exist for a limited number of years. As a result of emerging industry practice in this regard, the Company continues to adopt a more conservative stance during 2006 regarding these tax implications, reducing the number of years of tax benefits reflected in the valuation. The increase in liabilities in 2006 relating to unit trust investment strategy for universal life is predominantly due to this level of increased conservatism.

Certain Universal Life insurance policies issued by the Company allow the policyholder to select an interest credited rate that is tied to the movement of certain stock exchange indices. The Company uses a combination of investments in exchange traded funds and a futures/cash investment strategy to hedge this risk and earn a return sufficient to cover the interest credited based on the movement of these indices plus a required spread. Equities, futures, and swaps, which are used to match the liabilities related to these Universal Life policies, are carried at fair value, and the related gains and losses are recorded immediately in investment income. The change in policy liabilities that correspond to these gains and losses are included as part of change in actuarial liabilities set aside on new and existing business.

(d) Actuarial liabilities and supporting assets:

The Company manages assets and liabilities by segmenting its business, taking into account the different liability profiles of its products. Based on these profiles, the Company has invested assets in bonds, mortgages, equities and derivatives which have characteristics appropriate for the related policy liabilities.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 (thousands of dollars)

5. Actuarial Liabilities Under Insurance and Annuity Contracts (continued)

The carrying value and fair value of assets supporting actuarial liabilities and shareholders' funds, by line of business are comprised as follows:

	2006			
	Life and Health	Annuity	Shareholders' Funds	Total
Net actuarial liabilities	\$ 1,703,167	\$ 984,380	\$ —	\$ 2,687,547
Other policy liabilities	22,018	—	—	22,018
Amounts on deposit from reinsurers	604,823	—	—	604,823
Total policy liabilities	<u>\$ 2,330,008</u>	<u>\$ 984,380</u>	<u>\$ —</u>	<u>\$ 3,314,388</u>

Assets backing policy liabilities:

Portfolio investments and accrued investment income – carrying value	\$ 3,117,383	\$ 1,385,892	\$ 464,849	\$ 4,968,124
Deferred net gains – carrying value	\$ (320,106)	\$ (99,774)	\$ (49,368)	\$ (469,248)
Portfolio investments and accrued investment income – fair value	\$ 3,726,171	\$ 1,421,462	\$ 478,185	\$ 5,625,818
Deferred net gains – fair value	Nil	Nil	Nil	Nil

	2005			
	Life and Health	Annuity	Shareholders' Funds	Total
Net actuarial liabilities	\$ 1,408,907	\$ 959,692	\$ —	\$ 2,368,599
Other policy liabilities	18,877	—	—	18,877
Amounts on deposit from reinsurers	566,693	—	—	566,693
Total policy liabilities	<u>\$ 1,994,477</u>	<u>\$ 959,692</u>	<u>\$ —</u>	<u>\$ 2,954,169</u>

Assets backing policy liabilities:

Portfolio investments and accrued investment income – carrying value	\$ 2,726,288	\$ 1,078,710	\$ 675,479	\$ 4,480,477
Deferred net gains – carrying value	\$ (271,024)	\$ (78,762)	\$ (50,539)	\$ (400,325)
Portfolio investments and accrued investment income – fair value	\$ 3,388,497	\$ 1,157,327	\$ 676,487	\$ 5,222,311
Deferred net gains – fair value	Nil	Nil	Nil	Nil

6. Reinsurance Ceded:

- (a) In the normal course of business, the Company limits the amount of loss on any one life and on certain levels of risk in various areas of exposure by reinsuring these risks with other insurers. The maximum life insurance exposure retained on any one individual is \$1.25 million dollars.

Provisions for future benefits, premiums, policy benefits and sales commissions are recorded net of amounts ceded to and recoverable from reinsurers. Amounts receivable from reinsurers are estimated in a manner consistent with the policy liability associated with the reinsured policy.

Actuarial liabilities under insurance and annuity contracts (balance sheet)	
Premiums	
Provision for future policy benefits (statement of income)	
Commissions	

Reinsurance ceded does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company. Consequently, the Company evaluates the financial condition of its reinsurers and monitors their credit risk to minimize its exposure to losses from reinsurer insolvency. The Company only contracts business with reinsurers who are registered with the Office of the Superintendent of Financial Institutions Canada.

The amounts shown in the financial statements are net of the following amounts relating to reinsurance ceded to other insurers:

	2006	2005
	\$ 1,417,104	\$ 1,424,300
	\$ 230,597	\$ 215,768
	\$ (7,196)	\$ 65,952
	\$ 8,490	\$ 8,961

- (b) The Company has funds withheld reinsurance arrangements with unrelated reinsurance companies. Each of these treaties covers a distinct block of policies. Under the terms of these arrangements, the Company has ceded various sources of insurance risk to the reinsurers. However, the terms call for the Company to withhold funds representing all or a portion of the premiums owing upon ceding the risk, and to repay these funds, together with accumulated interest, in accordance with stipulated payment schedules. The Company classifies these funds withheld liabilities as amounts on deposit from reinsurers on its balance sheet. On the income statement, the Company classifies the interest accrued on these funds withheld liabilities as interest expense on deposits from reinsurers.

In 2005, the Company negotiated an amendment to eliminate the funds withheld component of one of these treaties. With the elimination of the funds withheld

component, the amount held as an experience account of the reinsurer was released, resulting in an amount of \$74,763 being credited to the experience rating refund account on the Company's statement of income (loss). Actuarial liabilities were increased by a corresponding \$74,763, which represented the value of the funds withheld. The amendment to this treaty resulted in a further increase in actuarial reserves of \$52,372 as the elimination of the funds withheld component increased the Company's discounted future tax provision.

The funds withheld liability, including accrued interest, as at December 31, 2006 was \$604,823 (2005 - \$566,693).

The interest expense on the funds withheld liability for the year ended December 31, 2006 was \$46,893 (2005 - \$48,748).

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 (thousands of dollars)

7. Income Taxes

(a) Income tax provision:

	2006	2005
Current income taxes	\$ 12,675	\$ 17,943
Future income taxes relating to temporary differences and tax rate changes	(25,263)	(77,025)
Total	<u>\$ (12,588)</u>	<u>\$ (59,082)</u>

(b) The provision for income taxes varies from the expected provision at statutory rates for the following reasons:

			2006	2005
Expected provision for income taxes at statutory rates	\$ 3,762	34.32%	\$ (48,771)	34.12%
Increase (decrease) from statutory rates due to:				
Exempt investment income	(24,850)	-226.71%	(11,033)	7.72%
Capital and other non-deductible taxes	1,592	14.52%	1,883	-1.32%
Other	7,475	68.20%	(1,109)	0.77%
Statutory Rate Changes	(567)	-5.17%	(52)	0.04%
Income tax provision at effective rate	<u>\$ (12,588)</u>	<u>-114.85%</u>	<u>\$ (59,082)</u>	<u>41.33%</u>

In the above chart, the category "Other" includes the impact of temporary differences from a prior period that has been reflected in the future tax provision for the current period.

(c) The following liabilities (assets) arising from temporary differences are included in the future income tax liability (asset):

	2006	2005
Actuarial liabilities	\$ 3,299	\$ 3,223
Investment and Other	(13,946)	11,393
Total	<u>\$ (10,647)</u>	<u>\$ 14,616</u>

(d) Tax contingencies:

The Company is subject to regular recurring audits of its tax filings by the Canada Revenue Agency and other provincial Tax Authorities. There are issues in dispute with these authorities where adjustments have been proposed and amounts assessed differently than as filed by the Company in its tax returns and provided in these financial statements. Some of these disputed amounts are under current appeal, however it is not expected that resolution of these matters will have a material adverse effect on the Company's financial position. Accordingly no amounts have been accrued in these financial statements for settlement of these contingencies.

8. Related Party Transactions

Transactions with related parties are measured at the carrying value of the goods or services being exchanged, unless such transactions are determined to be in the normal course of operations. In the latter case, transactions are recorded at the agreed upon exchange amount on terms that are equivalent to transactions with unrelated parties. All related party transactions are subject to review by the Conduct Review Committee of the Board of Directors.

AEGON Canada Inc. ("ACI") provides administrative services to the Company at a cost equivalent to the cost incurred by ACI in respect of providing these services.

AEGON Capital Management Inc. ("ACM"), a subsidiary of ACI, provides investment management services to the Company. ACM provides these services to the Company at an agreed upon amount on terms that are equivalent to transactions with unrelated parties.

The Company provides some administrative services to AEGON Fund Management Inc. ("AFM") at a cost equivalent to the cost incurred by the Company in respect of providing these services.

National Financial Corporation ("NFC"), a subsidiary of ACI, is the ultimate parent company of AEGON Dealer Services Canada Inc., Money Concepts Canada Limited, and National Financial Insurance Agency Inc. The principal operating companies of NFC operate as a licensed mutual fund dealer and an insurance agency. These companies provide dealership and agency services for a portion of the

Company's segregated fund and life insurance business and in return receive commissions at rates that are equivalent to those paid to unrelated parties.

World Financial Group Inc ("WFG") is a wholly owned subsidiary of AEGON USA, Inc. and has the same ultimate parent company as the Company. WFG's independent associates offer the financial and insurance products of the industry leading providers to their clients. WFG sells insurance annuity and segregated fund products of the Company. In return WFG receives commissions from the Company at rates that are equivalent to those paid to unrelated parties.

The following table summarises the Company's related party transactions for the year and the amounts outstanding with related parties at the end of the year:

Related Party	Nature of Transaction	2006		2005	
		(Revenue) /Expense for year	Amount due (to)/from related party at end of year	(Revenue) /Expense for year	Amount due (to)/ from related party at end of year
ACI	Operating expenses	\$ 50,338	\$ 11,550	\$ 58,037	\$ 9,800
	Short-term loan Interest	—	—	277	—
ACM	Investment management fees	6,867	(590)	6,658	(642)
	Operating expenses	(514)	45	(377)	60
Other companies under control of ACI	Operating expenses	(575)	226	(834)	(509)
	Commissions	821	(90)	859	(72)
Companies under control of ultimate parent company:					
AEGON USA and subsidiaries	Operating expenses and commissions	13,125	(484)	10,543	(192)
	Advance payments	—	—	—	290

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 (thousands of dollars)

9. Capital Stock

The authorized capital stock of the Company as at December 31, 2006 is comprised of an unlimited number of Common Shares, an unlimited number of First Preference Shares and 1,000,000 authorized Preferred Shares. All Preferred Shares are issuable in series, non-voting, and non-cumulative as to cash dividends. Common Shares are all without nominal or par values.

In 2006, AEGON Canada Inc and AEGON International N.V. contributed additional capital in cash of \$72,899 and \$27,101 (2005 - \$73,000 and \$27,000) respectively. The

additional capital contributed by each company was equivalent to each of their proportionate levels of ownership prior to the contributions. AEGON Canada Inc continues to own 9,600,000 of the company's common shares, which is equivalent to approximately 73% of the voting shares. AEGON International N.V. continues to own 3,568,941 common shares of the Company, which is equal to approximately 27% of all of the outstanding common shares.

The following table provides a continuity of the Company's capital stock:

			2006
	Number of authorized shares	Number of issued shares	Amount in thousands of dollars
Common shares	Unlimited	13,168,941	\$ 618,705
Preferred Shares:			
First Preference Shares	Unlimited	—	—
Preferred Shares, Series IV (Non-voting, non-cumulative 5.3%):	1,000,000	184,000	\$ 184,000
			<u>\$ 802,705</u>

			2005
	Number of authorized shares	Number of issued shares	Amount in thousands of dollars
Common shares	Unlimited	13,168,941	\$ 618,705
Preferred Shares:			
First Preference Shares	Unlimited	—	—
Preferred Shares, Series IV (Non-voting, non-cumulative 5.3%):	1,000,000	184,000	184,000
			<u>\$ 802,705</u>

10. Required Capital

The Company is subject to Canadian Minimum Continuing Capital and Surplus Requirements (MCCSR) under regulations issued by the Office of the Superintendent of Financial Institutions (OSFI). This required capital must be maintained, in addition to other actuarial reserves established in these financial statements, to provide an additional solvency margin to ensure sufficient assets are maintained in Canada in order to satisfy policyholder claims as they become due. OSFI has issued a supervisory guideline that stipulates that Canadian insurance companies should maintain an MCCSR ratio of at least 150%. The Company's MCCSR ratio at December 31, 2006 was 185% (2005 – 177%).

Distribution of net income to the shareholders and to participating policyholders is determined by the Board of Directors. The net income available to the shareholders

includes the net income of all non-participating business and investment earnings credited to the shareholders' account. The distribution of net earnings and returns of capital are restricted by regulations of the Insurance Companies Act. The block of participating policies is of insufficient size to generate credible experience necessary to identify suitable dividend scales which would be equitable among different classes of policyholders, generations of policyholders, and individual policyholders. In the years since the issue of the contracts the Company has paid dividends equal to those used in dividend illustrations given to policyholders at the time of original sale. It is the Company's intention to continue such Dividend Policy for these contracts. However, the Company's management will review such Dividend Policy when economic and policy experience warrant changes. The accumulated retained earnings of the participating fund are not significant.

11. Other Assets

Other assets are comprised of the following items:

	2006	2005
Agents' compensation paid in advance	\$ 31,952	\$ 28,522
Agents' receivables	6,930	7,486
Accounts receivable	10,376	10,773
Due from investment brokers	5,963	26,597
Capital assets	31,212	33,692
Prepaid assets and deferred charges	2,338	1,103
Due from related parties	11,878	10,114
Deposit with Canada Revenue Agency	5,539	5,539
Income taxes recoverable	29,223	–
Other	92	92
	<u>\$ 135,503</u>	<u>\$ 123,918</u>

12. Other Liabilities

Other liabilities are comprised of the following items:

	2006	2005
Bank overdraft	\$ 520	\$ 6,194
Accrued expenses, fees and other taxes	40,942	42,345
Commissions payable	8,173	5,112
Due to investment brokers	2,372	14,970
Amounts payable under reinsurance agreements	1,252	823
Income taxes payable	–	2,181
Due to related parties	999	1,237
Advance premiums	2,282	2,667
Unallocated premiums	4,450	4,515
Capital lease obligation	4,379	4,459
Other	24,721	36,347
	<u>\$ 90,090</u>	<u>\$ 120,850</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 (thousands of dollars)

13. Segregated Funds Net Assets

The value of the seeded units held by the Company in segregated funds managed by the Company at December 31, 2006 is \$15,856 (2005 - \$13,959) and is included in other invested assets.

Management fees and other expenses earned by the Company for the management of these segregated funds totaled \$122,982 (2005 - \$118,919) and are included in other income on the Company's statement of income.

14. Variable Interest Entities

imaxx mutual funds are considered a variable interest entity as defined by AcG15. Certain Universal Life insurance policies issued by the Company allow the policyholder to select an interest credited rate that is tied to the movement in value of certain mutual funds. The Company in turn invests in the units of the actual mutual funds to hedge against the interest credited rates payable on these policies. Substantially all of the mutual funds invested in by the Company to support these universal life policies are **imaxx** mutual funds. **imaxx** mutual funds are the family of mutual funds managed by AEGON Fund Management Inc., which is a wholly owned subsidiary of AEGON Canada Inc. The Company has invested a total of \$210,525 (2005 - \$138,288) in various **imaxx** mutual funds to support the liabilities of universal life policies. This amount is included as part of equities on the Company's balance sheet.

The Company also holds as an investment in its surplus funds a total of \$8,954 (2005 - \$7,914) in various **imaxx** mutual funds. This amount is included as part of equities on the Company's balance sheet.

The total value of all outstanding units of **imaxx** mutual funds as at December 31, 2006 was \$555,878 (2005 - \$507,301). The Company does have a controlling financial interest in some of the **imaxx** mutual funds. However, in these cases the Company's direct investment accounts for substantially all of the fund and these assets are already

recorded as part of equities on the Company's balance sheet. The Company has not consolidated these variable interest entities as the amounts that would be added to these financial statements are not significant.

Certain segregated funds managed by the Company invest in **imaxx** mutual funds. The total investment in **imaxx** mutual funds by the Company's segregated funds at December 31, 2006 was \$86,775.

15. Contingencies

The Company is subject to legal actions arising from the normal course of business. It is not expected that these legal actions will have a material adverse effect on the Company's financial position. In addition, there are actions against the Company relating to allegations that certain policies did not achieve illustrated returns.

16. Commitments

The Company has contractual obligations in respect of rents payable on leased premises and equipment as follows:

	Lease on the Company's Head Office	Other Leases
2007	\$ 5,342	\$ 1,438
2008	5,342	1,265
2009	5,949	1,106
2010	6,252	936
2011	6,252	616
Thereafter	47,210	1,265
	<u>\$ 76,347</u>	<u>\$ 6,626</u>

17. Comparative Figures

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in 2006.

BOARD OF DIRECTORS

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Darryl Button
Ronald L. Corey, O.C.
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Paul Reaburn (Chairman)
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Robert J. Tweedy

Michiel van Katwijk
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