

2007 Financial Statements

Contents

Risk Management and Control Practices	2
Sources of Earnings	6
Management's Responsibility for Financial Reporting	9
Appointed Actuary's Report	10
Auditor's Report	10
Balance Sheet	11
Statement of Income/Loss	12
Statement of Changes in Shareholders' Equity	13
Statement of Comprehensive Income	13
Statement of Cash Flows	14
Statement of Changes in Segregated Funds Net Assets	15
Statement of Segregated Funds Net Assets	15
Notes to Financial Statements	16
Board of Directors	44

Transamerica Life Canada

Transamerica Life Canada is one of Canada's leading life insurance companies, with over \$10.8 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 2007.

For 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 more than 30,000 people around the world and serve 40 million customers in over 20 markets throughout the Americas, Europe and Asia.

In the year ended December 31, 2007, AEGON had a market capitalization of EUR 20 billion, net income totaling EUR 2.6 billion, and total assets of EUR 314 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, 2007

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+

Risk Management and Control Practices

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 ongoing 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 and Asset Liability Management, 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. The RCC reports directly to the Audit Committee of the Board of Directors.

Risk Management, under the direction of the Chief Risk Officer, contributes to the achievement of Transamerica'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. 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 Company Management to articulate the risk appetite and risk profile of the Company.

Internal Audit develops short and long-term audit plans giving consideration to the inherent and residual risks of ongoing business processes, the impact of the changing internal and external environment and with the input of the Risk and Capital Committee and the Audit Committee of the Board of Directors. Audits are conducted in accordance with this plan, independently assessing the effectiveness and efficiency of risk management policies and processes designed to: identify, measure and mitigate risks, provide accurate, timely and reliable financial and operating information, safeguard assets and support compliance with regulatory and other legislative requirements.

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 analyzes 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 investment financial risks in accordance with risk management policies, as approved annually by the Investment and Asset Liability Management Committee of the Board of Directors. These policies set out general principles, accountabilities, procedures, risk limits and reporting requirements for the measurement and management of credit, interest rate, equity, liquidity, currency and derivative risks.

Credit Risk

Credit risk includes the risk of default on scheduled payments of either principal or interest. Credit quality guidelines form an integral part of Transamerica's Investment and Lending Risk Management Policy. Transamerica controls credit risk in its investment portfolio through prudent risk management policies governing the investment process, investment authorities, limits and diversification requirements.

These policies specify 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. The Company also holds a general provision for possible future asset defaults within the actuarial liabilities.

The credit quality of the investment portfolio is monitored by Management and reported on a quarterly basis to the Investment Committee of the Board of Directors.

Credit risk exposures are disclosed in the section describing the Company's Investment Portfolio.

Interest Rate Risk

Interest rate risk is the risk of an adverse impact on Transamerica's earnings or capital 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 Asset and Liability Risk Management Policy through a collaborative effort between the liability and asset managers. Interest rate risk is managed in accordance with the Interest Rate Risk Management Policy and is monitored regularly.

Transamerica's Asset Liability Management Committee meets regularly to review the impact of market conditions and new business on the asset portfolios and the product liabilities. In addition Management reports quarterly to the Investment and Asset Liability Management Committee of the Board on the level of interest rate risk exposures.

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 \$19,580 (2006 - \$33,664). Conversely, a 1% decrease in the general level of interest rates would increase the provision for future policy benefits by approximately \$64,778 (2006 - \$77,411). These interest rate sensitivities are illustrative only as they are based on simplified scenarios.

Actuarial liabilities under insurance and annuity contracts are separated into the following categories as at December 31, 2007 (in millions):

	2007
Universal life	\$ 1,747
Other policy liabilities	2,342
Total	<u>\$ 4,089</u>

Approximately 43% of the policy liabilities are Universal Life and accordingly, are managed on a pass through basis.

Other policy liabilities represent approximately 57% of the Company's policy liabilities and include traditional life products, deferred annuities and the guarantee provision of segregated fund contracts. A portfolio segment is created for each product line. The asset portfolio segment is closely managed to match the liabilities for each product line.

Equity Risk

Equity risk is the potential adverse impact on the Company's earnings or capital due to movements in individual equity prices or 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. Equity risk is managed in accordance with the Equity Market Risk Management Policy and is monitored regularly.

The death and maturity guarantee provisions included in the Company's segregated fund policies represent the Company's most significant exposure to equity risk. These guaranteed benefits are only payable contingent on death of the policyholder or maturity of the policy. The Company established actuarial liabilities for the guaranteed benefit payment 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 established by the Canadian Institute of Actuaries (CIA) is 60% to 80%. CTE 60 indicates that the actuarial liabilities of the Company would be determined using the average of the most adverse forty percent of the stochastic investment return scenarios and CTE 80 the average of the most adverse twenty percent. The Company has used CTE 75 for the establishment of its actuarial liabilities for both 2007 and 2006.

In monitoring the equity exposure of its segregated funds the Company tracks the net amount at risk for 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 claims across all of the stochastic investment return scenarios described above exceeds, or is less than, the expected fee income allocated to support guarantees.

As at December 31, 2007 the fund value of all segregated funds totaled \$4.9 billion (2006 - \$5.3 billion) and the net amount at risk totaled \$ 0.9 billion (2006 - \$ 0.9 billion).

Segregated Fund Reserve Analysis as at December 31, 2007 (in millions)

	2007	2006
Segregated Fund Reserves at CTE 75	\$ 689.6	\$ 418.6
Expected Payout at CTE 0	384.1	30.1
Excess of Reserves over Expected Payout	<u>\$ 305.5</u>	<u>\$ 388.5</u>

In addition to ensuring the actuarial liabilities are adequate to meet future policyholder obligations, the Company monitors its total balance sheet including capital required under the MCCSR requirements to support the business.

In addition to these measures, Transamerica monitors overall equity risk tolerance limits. The approximate impact of an immediate 10% increase in the general level of equity markets would be to reduce the provision for future policy benefits by approximately \$164,000 (2006 - \$163,000). Conversely, a 10% decrease in the general level of equity markets would increase the provision for future policy benefits by approximately \$171,000 (2006 - \$173,000). These equity market sensitivities are illustrative only as they are based on simplified scenarios.

As of December 31, 2007 the Company maintained a dynamic hedging program which mitigates some of the exposure related to the death benefit and maturity guarantees of its segregated fund policies. The hedging program reduces the earnings volatility in the segregated fund product line and protects the Company from the downside risk associated with a potential significant decline in the value of equity markets.

In the first quarter of 2008, the Company will be replacing the dynamic hedge program with a series of equity put options and a small residual dynamic hedging program. The static equity put option portfolio is designed to hedge the majority of the hedgeable market risk for a target block of segregated fund policies (Growsafe block). The residual program will function much like the current full dynamic hedge but with the constraint that the static put option portfolio must be part of the aggregate optimal hedge position. The equity put options will be reflected in the Company's reserving and capital requirements.

Liquidity Risk

Liquidity risk is the potential for economic loss arising from the Company being unable to maintain cash flows that are adequate to fund the day-to-day operations of the Company as well as meet all present and future financial obligations as they fall due.

Liquidity management involves managing cash flows so as to ensure that cash inflows have an appropriate relationship to cash outflows, taking into consideration the liquidity of the assets. The objective is to ensure that the sum of cash inflows plus assets which can be readily liquidated is always sufficient to meet potential cash outflows.

Liquidity risk is managed in accordance with the Liquidity Risk Management Policy and is monitored regularly. Liquidity management takes into consideration both operating liquidity (day-to-day cash needs) and strategic liquidity (long-term obligations). Management reports quarterly to the Investment Committee of the Board on the level of liquidity risk.

The Company also monitors its liquidity coverage ratios over various time horizons. The liquidity coverage ratio is the ratio of assets that can be readily liquidated within the required time horizon ("liquid assets"), relative to the policyholder obligations for which policyholders could realistically request withdrawals or submit claims over the same time horizon ("adjusted policy liabilities").

The Company tests its liquidity coverage ratio under various economic scenarios and time frames. The target liquidity coverage ratio is expected to be greater than 1.25 for 7 days, 1.15 for 30 days and 1.0 for the remaining time frames, meaning that the fair value of liquid assets would always be greater than the adjusted policyholder liabilities.

As at December 31, 2007, the coverage ratio for normal asset market conditions and normal withdrawals over a seven day scenario is 173.2 (2006 – 166.7) and over a three year scenario 3.7 (2006 – 7.8). The coverage ratio for impaired asset market conditions and extremely high withdrawals over a seven day scenario is 2.11 (2006 – 2.0) and over a three year scenario 2.15 (2006 – 3.6).

Currency Risk

Currency risk is the potential for economic loss arising from movement in foreign exchange rates versus the Canadian dollar. Currency risk is associated with fluctuations in the market values of assets or liabilities due to foreign exchange rate movements that are not fully passed through to the policyholder.

Currency risk is managed in accordance with the Foreign Exchange Risk Management Policy and is monitored regularly. The underlying objective is to manage the impact of currency rate movements within tolerance limits. Any breach of such limits is subject to an escalation and reporting protocol.

Derivative Risk

The Company 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 and Asset Liability Management Committee of the Board of Directors reviews the outstanding derivatives exposure of the Company on a quarterly basis.

Derivative exposures are disclosed in Note 4 to the Financial Statements.

INSURANCE RISK MANAGEMENT

The Company manages its insurance risks in accordance with risk management policies, as approved annually by the Audit Committee of the Board of Directors. These policies set out general principles, accountabilities, procedures, risk limits and reporting requirements for the measurement and management of underwriting, claim, reinsurance, product design and pricing risks.

Underwriting and Claim Risk Management

Underwriting and claim risk is exposure to financial loss resulting from the selecting and classifying risks to be insured, the adjudication of claims, 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 and reinsurance. Underwriting and claim risk is managed in accordance with the Underwriting and Claim Risk Management Policy.

Reinsurance Risk

Reinsurance risk is exposure to financial loss resulting from reinsurer insolvency. The Company manages reinsurance risk by evaluating the financial condition of its reinsurers and monitoring their credit risk on a quarterly basis. Reinsurance risk is managed in accordance with the Company's Reinsurance Risk Management Policy.

Product Design and Pricing Risk

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 in accordance with the Product Design and Pricing Risk Management Policy which establishes the processes to be followed and limits to be adhered to in the design and pricing of new products.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of losses resulting from inadequate or failed internal processes and controls, people and systems or from external events. Its impact can be financial loss, reputation loss, opportunity loss, inefficiency, loss of competitive position or regulatory censure.

The Company performs risk self assessments (RSAs) in various business units. The objective of the RSAs is to capture risk information for the purposes of making risk based decisions. In each RSA, significant risks were identified, prioritized and action plans were developed to mitigate these risks. The Company continues to monitor the progress of these actions plans and reports the progress to the RCC quarterly.

The Company monitors operational risks using key risk indicators (e.g. staff turnover, system downtime, data security, regulatory breaches, administrative errors, backlogs, etc.). A quarterly report is provided to the RCC outlining the key risk indicators, top operational risks and losses.

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 legal and regulatory requirements. In addition, internal auditors review the adequacy of the internal controls, reporting quarterly to Management and the Audit Committee.

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 ongoing 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. For universal life, this category also includes interest income on excess assets being held within the line for Asset Liability matching purposes.

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 allocated to each line of business.

Source of Earnings Statement for the period ended December 2007 (\$ millions)

	Life	Annuities	Seg Funds	Health	Total 2007	Total 2006
Expected Profit on In-Force Operations	\$ 70.0	\$ 4.7	\$ 48.0	\$ 1.2	\$ 123.9	\$ 114.3
Impact of New Business	14.6	(0.9)	2.8	0.0	16.5	12.4
Experience Gains and Losses	(118.3)	1.4	(80.9)	(0.5)	(198.3)	15.5
Management Actions and Changes in Assumptions						
Change in Mortality Assumptions	(4.1)	0.0	1.7	0.0	(2.4)	6.0
Change in Lapse Assumptions	(110.0)	0.0	(116.8)	0.0	(226.8)	(133.7)
Model Refinement and Taxes	18.5	2.5	(47.1)	0.1	(26.0)	(7.8)
Change in Investment Returns and Strategy	(0.6)	(4.4)	(2.8)	0.0	(7.8)	13.4
Change in Expense Assumptions	(12.0)	(0.6)	5.0	(2.2)	(9.8)	(5.6)
Provision for Excess Management Fees	(12.5)	0.0	(92.5)	0.0	(105.0)	–
Unit Trust and Investment Strategies	(30.6)	0.0	0.0	0.0	(30.6)	(55.0)
Total	\$ (151.3)	\$ (2.5)	\$ (252.5)	\$ (2.1)	\$ (408.4)	\$ (182.7)
Other						
Other Variances	\$ (0.9)	\$ 0.4	\$ (0.1)	\$ 0.6	\$ 0.0	\$ 0.0
Earnings on Operations before Taxes	\$ (185.9)	\$ 3.1	\$ (282.7)	\$ (0.8)	\$ (466.3)	\$ (40.5)
Earnings on Surplus						
Allocated	\$ 10.4	\$ 0.5	\$ 10.5	\$ 0.0	\$ 21.4	\$ 46.8
Unallocated	–	–	–	–	(1.1)	4.6
Income Before Income Taxes	\$ (175.5)	\$ 3.6	\$ (272.2)	\$ (0.8)	\$ (446.0)	\$ 10.9
Income Taxes	\$ (52.9)	\$ 1.0	\$ (86.6)	\$ (0.3)	\$ (138.8)	\$ (12.6)
Net Income	\$ (122.6)	\$ 2.6	\$ (185.6)	\$ (0.5)	\$ (307.2)	\$ 23.5

The expected profits from in force operations of \$123.9 million (2006 - \$114.3 million) was primarily the result of the release of provisions for adverse deviation and net expected management fees. It also includes \$32.8 million of interest income on surplus assets held within the universal life segment for asset liability matching purposes. The allocated earnings on surplus of \$21.4 million (2006 - \$46.8 million) is a result of the investment of the capital allocated to each line of business. The reduction in allocated earnings on surplus during 2007 reflects a change in accounting practice, where the interest income on surplus assets held within the universal life segment are now considered a source of expected profit rather than an allocation of surplus income. 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 2007 was \$145.3 million compared to \$161.1 million in 2006. This reduction primarily reflects the reduced number of years of favourable tax benefits associated with the investments in Exchange Traded Funds in the universal life portfolio, as described in the Management Actions and Changes in Assumptions section.

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 2007 have been measured using valuation assumptions in effect at December 31, 2006. 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 losses 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 in 2007 resulted primarily from additional default provisions established in respect of certain fixed income assets supporting the liabilities as noted in the actuarial liabilities section of this report. The discounted future tax adjustments represents experience on the Company's investments on unit trusts, as well as the impact of accounting changes CICA 3855 on actuarial liabilities, as noted in the actuarial liabilities section of this report. The net experience loss reported in 2007 for segregated funds was primarily due to lower than expected performance of foreign equity markets and a decline in the US dollar versus the Canadian dollar during the year. The Company has a hedge program in place as of Q4 2006, which partially offsets the impact of these factors.

Management actions and changes in assumptions for 2007 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.

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 shareholder 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 shareholder and policyholders accompanies these financial statements.



Paul Reaburn, FCIA
Chairman, President and
Chief Executive Officer

Toronto, Ontario
February 22, 2008



Richard Hepburn, CA
Vice-President, Finance

Toronto, Ontario
February 22, 2008

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, 2007 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 22, 2008

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

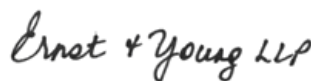
We have audited the balance sheet and statement of segregated funds net assets of Transamerica Life Canada ("the Company") as at December 31, 2007 and the statements of income (loss), comprehensive income, cash flow, changes in shareholders' equity and changes in segregated funds net assets for the year 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

Toronto, Ontario
February 22, 2008

includes examining, on a test basis, 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, 2007 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
Licensed Public Accountants

Balance Sheet

As at December 31, 2007	Note	2007	2006
(thousands of dollars)			
ASSETS			
Cash and cash equivalents	2, 3	\$ 44,109	\$ 26,235
Short-term investments	2, 3	230,462	191,564
Bonds and debentures	2, 3	3,982,321	3,463,777
Exchange traded funds	2, 3	805,071	783,594
Mutual funds	2, 3	292,743	219,479
Mortgage loans	2, 3	17,882	49,381
Derivatives assets	2, 3, 4	12,785	922
Other invested assets	2, 3	74,593	70,876
Loans to policyholders	2, 3	164,100	138,808
Total Invested Assets		\$ 5,624,066	\$ 4,944,636
Premiums in the course of collection		2,281	2,066
Accrued investment income		23,015	23,770
Amounts receivable under reinsurance agreements		3,405	4,888
Other assets	11	113,781	140,662
Future income taxes receivable	7	141,446	10,647
Total Assets		\$ 5,907,994	\$ 5,126,669
Segregated Funds Net Assets	14	\$ 4,947,547	\$ 5,266,501
LIABILITIES			
Actuarial liabilities under insurance and annuity contracts	5	\$ 4,088,689	\$ 2,687,547
Amounts on deposit		20,393	19,736
Policy claims in the course of settlement		14,745	13,108
Amounts on deposit from reinsurers	6	642,458	604,823
Amounts payable under reinsurance agreements		9,854	15,945
Derivative liabilities	2, 3, 4	1,030	5,441
Other liabilities	12	166,550	90,090
Deferred realized net gains	1	—	469,248
Total Liabilities		\$ 4,943,719	\$ 3,905,938
Shareholders' Equity			
Capital stock	9	\$ 802,705	\$ 802,705
Contributed surplus	9	200,000	200,000
Retained (deficit) earnings	10	(40,357)	218,026
Accumulated other comprehensive income	1	1,927	—
Total Shareholders' Equity		\$ 964,275	\$ 1,220,731
Total Liabilities and Shareholders' Equity		\$ 5,907,994	\$ 5,126,669
Segregated Funds Contract Liabilities	14	\$ 4,947,547	\$ 5,266,501
(See accompanying notes)			

ON BEHALF OF THE BOARD OF DIRECTORS

Approved by:

Paul Reaburn, Director



George A. Wilson, Director



Statement of Income/(Loss)

For the year ended December 31, 2007	Note	2007	2006
(thousands of dollars)			
REVENUE			
Premiums:			
Life insurance		\$ 432,983	\$ 415,797
Annuities		31,018	60,563
Net investment income	2	18,211	303,993
Other income	14	127,163	122,982
Total Revenue		\$ 609,375	\$ 903,335
POLICY BENEFITS AND EXPENSES			
Benefits:			
Death claims		\$ 81,840	\$ 78,995
Maturity and surrender values		121,919	106,724
Annuity benefits		67,975	68,403
Interest credited to policyholders		1,898	1,679
Policyholder dividends	10	395	405
Total Benefits		\$ 274,027	\$ 256,206
Provision for future benefits:			
Actuarial liabilities for insurance and annuity contracts	5, 6	\$ 353,623	\$ 318,948
Sales commissions and bonuses		161,535	158,579
Interest expense on deposits from reinsurers	6	49,940	46,893
Marketing and operating expenses	8	100,369	100,921
Policy related taxes, licenses and fees		11,026	10,827
Total Policy Benefits and Expenses		\$ 950,520	\$ 892,374
Provision for reimbursement of excess fees charged to segregated funds	13	105,000	—
Income (loss) before income taxes		\$ (446,145)	\$ 10,961
Income tax provision	7	(138,932)	(12,588)
Net Income/(Loss) for the Year		\$ (307,213)	\$ 23,549
(See accompanying notes)			

Statement of Changes in Shareholders' Equity

For the year ended December 31, 2007	2007	2006
(thousands of dollars)		
<i>Common shares</i>		
Balance, January 1	\$ 618,705	\$ 618,705
Common shares issued	–	–
Balance, December 31	\$ 618,705	\$ 618,705
<i>Preferred shares</i>		
Balance, January 1	\$ 184,000	\$ 184,000
Preferred shares issued	–	–
Balance, December 31	\$ 184,000	\$ 184,000
<i>Contributed surplus</i>		
Balance, January 1	\$ 200,000	\$ 100,000
Additional contributed surplus, contributed in cash during the year	9	100,000
Balance, December 31	\$ 200,000	\$ 200,000
<i>Retained earnings</i>		
Balance, January 1	\$ 218,026	\$ 194,477
Cumulative effect of adopting new accounting policies	1	48,830
Net income (loss) for the year	(307,213)	23,549
Balance, December 31	\$ (40,357)	\$ 218,026
<i>Accumulated other comprehensive (loss) income</i>		
Balance, January 1	\$ –	–
Cumulative effect of adopting new accounting policies	1	9,260
Other comprehensive loss for the year	(7,333)	–
Balance, December 31	\$ 1,927	–
Total shareholders' equity	\$ 964,275	\$ 1,220,731

Statement of Comprehensive Income

For the year ended December 31, 2007	2007
(thousands of dollars)	
Net Loss	\$ (307,213)
Other comprehensive income (loss), net of income tax:	
Unrealized gains (losses) on available-for-sale assets arising during the year:	
Bonds	(7,444)
Other	(594)
Reclassification adjustment for (gains) losses included in the net loss:	
Bonds	705
Other	–
Total other comprehensive loss	\$ (7,333)
Comprehensive loss	\$ (314,546)

Statement of Cash Flows

For the year ended December 31, 2007	2007	2006
(thousands of dollars)		
OPERATING ACTIVITIES		
Net Income/(loss)	\$ (307,213)	\$ 23,549
Items not affecting cash:		
Decrease in accrued investment income	755	1,103
Decrease/(increase) in other assets	26,667	(16,852)
Future income tax provision on operating income	(152,286)	(25,263)
Increase in actuarial liabilities	353,623	318,948
Increase in other insurance policy and contract liabilities	869	3,320
Increase/(decrease) in accounts payable and other liabilities	77,885	(25,656)
Increase in amounts on deposit from reinsurers	37,635	38,130
Decrease in net amounts due from reinsurers	(4,608)	(2,611)
Net realized and unrealized losses/(gains), including impairments	240,829	(90,438)
Amortization of deferred realized and unrealized net gains	—	(23,879)
Net amortization of premium/(accrual of discount) on bonds and mortgage loans	(102,985)	(89,232)
Net Cash Provided By Operating Activities	\$ 171,171	\$ 111,119
FINANCING ACTIVITIES		
Contributed surplus	\$ —	\$ 100,000
Net Cash Provided By Financing Activities	\$ —	\$ 100,000
INVESTING ACTIVITIES		
Sales, maturities and scheduled redemptions of:		
Bonds and other fixed-term securities	\$ 1,848,008	\$ 2,624,093
Exchange traded funds	18,332	53,711
Mutual funds	51,319	25,306
Mortgage loans	31,855	22,569
Other invested assets	706,812	322,112
Purchases and issues of:		
Bonds and other fixed-term securities	(1,869,271)	(2,745,613)
Exchange traded funds	(42,727)	(38,694)
Mutual funds	(133,847)	(87,219)
Other invested assets	(710,900)	(364,592)
Short-term investments, net	(27,586)	(2,547)
Loans to policyholders	(25,292)	(29,116)
Net Cash Used in Investing Activities	\$ (153,297)	\$ (219,990)

Statement of Cash Flows (continued)

For the year ended December 31, 2007	2007	2006
(thousands of dollars)		
Net increase/(decrease) in cash and cash equivalents during the year	\$ 17,874	\$ (8,871)
Cash and cash equivalents, beginning of year	26,235	35,106
Cash and cash equivalents, end of year	\$ 44,109	\$ 26,235
Cash, end of year	–	–
Cash equivalents, end of year	\$ 44,109	\$ 26,235
Cash and cash equivalents, net, end of year	\$ 44,109	\$ 26,235
Interest paid	\$ –	\$ –
Income taxes paid	\$ 6,564	\$ 28,130

(See accompanying notes)

Statement of Changes in Segregated Funds Net Assets

For the year ended December 31, 2007	2007	2006
(thousands of dollars)		
Additions to segregated funds:		
Deposits	\$ 574,238	\$ 566,119
Net realized and unrealized gains (losses)	(145,117)	439,595
Interest and dividend income	237,268	192,801
	\$ 666,389	\$ 1,198,515
Deductions from segregated funds:		
Payments to policyholders and their beneficiaries	\$ 834,334	\$ 810,853
Management fees	122,905	118,991
Other expenses, including GST on management fees	28,104	27,625
	\$ 985,343	\$ 957,469
Net additions to segregated funds for the year	\$ (318,954)	\$ 241,046
Segregated fund net assets, beginning of year	5,266,501	5,025,455
Segregated funds net assets, end of year	\$ 4,947,547	\$ 5,266,501

Statement of Segregated Funds Net Assets

As at December 31, 2007	2007	2006
(thousands of dollars)		
Investments, at market values:		
Cash and short-term investments	\$ 395,268	\$ 381,096
Bonds	319,208	396,820
Stocks, mutual funds and exchange traded funds	4,246,602	4,459,891
Other assets	18,645	81,774
Liabilities	(32,176)	(53,080)
Total segregated funds net assets	\$ 4,947,547	\$ 5,266,501

(See accompanying notes)

Notes to Financial Statements

December 31, 2007 (thousands of dollars)

1. Basis of Presentation and Significant Accounting Policies

(a) Basis of Presentation:

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.

(b) Accounting Policy Changes:

On January 1, 2007, the Company adopted the following new accounting policy standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Handbook Section 1530, Comprehensive Income (Section 1530), Handbook Section 3855, Financial Instruments – Recognition and Measurement (Section 3855), Handbook Section 3865, Hedges (Section 3865), and Handbook Section 4211 Life Insurance Enterprise - Specific Items (Section 4211). These standards have been applied retrospectively. The adoption of these new standards resulted in changes in the accounting for financial instruments and the recognition of certain transitional adjustments that have been recorded in opening retained earnings and /or opening accumulated other comprehensive income as described below. The Company

adopted these standards at the beginning of the year and, in accordance with the transitional provisions, the prior period balances have not been restated.

(i) *Comprehensive Income:*

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

(ii) *Financial Instruments – Recognition and Measurement:*

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial assets, including derivatives, are measured at fair value with the exception of loans, receivables, and investments classified as held to maturity, which are measured at amortized cost. Life insurance liabilities are accounted for in accordance with Section 4211 and are specifically excluded from the requirements of Section 3855. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Financial assets and financial liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Section 3855 provides the option to designate a financial instrument as held-for-trading on its initial recognition or upon adoption of the standard, even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing it in the near term. An instrument that is classified as held-for-trading by way of this fair value option must have a reliable fair value and satisfy one of the following criteria established by OSFI: (a) making the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or

liabilities or recognizing the gains and losses on them on a different basis; or (b) it is part of a group of financial assets or financial liabilities or both that are managed and evaluated on a fair value basis in accordance with the Company's risk management or investment strategy and are reported to senior management on that basis.

The Company classifies financial assets, excluding mortgages and land leases, backing insurance liabilities as held-for-trading using the fair value option. Actuarial liabilities are calculated based on the Canadian Asset Liability Method (CALM). Under this method, the carrying value of assets matching policy liabilities is considered in the basis of the calculation. Therefore, any changes in fair value of the assets matching these liabilities is taken into account in the calculation.

Available-for-sale financial assets are measured at fair value with unrealized gains and losses being recognized in OCI. Financial assets, excluding mortgages and land leases, that do not back policy liabilities are classified as available-for-sale. As a result, changes in fair value between reporting periods for these assets flows through OCI until gains or losses are realized on disposition of the assets. Any Other Than Temporary Impairment of AFS investments is recorded as a charge to income.

When there is objective evidence that an available-for-sale bond is impaired and the decline in value is considered other than temporary, the loss accumulated in OCI is reclassified to net investment income. Once an impairment loss is recorded to income, it is not reversed. Following impairment loss recognition, these assets will continue to be recorded at fair value with changes in fair value recorded to OCI.

Mortgages and land leases are classified as loans and receivables and are reported at amortized cost using the effective interest rate method.

The Company has not designated any financial instruments as held-to-maturity.

All derivatives are recorded on the balance sheet at fair value. Changes in the fair values of derivatives are recognized in net income, except that changes in the fair value of any derivatives that are designated as a cash flow hedge are recognized in OCI. The Company has not designated any derivatives as a cash flow hedge.

(iii) 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 is 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 is recognized in OCI, while any ineffective portion is recognized in net income. The Company does not currently designate any of its derivative investments as effective hedges for hedge accounting purposes.

(iv) Impact of Adopting Sections 1530, 3855, and 3865:

As at January 1, 2007 all financial instruments classified as held-for-trading or available-for-sale were recorded on the balance sheet at their fair values. The difference between the fair value and carrying value of held-for-trading financial instruments, net of the related tax expense, was recorded to opening retained earnings on January 1, 2007. The difference between the fair value and carrying value of available-for-sale assets, net of the related tax expense, was recorded to opening AOCI as at January 1, 2007. With the adoption of Section 3855 the Company no longer defers net realized gains on financial instruments, nor does it carry investments in equities at cost plus a moving average market value adjustment for unrealized gains and losses. The deferred net gains reported on the balance sheet as at December 31, 2006 have been transferred to retained earnings, net of future income tax, as at January 1, 2007. Actuarial liabilities are supported by assets that are designated as held-for-trading. Actuarial liabilities are calculated based on the Canadian Asset Liability Method (CALM). Under this method, the carrying value of assets supporting liabilities is taken into account in determination of the actuarial liability. The change in the carrying value of actuarial liabilities that result from changing the carrying value of the assets and the deferred realized and unrealized net gains that support policy liabilities was transferred, net of future income taxes, to retained earnings as at January 1, 2007.

Notes to Financial Statements

December 31, 2007 (thousands of dollars)

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

(b) Accounting Policy Changes (continued):

(iv) *Impact of Adopting Sections 1530, 3855, and 3865 (continued):*

The following table provides a summary of the impact of adopting Section 3855 on the opening January 1, 2007 balance sheet:

Assets	December 31, 2006 Balance	Impact of New Standard			January 1, 2007 Balance
		Retained Earnings	AOCI	Future Tax Asset Reclassification	
Cash and cash equivalents	\$ 26,235				\$ 26,235
Short term investments	191,564				191,564
Bonds and debentures	3,463,777	\$ 628,425	\$ 12,755		4,104,957
Exchange traded funds	783,594	19,271			802,865
Mutual funds	219,479		1,065		220,544
Mortgage loans	49,381				49,381
Derivatives assets	922	81			1,003
Other invested assets	70,876				70,876
Policy loans	138,808				138,808
Total investments	\$ 4,944,636	\$ 647,777	\$ 13,820		\$ 5,606,233
Premiums in the course of collection	\$ 2,066				\$ 2,066
Accrued investment income	23,770				23,770
Amounts receivable under reinsurance agreements	4,888				4,888
Other assets	140,662				140,662
Future income taxes receivable	10,647			\$ (10,647)	–
Total Assets	\$ 5,126,669	\$ 647,777	\$ 13,820	\$ (10,647)	\$ 5,777,619

<i>Liabilities</i>	December 31, 2006 Balance	Impact of New Standard			January 1, 2007 Balance
		Retained Earnings	AOCI	Future Tax Asset Reclassification	
Actuarial liabilities under insurance and annuity contracts	\$ 2,687,547	\$ 1,047,519			\$ 3,735,066
Amounts on deposit	19,736				19,736
Policy claims in the course of settlement	13,108				13,108
Amounts on deposit from reinsurers	604,823				604,823
Amounts payable under reinsurance agreements	15,945				15,945
Future income taxes payable	—	3,733	\$ 21,503	\$ (10,647)	14,589
Derivative liabilities	5,441				5,441
Other liabilities	90,090				90,090
Deferred realized net gains	469,248	(419,880)	(49,368)		—
Total Liabilities	\$ 3,905,938	\$ 631,372	\$ (27,865)	\$ (10,647)	\$ 4,498,798
Shareholders' Equity					
Capital stock	\$ 802,705				\$ 802,705
Contributed surplus	200,000				200,000
Retained earnings	218,026	\$ 16,405	\$ 32,425		266,856
AOCI			9,260		9,260
Total Liabilities and Shareholders' Equity	\$ 5,126,669	\$ 647,777	\$ 13,820	\$ (10,647)	\$ 5,777,619

(c) Significant Accounting Policies:

The Company's significant accounting policies used in preparation of these financial statements are summarized below:

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

Cash, cash equivalents and short-term investments, comprise cash, current operating accounts, term deposits, and fixed income securities held for the purpose of meeting short-term cash commitments.

Cash equivalents and short-term investments are designated as held-for-trading or available for sale and are carried at fair value. Purchases and sales of these securities are recognized or derecognized on the balance sheet on their trade dates, the date that the Company commits to purchase or sell the bond.

Purchase premiums or discounts are amortized over the life of the security using the effective interest method and are recognized as interest income. Interest income earned on these assets is recorded in net investment income.

Short-term investments with a maturity of less than 90 days from the acquisition date are shown as cash and cash equivalents.

Bonds and bond debentures:

Bonds are designated as either held-for-trading or available-for-sale. Purchases and sales of bonds are recognized or derecognized on the balance sheet on their trade dates, the date that the Company commits to purchase or sell the bond.

Held-for-trading bonds are recorded on the balance sheet at fair value, with changes in fair value recorded in net investment income. Income earned on held-for-trading bonds is recorded as net investment income.

Notes to Financial Statements

December 31, 2007 (thousands of dollars)

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

(c) Significant Accounting Policies (continued):

(i) *Investments (continued):*

Available-for-sale bonds are recorded on the balance sheet at fair value with changes in the fair value of these bonds recorded as unrealized gains and losses in OCI. Realized gains and losses on the sale of available-for-sale debt securities are reclassified from AOCI and recorded as realized gains (losses) in income. Purchase premiums or discounts on available-for-sale and held-for-trading bonds are amortized over the life of the security using the effective interest method and are recognized as interest income. All interest income earned is recorded in net investment income.

The fair value of publicly traded bonds is determined using quoted market bid prices. For non-publicly traded bonds, when independent prices are not available, fair values are determined by using valuation techniques which utilize observable market inputs. These primarily include comparisons with similar instruments where market observable prices exist, and may include discounted cash flow analysis, and other valuation techniques commonly used by market participants. The Company does not believe that using alternative assumptions in the valuation techniques for these bonds would result in significantly different fair values.

Purchase premiums or discounts are amortized over the life of the security using the effective interest method and are recognized as interest income. Interest income earned on these assets is recorded in net investment income.

When there is objective evidence that an available-for-sale bond is impaired and the decline in value is considered other than temporary, the loss accumulated in OCI is reclassified to other net investment income. Once an impairment loss is recorded to income, it is not reversed. Following impairment loss recognition, these assets will continue to be recorded at fair value with changes in fair value recorded to OCI, and tested for further impairment quarterly. Objective evidence of impairment includes financial difficulty of the issuer, bankruptcy or default and delinquency in payments of interest or principal.

Mortgages:

Mortgages are carried at amortized cost, using the effective interest rate method. 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.

Exchange Traded Funds:

All exchange traded funds are designated as held-for-trading assets. All accrued dividend and interest income, unrealized gains and losses, and realized gains and losses are recorded in net investment income. The Company invests in exchange traded funds (ETF) to match the underlying investment risk of equity-linked account values for universal life contracts. ETF are recorded at their fair values, being the entry/exit price recorded by the securities exchange on which such securities are principally traded.

Purchases and sales of exchange traded funds are recognized or derecognized on the balance sheet on their trade dates, which is the date that the Company commits to purchase or sell the security.

Mutual Funds:

The Company invests in mutual funds to match the underlying investment risk of equity-linked account values for universal life contracts. These mutual fund assets are designated as held-for-trading.

The Company has also invested seed money into the mutual funds of a related party. These mutual funds are designated as available-for-sale assets as they are not used to support actuarial liabilities.

The fair value of investments in mutual funds is determined using quoted market prices. The change in fair value of mutual fund assets designated as held-for-trading is recorded in net investment income. The change in fair value of mutual fund assets designated as available-for-sale is recorded in OCI. All accrued dividend and interest income is recorded in net investment income.

Loans to Policyholders:

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

Other Invested Assets:

The Company has invested seed money in its segregated funds. The investment of seed money is not made to support actuarial liabilities, as a result these assets are designated as available-for-sale. The investments in segregated fund seed money are carried at fair value using quoted prices. Changes in the fair value are recorded in OCI.

Land leases represent an investment in more than 352 individual loans that are secured by the land beneath the residential property. These leases are classified as loans and receivables and are carried at amortized cost using the effective interest rate method.

As part of its derivatives activities the Company has pledged short term investments as futures margins. These assets are designated as held-for-trading and are carried on the balance sheet at fair value.

Transaction costs:

Transaction costs for all financial assets and liabilities classified or designated as held-for-trading or available-for-sale are recognized immediately in net income.

(d) Actuarial Liabilities:

Actuarial liabilities have been calculated using the Canadian Asset Liability Method. Actuarial 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. Actuarial liabilities are determined using accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries ("CIA").

(e) 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. Since these two reinsurance treaties involve the transfer of significant insurance risk, the funds withheld liabilities are carried at their unpaid balances including accrued interest and are identified 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.

Notes to Financial Statements

December 31, 2007 (thousands of dollars)

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

(f) 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. A future income tax asset is recorded to the extent that future realization of the tax benefit is more likely than not.

(g) 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 fair values based on quoted prices.

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.

(h) Derivative financial instruments:

In the ordinary course of business, the Company uses various derivative financial instruments, such as currency forwards, equity futures and put options, 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.

Derivative investments are classified as held-for-trading assets and are recorded on the balance sheet at fair value with changes in fair value recorded in net investment income. Income earned on these derivatives is also recorded to net investment income.

Handbook Section 3865 specifies the criteria under which hedge accounting may be applied and how hedge accounting may be executed for each of the permitted hedging strategies. The Company does not use hedge accounting for any of its derivative instruments.

Fair values of exchange-traded futures contracts are based on quoted market close prices. Fair values of put options and forward contracts, 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. Fair values of swap contracts are determined by discounting expected future cash flows using current market interest and exchange rates for similar instruments.

(i) 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.

(j) 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. Portfolio Investments

- (a) The carrying values, fair values, and classification of the Company's invested assets and derivative liabilities are summarized in the following chart:

	Available- for-Sale	Held-for- Trading Designated (1)	Held-for- Trading Classified (1)	Loans & Receiv- ables	Other	2007 Total		2006 Total	
	Fair Value	Fair Value	Fair Value	Amortized Cost	Outstanding Principal Balance	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash Equivalents and Short-Term Investments	\$ 7,769	\$ 266,802				\$ 274,571	\$ 274,571	\$ 217,799	\$ 217,799
Bonds and Debentures	426,656	3,555,665				3,982,321	3,982,321	3,463,777	4,097,253
Exchange Traded Funds		805,071				805,071	805,071	783,594	802,865
Mutual Funds	9,768	282,975				292,743	292,743	219,479	220,544
Loans to Policyholders					\$ 164,100	164,100	164,100	138,808	138,808
Mortgage Loans				\$ 17,882		17,882	20,840	49,381	55,290
Derivatives Assets			\$ 12,785			12,785	12,785	922	922
Other Invested Assets:									
Segregated Fund Seed Money	15,486					15,486	15,486	15,856	15,856
Land Leases				3,252		3,252	3,252	3,766	3,766
Futures Margins		55,855				55,855	55,855	51,254	51,254
Total Invested Assets	\$ 459,679	\$ 4,966,368	\$ 12,785	\$ 21,134	\$ 164,100	\$ 5,624,066	\$ 5,627,024	\$ 4,944,636	\$ 5,604,357
Derivative Liabilities			\$ 1,030			\$ 1,030	\$ 1,030	\$ 5,441	\$ 5,441

- (1) Investments can be held for trading in two ways: designated as held-for-trading using the fair value option, or classified as held-for-trading if they are actively traded for the purpose of earning investment income. All derivative instruments must be classified as held-for-trading.

Fair values for securities traded on recognized exchanges are determined by reference to quoted market prices. Fair values for investments not traded on recognized exchanges are based on prevailing market prices for instruments with similar characteristics and risk profiles or internal or external valuation models using observable market based inputs, individual factors such as interest rate yield curves, currency rates and price and rate volatility, as applicable.

The estimated fair value for mortgage loans and land leases reflects changes in interest rates which have occurred since the loans were originated. The fair value of loans to policyholders approximates the carrying value.

Notes to Financial Statements

December 31, 2007 (thousands of dollars)

2. Portfolio Investments (continued)

(b) The following table presents the unrealized gains, and losses of investment assets classified as available-for-sale:

	2007			AOCI Before Tax
	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss	
Bonds and Debentures	\$ 426,656	\$ 8,172	\$ (5,878)	\$ 2,294
Mutual Fund Seed Money	9,768	815	–	815
Segregated Fund Seed Money	15,486	–	(370)	(370)
Total unrealized gains and losses on available-for-sale assets		\$ 8,987	\$ (6,248)	\$ 2,739

(c) Over 92% 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

two tables summarize the term to maturity and average yield of the Company's investment in bonds and debentures, split by held-for-trading and available-for-sale classifications:

Bonds and Debentures	Held-for-Trading				2007 Total
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	
Government – Federal					
Carrying value		\$ 59,463	\$ 28,871	\$ 17,969	\$ 106,303
Average yield		4.08%	4.08%	4.24%	4.11%
Government – Provincial					
Carrying value	\$ 4,737	\$ 49,676	\$ 67,755	\$ 1,068,742	\$ 1,190,910
Average yield	5.18%	6.09%	6.94%	6.09%	6.13%
Municipal, Public Authorities and Schools					
Carrying value		\$ 2,746		\$ 3,356	\$ 6,102
Average yield		8.07%		4.82%	6.28%
Corporate					
Carrying value	\$ 112,842	\$ 720,593	\$ 293,092	\$ 847,163	\$ 1,973,690
Average yield	4.96%	4.75%	6.99%	7.12%	6.11%
Foreign Issuers					
Carrying value		\$ 162,097		\$ 116,563	\$ 278,660
Average yield		4.43%		5.32%	4.87%
Carrying Value	\$ 117,579	\$ 994,575	\$ 389,718	\$ 2,053,793	\$ 3,555,665

2007 Financial Statements

Bonds and Debentures	Available-for-Sale				
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	2007 Total
Government – Federal					
Carrying value		\$ 43,958	\$ 44,151	\$ 20,559	\$ 108,668
Average yield		3.98%	4.31%	4.30%	4.17%
Government – Provincial					
Carrying value		\$ 4,052	\$ 4,946	\$ 4,216	\$ 13,214
Average yield		2.67%	4.69%	6.51%	4.64%
Corporate					
Carrying value	\$ 44,115	\$ 79,826	\$ 60,216	\$ 104,279	\$ 288,436
Average yield	4.81%	5.28%	5.47%	5.82%	5.33%
Foreign Issuers					
Carrying value		\$ 7,631		\$ 8,707	\$ 16,338
Average yield		4.55%		5.17%	4.88%
Carrying Value	\$ 44,115	\$ 135,467	\$ 109,313	\$ 137,761	\$ 426,656

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

Notes to Financial Statements

December 31, 2007 (thousands of dollars)

2. Portfolio Investments (continued)

(d) Management actively reviews and monitors the credit quality of the investment portfolio. Provisions are established for investments that are not classified as held-for-trading where, in the opinion of management, there is no longer reasonable assurance as to the timely collection of principal and interest. As at December

31, 2006 the company held a specific allowance for impairment of \$1,720 on one specific bond. As at January 1, 2007, with the adoption of Section 3855, this bond was designated as a held-for-trading asset. The provision that existed on this bond was eliminated when the carrying value was changed to fair value as at January 1, 2007.

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

	2007			2006
	Bonds	Mortgages	Total	Total
Specific Allowance, beginning of the year	\$ 1,720	\$ 356	\$ 2,076	\$ 1,896
Change to fair value for carrying values as at January 1, 2007	(1,720)	–	(1,720)	–
Provisions for impairment	–	–	–	180
Provisions released on disposal of investments	–	(356)	(356)	–
Specific allowance, end of year	Nil	Nil	Nil	\$ 2,076

When there is objective evidence that an available-for-sale bond is impaired and the decline in value is considered other than temporary, the loss accumulated in OCI is reclassified to net investment income. Once an impairment loss is recorded to income, it is not reversed. Following impairment loss recognition, these assets will

continue to be recorded at fair value with changes in fair value recorded to OCI. During 2007, one bond held as an available-for-sale asset was identified as being impaired. The impairment loss removed from AOCI and reclassified to net investment income was \$1,813.

(e) Net investment income reflects the following components:

					2007	2006
	Designated Held-for- Trading	Classified as Held- for-Trading	Available For Sale	Other	Total	Total
Cash and short term securities						
Interest Income	\$ 10,978	–	\$ 780	–	\$ 11,758	\$ 9,652
Gains and Losses	11	–	(385)	–	(374)	86
Bonds						
Interest Income	176,709	–	21,390	–	198,099	188,991
Gains and Losses	(210,704)	–	(988)	–	(211,692)	(479)
Exchange Traded Funds and Mutual Funds						
Gains and Losses	(16,392)	–	–	–	(16,392)	116,073
Dividends	18,909	–	–	–	18,909	16,378
Derivatives						
Gains and Losses	–	\$ 20,218	–	–	20,218	(50,898)
Mortgages	–	–	–	\$ 3,402	3,402	6,292
Land Leases	–	–	–	227	227	282
Loans to Policyholder	–	–	–	13,239	13,239	11,461
Miscellaneous Income	915	–	–	–	915	2,633
Impaired Assets	–	–	(1,813)	356	(1,457)	(180)
Amortization of realized net gains	–	–	–	–	–	23,879
Investment income before investment expenses and Investment income tax					\$ 36,852	\$ 324,170
Investment expenses					(9,555)	(8,679)
Investment income tax					(9,086)	(11,498)
Net Investment Income					\$ 18,211	\$ 303,993

Gains and losses include both realized and unrealized gains and losses for securities designated as trading under the fair value option and realized gains and losses for AFS securities. Amounts in 2006 consist of amortization of deferred net realized gains and move to market adjustments for equity securities.

Certain Universal Life 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 or mutual funds. The Company uses a combination of investments in exchange traded funds, mutual funds and a future/cash investment strategy to hedge this risk and earn a return sufficient to cover the interest credited

plus a required spread. These assets are designated as held for trading and any realized or unrealized gains or losses on these assets are included in net investment income. This investment income is directly offset by an increase (or reduction) in actuarial reserves for these policies.

Notes to Financial Statements

December 31, 2007 (thousands of dollars)

2. Portfolio Investments (continued):

In the fourth quarter of 2006, the Company initiated an extensive 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. This hedging program, which was continued throughout 2007, covers a substantial portion of the equity risk associated with the segregated fund guarantees. Under this program, the Company sells or acquires 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 investment income. In addition interest income is earned on short term investments that are pledged as collateral for the futures. The actuarial reserves related to actuarial segregated fund guarantees are released when equity market returns outperform the returns assumed in actuarial valuations. Similarly, actuarial reserves are strengthened when equity market returns under-perform the return rates assumed in our valuation. During 2007 the net impact on net investment income from the segregated fund hedging strategy was loss of \$24,451 (2006 - a loss of \$47,113).

(f) Securities Lending:

The Company engages in securities lending to generate additional income. The Company conducts its program only with well-established banking institutions that carry a minimum credit rating of "AA". 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 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 by the lending agent, with additional collateral obtained or refunded as the market value fluctuates. As at December 31, 2007, the Company had loaned securities (which are included in invested assets) with a fair value of \$306,200. These transactions are conducted under terms that are usual and customary to securities lending activities.

(g) Pledged Securities:

As part of its derivatives activities the Company has pledged short term investments as futures margins. The assets pledged by the Company are strictly for the purpose of providing collateral for the counterparty. To the extent that the counterparty is permitted to sell and/or re-pledge the assets, they are classified on the balance sheet as pledged collateral.

The pledged assets will be returned to the Company when the underlying transaction is terminated, however in the event of the Company's inability to make payment upon futures settlement, the counterparty would be entitled to apply the collateral in order to settle the liability. As at December 31, 2007, the Company had pledged securities (which are included in other invested assets) with a fair value of \$55,855. These transactions are conducted under terms that are usual and customary to these activities.

3. Determination of Fair Value

The fair value of a financial instrument on initial recognition is normally the transaction price, that is, the fair value of the consideration given or received. In certain circumstances, however, the initial fair value may be based on other observable current market transactions involving the same instrument, without modification or repackaging, or based on a valuation technique whose variables include only inputs from observable markets.

Subsequent to initial recognition, the fair values of financial assets and financial liabilities measured at fair value that are quoted in active markets are based on bid/ask prices. When independent prices are not available, fair values are determined by using valuation techniques which utilize observable market inputs. These include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

The Company calculates fair values based on the following methods of valuation and assumptions:

Financial Instruments Whose Carrying Value Approximates Fair Value

For financial assets and financial liabilities that have a short-term maturity of less than three months or other obligations due to or from other parties, it is assumed that carrying amounts approximate their fair value.

Securities

The methods used to determine the fair value are described in Note 1. The fair values of securities are based on quoted market prices or, where quoted market prices are not readily available, based on prevailing market prices for instruments with similar characteristics and risk profiles or internal or external valuation models using observable market based inputs.

Derivative Financial Instruments

The fair value of exchange-traded futures derivative financial instruments is based on quoted market prices. The fair value of over-the-counter derivative financial instruments is determined using valuation models that incorporate prevailing market rates and prices on underlying instruments with similar maturities and characteristics.

The fair value of over-the-counter trading derivatives (currency forwards, credit swaps and put options) is estimated using well established models, but is recorded net of valuation adjustments, which recognize the need to address market, liquidity, model and credit risks not appropriately captured by the models. For certain derivatives, fair values may be determined in whole or in part from valuation techniques using non-observable market inputs or transaction prices. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

4. Derivatives

Derivative financial instruments are financial contracts that derive their value from underlying changes in interest rates, foreign exchange rates, credit spreads, commodity prices, equities or other financial measures. Such instruments include interest rate, foreign exchange, equity, and credit derivative contracts.

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. All derivatives are recorded at fair value with the resulting realized and unrealized gains or losses recognized immediately in income.

The majority of the Company's derivative contracts are exchange-traded contracts transacted through organized and regulated exchanges and consist primarily of equity futures. The remainder are over-the-counter transactions that are privately negotiated between the Company and the counterparty to the contract. These consist of credit swaps, currency forwards and put options.

The notional amounts are not recorded as assets or liabilities as they represent the face amount of the contract to which a rate or price is applied to determine the amount of cash flows to be exchanged. Notional principal amounts do not represent the potential gain or loss associated with market risk and are not indicative of the credit risk associated with derivative financial instruments.

Credit Derivatives

Credit derivatives are over-the-counter contracts designed to transfer the credit risk in an underlying financial instrument (usually termed as a reference asset) from one counterparty to another. The most common credit derivatives are credit default swaps. In credit default swaps, an option purchaser acquires credit protection on a reference asset or group of assets from an option writer in exchange for a premium. The option purchaser may pay the agreed premium at inception or over a period of time. The credit protection compensates the option purchaser for any deterioration in value of the reference asset upon the occurrence of certain credit events such as bankruptcy, credit downgrade or failure to pay. Settlement may be cash based or physical, requiring the delivery of the reference asset to the option writer.

The Company enters into credit derivatives to manage the credit exposure in its bond portfolio. The Company also enters into credit derivatives that sell protection in an effort to make its credit derivative strategy revenue neutral. In selling credit protection, the Company takes on additional credit risk on a specific name to enable the counterparty to put that name back to the Company, in the event of a default.

Notes to Financial Statements

December 31, 2007 (thousands of dollars)

4. Derivatives (continued)

The notional amount and fair value of credit derivatives as at December 31, 2007 was \$80,500 and \$3,751 respectively (2006 - \$ 84,842 and \$ 81). The contracts have maturity dates ranging between June 2010 and December 2010.

Interest Rate Derivatives

Interest rate futures are standardized contracts transacted on an exchange. They are based upon an agreement to pay or receive a cash amount based on the difference between the contracted price level of an underlying fixed income investment and its corresponding market price at a specified future date. There is no actual delivery of the underlying fixed income investment. These contracts are in standard amounts with standard settlement dates.

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 a synthetic global government bond fund. The Company uses a futures/money-market investment strategy to hedge this risk and earn a return sufficient to cover the interest credited based on the movement of synthetic bond fund plus a required spread. All interest rate futures invested in by the Company are used to support this investment strategy. The notional amount of interest rate futures invested as part of the above strategy that were outstanding as at December 31, 2007 was \$13,183 (2006 - \$13,777).

Equity Derivatives

Equity index futures are standardized contracts transacted on an exchange. They are based on an agreement to pay or receive a cash amount based on the difference between the contracted price level of an underlying stock index and its corresponding market price level at a specified future date. There is no actual delivery of stocks that comprise the underlying index. These contracts are in standard amounts with standard settlement dates.

Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option), a security, exchange rate, interest rate, or other financial instrument or commodity at a predetermined price, at or by a specified future date. The seller (writer) of an option can also settle the contract by paying the cash settlement value of the purchaser's right. The seller (writer) receives a premium from the purchaser for this right.

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. The notional amount of equity futures invested as part of the above strategy that were outstanding as at December 31, 2007 was \$66,844 (2006 - \$82,649).

The Company has also sold or acquired futures and put options on various stock market indices to assist in managing exposures related to the death benefit and maturity guarantees of some of its segregated fund policies. The notional amount of equity futures associated with this strategy as at December 31, 2007 was \$801,900 (2006 - \$836,425). The notional amount and fair value of equity put options as at December 31, 2007 was \$16,960 and \$709 respectively (2006 - \$19,917 and \$641).

The Company also uses equity futures to replicate equity exposure from physical assets to support some of its longer duration actuarial liabilities. The notional amount of equity futures associated with this strategy as at December 31, 2007 was \$174,739 (2006 - \$160,412).

Foreign Exchange Derivatives

Foreign exchange forwards (currency forwards) are over-the-counter contracts in which one counterparty contracts with another to exchange a specified amount of one currency for a specified amount of a second currency, at a future date or range of dates. The Company enters into currency forward contracts to assist in managing exposures related to the death benefit and maturity guarantees of some of its segregated fund policies. The currency forwards associated with this strategy have a notional amount and a fair value as at December 31, 2007 of (\$78,000) and \$1,320 respectively (2006 - (\$67,000) and \$281).

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. As noted previously, 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. In some cases the interest credited rate is tied to the Canadian dollar equivalent of foreign indices. In these cases, the Company also enters into currency forward contracts to manage the foreign currency exposure. The currency forwards associated with these exposures have a notional amount and a fair value as at December 31, 2007 of \$239,055 and \$5,975 respectively (2006 - \$215,375 and (\$4,770)).

The following table provides a summary of the maturity terms for the notional amounts of the Company's derivative investments:

	Term to maturity		2007 Total	2006
	Within 1 Year	1-5 years		
<i>Exchange-Traded Contracts</i>				
Equity Futures Contracts	\$ (559,506)	–	\$ (559,506)	\$ (605,049)
Interest Rate Futures Contracts	13,183	–	13,183	13,777
<i>Over the Counter Contracts</i>				
Foreign Exchange forward contracts	(317,055)	–	(317,055)	(282,375)
Credit Default Swaps	–	\$ 80,500	80,500	–
Equity Put Options	–	16,960	16,960	19,917

The following table provides a summary of the fair values of the Company's derivative investments identifying the total amounts in a positive position versus a negative position:

	2007 Fair Value		2006 Fair Value	
	Positive	Negative	Positive	Negative
<i>Over the Counter Contracts</i>				
Foreign Exchange forward contracts	\$ 8,115	\$ 820	\$ 281	\$ 5,441
Credit Default Swaps	3,961	210		
Equity Put Options	709	–	641	–
Total	\$ 12,785	\$ 1,030	\$ 922	\$ 5,441

Derivative-related credit risk

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Company. Therefore, derivative-related credit risk is represented by the positive fair value of the instrument and is normally a small fraction of the contract's notional amount.

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.

Segregated Fund Hedging Strategy

As noted previously, 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.

Notes to Financial Statements

December 31, 2007 (thousands of dollars)

4. Derivatives (continued)

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

Put Options:	2007			2006		
	Notional Amount	Expiry Date	Carrying Value	Notional Amount	Expiry Date	Carrying Value
Index						
S&P 500	\$ 16,960	May 2008	\$ 709	\$ 19,917	Dec 2008	\$ 641
Currency Forwards:						
Currency	Notional Amount	Maturity Date	Carrying Value	Notional Amount	Maturity Date	Carrying Value
U.S. Dollar	\$ (40,000)	Mar 2008	\$ 621	(4,000)	Mar 2007	\$ (42)
Euro	\$ 10,000	Mar 2008	(207)	(19,000)	Mar 2007	(60)
Japanese Yen	\$ (48,000)	Mar 2008	906	(44,000)	Mar 2007	383
Net Carrying Value			\$ 1,320			\$ 281
Futures:						
Index	Notional Amount	Maturity Date		Notional Amount	Maturity Date	
S&P TSE 60	\$ (424,647)	Mar 2008		\$ (437,625)	Mar 2007	
S&P 500	\$ (183,413)	Mar 2008		\$ (182,987)	Mar 2007	
DJ Euro STOXX 50	\$ (86,173)	Mar 2008		\$ (93,223)	Mar 2007	
Russell 2000	\$ —	Mar 2008		\$ (78,688)	Mar 2007	
Nikkei 225 OSE	\$ (46,228)	Mar 2008		\$ (43,903)	Mar 2007	
NASDAQ 100	\$ (60,629)	Mar 2008		—	—	

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, policyholder 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 of 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 charges is recognized in income immediately.

For 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. The selection and monitoring of appropriate assumptions are designed to minimize the extent to which the Company is financially exposed to measurement uncertainty.

On an annual basis, the Actuary performs 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.

Mortality and Morbidity

Mortality relates to the occurrence of death. Morbidity relates to the occurrence of accidents and sickness for insured risks. Mortality assumptions are based on both the Company's internal as well as industry experience over extended periods. Assumptions are differentiated by gender, underwriting class and policy type.

Mortality risks are managed by establishing and applying appropriate underwriting standards to determine the insurability of applicants. Claims experience is monitored on a regular basis. Exposure to large claims is managed by establishing policy retention limits, with amounts in excess of these limits reinsured with other companies.

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 estimates 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.

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 where the MV/GV ratio is greater than 1.

Notes to Financial Statements

December 31, 2007 (thousands of dollars)

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

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. The Company uses the Canadian Asset Liability Method (CALM) prescribed by the Canadian Institute of Actuaries to ensure the adequacy of assets backing the actuarial liabilities. Under CALM, the asset and liability cash flows are projected under a set of prescribed interest rate scenarios. The amount of assets needed to support the liability at its maturity is determined under each of these scenarios. The actuarial liability is established under the worst case prescribed scenario and is set equal to the reported value of the supporting assets.

Uncertainties exist with respect to the projections of interest rates and the magnitude of credit losses from asset defaults. 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 \$19,580 (2006 - \$33,664). Conversely a 1 % decrease in the general level of interest rates would increase the provision for future policy benefits by approximately \$64,778 (2006 - \$77,411). These reserve impacts reflect the sensitivity to pre-tax earnings from interest changes. These reserve changes do not reflect the impact that a 1% increase or decrease in interest rates would have on the fair value of held-for-trading bonds. The change in the fair value of these assets due to interest rate changes would be offset by changes in actuarial reserves.

The Company manages its potential exposure to asset credit losses by policies and procedures which limit concentrations by issuer and industry. The Company holds explicit provisions in actuarial liabilities for possible future defaults that, including provisions for adverse deviation, totaled \$ 287,009 as at December 31, 2007 (2006 - \$ 242,741). Potential credit losses are based on past Company and industry experience as well as specific reviews of the current investment portfolio. In addition to the normal growth of the default provision, during 2007 the Company increased its provision by \$20,000 in connection with a large position that the Company holds in long duration bonds of one particular issuer.

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, 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, based on the income tax legislation in effect as of December 31, 2007. On November 7, 2007 the Department of Finance introduced proposed legislation to accommodate the new accounting standards of Section 3855. The proposed legislation, if enacted, is expected to have an overall beneficial impact on the Company. The actuarial liabilities reported for the current year do not take these expected benefits into account.

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) Actuarial liabilities and supporting assets

Assets are segmented and matched to liabilities taking into account the risk attributes of the liabilities. Annuities are predominantly backed by fixed-rate instruments. Life and health insurance products are backed by a broader range of asset classes, including exchange traded funds and mutual funds to match the liabilities associated with universal life policies. Derivatives are used to manage risk exposures associated with death benefit and maturity guarantees on segregated fund policies and to replicate other assets backing liabilities.

Changes in the fair value of assets backing actuarial liabilities are essentially offset by changes in the value of actuarial liabilities and thus would have a limited impact on the Company's equity.

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

	2007			
	Life and Health	Annuity	Shareholders' Funds	Total
Net actuarial liabilities	\$ 2,814,943	\$ 1,273,746	\$ –	\$ 4,088,689
Other policy liabilities	22,887	–	–	22,887
Amounts on deposit from reinsurers	642,458	–	–	642,458
Total policy liabilities	\$ 3,480,288	\$ 1,273,746	\$ –	\$ 4,754,034

Assets backing policy liabilities:

Portfolio investments and accrued investment income – carrying value	\$ 3,849,623	\$ 1,332,608	\$ 464,851	\$ 5,647,082
Portfolio investments and accrued investment income – fair value	\$ 3,849,623	\$ 1,336,639	\$ 463,777	\$ 5,650,039

	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	\$ 2,330,008	\$ 984,380	\$ –	\$ 3,314,388

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	\$ 3,728,480	\$ 1,421,462	\$ 478,185	\$ 5,628,127
Deferred net gains – fair value	Nil	Nil	Nil	Nil

(d) Changes in actuarial liabilities:

	2007	2006
Balance – beginning of year	\$ 2,687,547	\$ 2,368,599
Cumulative effect of adopting new accounting policies	1,047,519	–
Set aside on new and existing business	266,443	136,248
Impact of net unrealized losses on HFT bonds	(221,200)	–
Net change resulting from management action and changes in assumptions		
Persistency	226,780	133,700
Mortality	2,380	(6,000)
Expenses	14,856	5,600
Investment Returns	7,800	(14,700)
Unit Trust Investment Strategy	30,600	55,000
Other	25,964	9,100
Balance, end of year	\$ 4,088,689	\$ 2,687,547

Notes to Financial Statements

December 31, 2007 (thousands of dollars)

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

Assets that support actuarial reserves are designated as held-for-trading and carried at fair value. Unrealized gains and losses on these assets are reflected in income immediately. The Company uses the Canadian Asset Liability Method (CALM) to establish its liabilities. Under this method, the carrying value of assets used to back liabilities is considered in calculating actuarial liabilities. Therefore any change in the fair value of these assets is taken into account in the calculation of the actuarial liabilities. The change in the carrying value of actuarial liabilities that result from restating the carrying value of assets and deferred realized and unrealized net gains that support policy liabilities as at January 1, 2007 is reflected above as the cumulative effect of adopting new accounting policies.

The unrealized change in the carrying value of bonds supporting actuarial reserves reduced investment income by \$223,167 in 2007. Actuarial reserves were correspondingly reduced by \$221,200 as part of the CALM valuation.

The net change in actuarial liabilities due to changes in persistency, mortality and expense assumptions is due to these assumptions being updated to reflect industry and Company experience and experience studies. There were two significant changes to persistency assumptions in 2007. The first change was to the lapse assumption for the valuation of segregated fund guarantees, which resulted in a \$116,800 increase to actuarial liabilities. The segregated fund lapse assumption at the maturity date of the guarantee was increased to 100%, and the lapse assumptions at other durations were updated to reflect current experience. The second change was to the lapse rates on certain term life insurance products, which resulted in a \$118,400 increase in actuarial reserves. The term life liabilities were increased primarily to reflect a higher expectation of lapses at each renewal date. Other less significant changes to persistency assumptions resulted in a net reduction to actuarial reserves of \$8,420.

The net change in actuarial liabilities due to changes in investment returns is primarily the result of changes in equity assumptions used in the valuation of segregated fund guarantees and Universal Life liabilities. It is also impacted by changes made to the actuarial valuation models during 2007 to conform to the new accounting standards under CICA 3855.

The net change in actuarial liabilities resulting from the unit trust investment strategy is due to tax benefits resulting from the investment in unit trusts to back certain equity-linked universal life contracts. Under the current tax legislation in effect as of December 31, 2007, capital gains within these unit trusts are subject to beneficial tax treatment. Consistent with its past practice, the Company assumes that this beneficial tax treatment for capital gains will only exist for a limited number of years, and has reduced the number of years for which the tax benefit is expected to occur. At the same time, the Company has increased the number of years for which tax benefits occur with respect to Canadian dividends earned within the unit trusts. On a combined basis, these changes have resulted in a \$30,600 increase in actuarial reserves. If the proposed changes to income tax legislation are enacted one result would be a further increase in actuarial reserves in respect of the unit trust investment strategy. However, the new legislation would reduce actuarial reserves due to resulting reductions in other discounted future tax liabilities that are held on the balance sheet. The Company expects the actuarial reserve decreases would be larger than the increase. Neither of these effects have been reflected in the reserves as the legislation has not been substantially enacted.

The net increase in actuarial liabilities resulting from other changes is primarily the result of upgrades made to the actuarial valuation software. Three major systems conversions were performed during 2007, which resulted in a net increase to actuarial reserves of \$24,200. Several enhancements were made to the valuation of liabilities within these portfolios, most significantly in the modeling of reinsurance contracts within the universal life and term life portfolios.

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.

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

	2007	2006
Actuarial liabilities under insurance and annuity contracts (balance sheet)	\$ 1,428,250	\$ 1,417,104
Premiums	\$ 242,191	\$ 230,597
Provision for future policy benefits (statement of income)	\$ 11,146	\$ (7,196)
Commissions	\$ 8,256	\$ 8,490

- (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

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:

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.

The funds withheld liability, including accrued interest, as at December 31, 2007 was \$642,459 (2006 - \$604,823).

The interest expense on the funds withheld liability for the year ended December 31, 2007 was \$49,940 (2006 - \$46,893).

Notes to Financial Statements

December 31, 2007 (thousands of dollars)

7. Income Taxes

(a) Income tax provision:

	2007	2006
Current income taxes	\$ 13,354	\$ 12,675
Future income taxes relating to temporary differences and tax rate changes	(152,286)	(25,263)
Total	\$ (138,932)	\$ (12,588)

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

	2007		2006	
Expected provision for income taxes at statutory rates	\$ (152,962)	34.29%	\$ 3,762	34.32%
Increase (decrease) resulting from:				
Exempt investment income	2,985	-0.67%	(24,850)	-226.71%
Capital and other non-deductible taxes	955	-0.21%	1,592	14.52%
Other	(6,164)	1.38%	7,475	68.20%
Future federal and provincial tax rate changes	16,254	-3.64%	(567)	-5.17%
Income tax provision at effective rate	\$ (138,932)	31.15%	\$ (12,588)	-114.85%

(c) Income taxes included in other comprehensive income:

The following income tax amounts are included in each component of OCI for the period ended December 31, 2007:

	2007
Net unrealized gains (losses) on available for sale securities	\$ (4,084)
Reclassification of (gains) losses on available for sale securities to income	335
Total income taxes benefit (expense) included in OCI	\$ (3,749)

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

	Dec 31, 2007	Jan 1, 2007	Dec 31, 2006
Actuarial Liabilities	\$ (358,573)	\$ (293,957)	\$ 3,299
Investment – Held-for-trading	215,677	303,986	–
Investment – Available-for-sale	811	4,560	–
Other	639	–	(13,946)
Total	\$ (141,446)	\$ 14,589	\$ (10,647)

(e) 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. The Company has no employees of its own. The cost of the administrative services provided by ACI primarily reflects salary and other personnel related costs.

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.

AEGON NV, the Company's ultimate parent company, is the counter party for the currency forwards that the Company uses to manage exposures related to the death benefit and maturity guarantees of some of the Company's segregated funds. The notional amount, maturity date and fair value for these forwards is disclosed in note 4 to the financial statements.

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. In 2006, these companies provided dealership and agency services for a portion of the Company's segregated fund and life insurance business and in return received commissions at rates that were 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 summarizes 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	2007		2006	
		(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	\$ 54,153	\$ 4,956	\$ 50,338	\$ 11,550
ACM	Investment management fees	7,144	(749)	6,867	(590)
	Operating expenses	(837)	75	(514)	45
Other companies under control of ACI	Operating expenses	(611)	1,476	(575)	226
	Commissions	—	—	821	(90)
Companies under control of ultimate parent company:					
AEGON USA and subsidiaries	Operating expenses and commissions	14,089	(130)	13,125	(484)

Notes to Financial Statements

December 31, 2007 (thousands of dollars)

9. Capital Stock

The authorized capital stock of the Company as at December 31, 2007 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.

The Company had no capital transactions during 2007. In 2006, AEGON Canada Inc and AEGON International N.V. contributed additional capital in cash of \$72,899 and \$27,101 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:

	2007		
	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>
			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>

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, 2007 was 153% (2006 – 185%).

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

includes the net income of all non-participating business and investment earnings credited to the shareholder's 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:

	2007	2006
Agents' compensation paid in advance	\$ 30,648	\$ 31,952
Agents' receivables	6,202	6,930
Accounts receivable	9,501	10,376
Due from investment brokers	7,163	11,122
Capital assets	26,559	31,212
Prepaid assets and deferred charges	3,949	2,338
Due from related parties	6,432	11,878
Deposit with Canada Revenue Agency	839	5,539
Income taxes recoverable	22,396	29,223
Other	92	92
	\$ 113,781	\$ 140,662

Notes to Financial Statements

December 31, 2007 (thousands of dollars)

12. Other Liabilities

Other liabilities are comprised of the following items:

	2007	2006
Bank overdraft	\$ 2,745	\$ 520
Accrued expenses, fees and other taxes	32,181	40,942
Commissions payable	8,444	8,173
Due to investment brokers	505	2,372
Due to related parties	804	999
Advance premiums	2,494	2,282
Unallocated premiums	4,140	4,450
Capital lease obligation	3,933	4,379
Provision accrued for reimbursement of excess fees charged to segregated funds (note 13)	105,000	-
Other	6,304	25,973
	<u>\$ 166,550</u>	<u>\$ 90,090</u>

13. Provision for reimbursement of excess management fees charged to segregated funds

In 2007, the Company identified an issue related to excess management fees that may have been charged to segregated funds offered under a number of insurance contracts issued by the Company in previous years. A thorough review of the matter to determine which policyholders might be affected and to quantify the amount of excess fees charged is underway. This issue was communicated to all existing and former variable annuity segregated fund policyholders in August of 2007, despite the fact that it was, and continues to be, uncertain as to which existing and former policyholders may have been affected. Affected policyholders will be contacted with details as to the repayment of any excess fees charged once these details are known. The Company has also advised federal and provincial regulators about the review and the intention to fully reimburse all affected policyholders.

The Company has established a special provision of \$105,000, which represents its current best estimate of the expected net cost of reimbursing affected policyholders, taking into account excess fees, interest and other costs. This special provision is presented as a separate item on the income statement and as a component of other liabilities on the balance sheet. As noted previously, the investigation into determining which policyholders might be affected and quantifying the amount of excess fees charged is on going. When the reimbursements are made in future periods, the financial statements prepared for those periods will reflect the actual transactions involved as a result of such reimbursements, including any impact on actuarial reserves and changes to the provision.

14. Segregated Fund Net Assets

The value of the seeded units held by the Company in segregated funds managed by the Company at December 31, 2007 is \$15,486 (2006 - \$15,856) and is included in other invested assets.

Management fees and other expenses earned by the Company for the management of these segregated funds totaled \$124,768 (2006 - \$122,982) and are included in other income on the Company's statement of income.

15. 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 \$244,411 (2006 - \$195,221) 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 \$9,768 (2006 - \$8,954) 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, 2007 was \$585,363 (2006 - \$555,878). 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, 2007 was \$130,155.

16. 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.

17. Commitments

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

	Lease on Company's Head Office	Other Leases
2008	\$ 5,292	\$ 1,408
2009	5,893	1,305
2010	6,193	1,249
2011	6,193	847
2012	6,193	395
Thereafter	40,571	909
	<u>\$ 70,335</u>	<u>\$ 6,113</u>

18. Comparative Figures

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in 2007.

BOARD OF DIRECTORS

Patrick S. Baird
Darryl D. Button
Ronald L. Corey, O.C.
Glenn J. Daniels

David E. Gooding
Paulette L. Kennedy, C.A.
Paul D. Reaburn (Chairman)
Gary U. Rolle

Robert J. Tweedy
Michiel van Katwijk
James G. Westaway
George A. Wilson, Q.C.

Head Office

5000 Yonge Street
Toronto, Ontario
M2N 7J8

Tel: (416) 883-5000
www.transamerica.ca



Member of the **AEGON** Group

5000 Yonge Street
Toronto, ON M2N 7J8
www.transamerica.ca