

2008 Annual Report

TRANSAMERICA LIFE CANADA

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TRANSAMERICA LIFE CANADA

Transamerica Life Canada is one of Canada's leading life insurance companies, with over \$9.8 billion in total assets under management and total gross premium revenue of \$700 million in 2008.

For over 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 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 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

Transamerica Life Canada is a member of AEGON, an international life insurance, pension and investment company based in The Hague, the Netherlands. With businesses in over 20 markets in the Americas, Europe and Asia, AEGON companies employ approximately 31,500 people and serve over 40 million customers around the globe.

In the year ended December 31, 2008, AEGON had new life sales of EUR 2.63 billion, gross deposits of EUR 40.75 billion and revenue generating investments of EUR 332 billion.

Throughout their working lives and into retirement, millions of people around the world rely on AEGON to help them secure their long-term financial futures. AEGON uses its strength and expertise to create added value for customers, employees, shareholders and the wider community. AEGON does this by encouraging innovation and by growing its businesses profitably and sustainably.

AEGON's aim is to be a leading force in global financial services.

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

Ratings as of April 23, 2009

Transamerica Life Canada

A.M. Best	A-
Standard & Poor's	BBB
Fitch*	AA

AEGON US life insurance companies

A.M. Best	A
Fitch*	AA
Moody's	A1
Standard & Poor's	AA-

AEGON N.V.

Fitch	A
Moody's	A3
Standard & Poor's	A-

*Fitch rating of all AEGON Americas companies.

PRESIDENT'S MESSAGE



When I joined Transamerica Life Canada in September 2008, the steep decline in financial markets had already begun to impact the world economy. It was certainly a very challenging time to start leading one of Canada's major insurance companies, but also a time of great opportunity. Challenges sharpen our focus, and we have taken advantage of this opportunity at Transamerica.

Over the last few months, and with the strong support of our parent company, AEGON, our Transamerica management team has developed a long-term strategic direction designed to lead our organization into the future and position us as an innovative leader in the coming decade and beyond. I am very positive about the future of Transamerica Life Canada.

In addition to supporting Transamerica Life Canada strategically, our parent company AEGON has also provided us with significant capital support to ensure that we are in a strong position in these difficult economic times. The result is that we begin 2009 with strong capital levels, and plans in place to further improve this position.

The following pages provide details of our financial results for 2008. Understandably, our earnings were severely impacted by market performance, particularly in the last quarter of the year. However, we ended the year with a balance sheet featuring high quality assets, strong reserves and more than ample capital to meet our obligations to all our policyholders in both the short and long term.

No matter the economic climate, Transamerica Life Canada is dedicated to fulfilling its fundamental mission of creating better futures for all our stakeholders – our policyholders, distributors, employees and the wider community.

On behalf of Board of Directors and the employees, thank you for your ongoing confidence in Transamerica Life Canada.

A handwritten signature in black ink that reads "Doug Brooks". The signature is written in a cursive, flowing style.

Doug Brooks
President and Chief Executive Officer

FOCUS ON CORPORATE GOVERNANCE

Many Transamerica Life Canada corporate governance initiatives are highly visible, touching people across our organization and our community.

Guidance on appropriate business conduct is provided to our employees through our organization's Code of Conduct, available to all employees on our intranet.

In June 2008 our parent company, AEGON N.V., launched a new and strengthened global Code of Conduct intended to create further clarity about sound and responsible business practices, and to ensure a common approach for how AEGON carries out business in its many markets. Detailed information about the global Code of Conduct can be found on the AEGON website at www.aegon.com.

To underscore its commitment to ethical business conduct, AEGON also established the "AEGON Global Ethics Line" in 2008. This line provides employees with a simple, secure and confidential way of reporting any activity they believe is a violation of the Code of Conduct. If employees are unsure of how to make a report, wish to remain anonymous, or are reluctant to use a local source directly, they can make use of the Global Ethics Line.

Every year, our organization conducts a certification program that confirms each employee understands both our Canadian Code of Conduct and the new Global Code of Conduct, as well as the need to meet their requirements.

Transamerica Life Canada employees are also guided by a comprehensive body of policies and procedures. Every employee has access to Transamerica's policies and procedures through our intranet. In addition, we provide employees with extensive training on new products, customer service and other key changes in our internal and external business environment.

Transamerica Life Canada also reaches out to the wider community through our charitable giving program, described more fully under "Focus on our Community".

The ultimate goal of all Transamerica Life Canada corporate governance initiatives are to benefit our customers and stakeholders, to ensure that we remain a strong and accountable company that can protect their interests and serve them to the best of our ability in the long term.

FOCUS ON EMPLOYEES

At Transamerica Life Canada, a key focus for our organization is investing resources to develop, motivate and engage our employees. Through a variety of programs and initiatives, we strive to enrich our work environment and support employees who seek opportunities, training and resources necessary to succeed in their chosen careers.

In 2008, Transamerica continued to actively promote a learning environment. In particular, we shifted our focus from pure classroom learning to a more blended approach by introducing several programs in an e-learning format. We are proud that one of our newest e-learning programs, The Competency Coach, won two awards – the Gold Medal in learning from the Canadian Society for Training and Development and the Andre Mailhot Award for best practices in learning from Life Office Management Association (LOMA) Canada.

LOMA Canada also recognized Transamerica's dedication to employee training with their 2008 Excellence in Education award, given for the historically high pass rates achieved by our employees in LOMA exams and for the growth in course enrollments by Transamerica employees.

Another area of focus at Transamerica is recognizing and rewarding the efforts of our employees in going above-and-beyond. Our Leap for the Stars reward program recognizes individual excellence on a quarterly and annual basis, while special events such as Employee Appreciation Day, Family Fun Day, and the annual Thanksgiving Luncheon celebrate our shared achievements.

Transamerica also focuses on enriching the lives of our employees through ongoing Health & Wellness Fairs, topical Lunch n' Learn sessions, and by offering exciting opportunities through the International Student Exchange Program co-ordinated by our global parent company, AEGON N.V. We are proud that many employees respond to these and numerous other opportunities, resulting in an engaged workforce and lively work environment.

FOCUS ON OUR COMMUNITY

As a life insurance company, Transamerica Life Canada has a close understanding of the health and wellness issues that impact Canadians, which is why charitable giving is an important aspect of our culture. Transamerica believes that sharing our prosperity greatly enriches the communities we live and work in, and pays returns that are measured in more than just dollars.

In 2008, Transamerica's charitable giving program, *in the spirit of hope*, directed its efforts to organizations aligned with its newly developed mission statement:

Transamerica Life Canada's in the spirit of hope is committed to improving the quality of Canadian lives by donating funds to charitable organizations dedicated to the prevention and elimination of heart disease, stroke, cancer and diabetes.

This focused mission statement helped us reach out to people across Canada, and dedicate our support to numerous worthy causes.

A highlight of the year was our participation in the Heart & Stroke Foundation's inaugural 7 Summits Challenge. In this bold new venture to raise money for defibrillators*, participants were challenged to climb the stairs of Toronto's seven tallest office towers. Collectively, they emulated climbing the tallest peak on each continent – The 7 Summits.



As the presenting sponsor of this event, Transamerica's funding enabled the placement of 250 Automated External Defibrillators (AEDs),* along with the appropriate training. The potential for AEDs to impact the lives of Canadians is remarkable, which is why we were excited about helping the Heart & Stroke Foundation in their vision of making AEDs as common as fire extinguishers in our communities.

At Transamerica, charitable fund-raising is part of our corporate mandate, and it's also a year-long labour of love for our employees.



with TLC and United Way

In 2008, *in the spirit of hope* and our staff raised an impressive \$231,629 for the United Way. In all, Transamerica and its employees made direct and indirect donations to a remarkable range of charitable causes and events last year.

* The Automated External Defibrillator (AED) is a machine that anyone can use to restore heart rhythm – and life – to someone who has suffered a cardiac arrest or abnormal heart rhythm. Defibrillation improves survival rates dramatically; making defibrillators easily accessible in public buildings has the potential to save thousands of lives.

SOURCES OF EARNINGS

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

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

EXPECTED PROFIT FROM IN FORCE OPERATIONS:

This is the profit anticipated to be earned from the business on hand at the beginning of the period. For the most part, this consists of the anticipated current period release of provisions for adverse deviation inherent in the actuarial liabilities. This category also includes expected fee income net of amortization of deferred acquisition expenses for the segregated fund line. 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 into income 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 2008 (\$ millions)

	Traditional	Universal Life	Annuities	Segregated Funds	Accident & Sickness	Total	Total 2007
Expected Profit on In Force Operations	\$ 15.1	\$ 48.8	\$ 2.3	\$ 30.9	\$ 1.2	\$ 98.2	\$ 123.9
Impact of New Business	(5.4)	4.3	(0.2)	2.3	–	1.1	16.5
Experience Gains and Losses	(106.2)	(372.0)	(14.4)	(251.0)	(1.1)	(744.8)	(198.3)
Management Actions and Changes in Assumptions	3.8	(42.1)	(34.2)	(57.9)	(2.8)	(133.2)	(408.5)
Other Other Variances	(3.2)	5.2	3.8	–	(0.2)	5.6	0.1
Earnings on Operations before Taxes	\$ (95.9)	\$ (355.9)	\$ (42.7)	\$ (275.8)	\$ (2.9)	\$ (773.0)	\$ (466.4)
Earnings on Surplus							
Allocated	5.4	7.9	0.7	5.8	0.1	19.8	21.4
Unallocated	–	–	–	–	–	6.1	(1.1)
Income Before Income Taxes	\$ (90.5)	\$ (347.9)	\$ (42.0)	\$ (270.0)	\$ (2.80)	\$ (747.1)	\$ (446.1)
Income Taxes	(24.1)	(56.4)	(11.3)	(72.9)	(0.8)	(163.8)	(138.9)
Net Income	\$ (66.3)	\$ (291.5)	\$ (30.7)	\$ (197.1)	\$ (2.0)	\$ (583.4)	\$ (307.2)

The expected profits from in force operations of \$98.2 million (2007 - \$123.9 million) was primarily the result of the release of provisions for adverse deviation and net expected management fees. The allocated earnings on surplus of \$19.8 million (2007 - \$21.4 million) is a result of the investment of the capital allocated to each line of business. The unallocated earnings on surplus represent income items that have not been specifically allocated to a line of business. The total of expected profit on in force operations and the allocated earnings on surplus for 2008 was \$118.0 million compared to \$145.3 million in 2007. 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 the 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. Subsequent experience gains or changes in assumptions are quantified as Experience Gains or Losses or as Management Actions and Changes in Assumptions.

Experience gains and losses arise due to fluctuations in premiums, expenses, investment income, management fee income, claims and other benefits payments, compared to expected assumptions. Experience losses in 2008 are primarily attributable to equity market-related losses net of associated hedging programs (\$472 million), resulting in additional liabilities for future segregated

fund guarantee payments and reduced future management fees from universal life and segregated fund policies. The impact of reserve adjustments related to applying the Canadian Asset Liability Method (CALM) are also 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 majority of experience losses not accounted for by equity market performance are almost entirely due to changes from CALM and discounted future tax adjustments. The CALM change in 2008 resulted primarily from a lower yield curve in 2008 compared to 2007 and additional default provisions established in respect of certain fixed income assets supporting the liabilities. The discounted future tax adjustments represents experience on the Company's investments on unit trusts, as well as the cost of recognizing the time value of money with respect to future tax assets held on the balance sheet.

Management actions and changes in assumptions for 2008 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. It also includes the impact of various management initiatives undertaken during 2008, including the implementation of two hedging programs on the segregated fund portfolio, and a new in-force reinsurance transaction.

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 shareholders and policyholders accompanies these financial statements.



Douglas Brooks, FCIA
President and
Chief Executive Officer

Toronto, Ontario
February 24, 2009



Diane Meiners
Vice-President and Controller

Toronto, Ontario
February 24, 2009

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, 2008 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 24, 2009

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

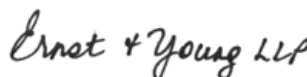
We have audited the balance sheet of Transamerica Life Canada ("the Company") and the statement of segregated funds net assets as at December 31, 2008 and the statements of loss, comprehensive income, cash flow, changes in shareholders' equity and changes in segregated funds net assets for the year then 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

Toronto, Ontario
February 24, 2009

audit 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, 2008 and the results of the Company's operations and its cash flows and the changes in its segregated funds net assets for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants

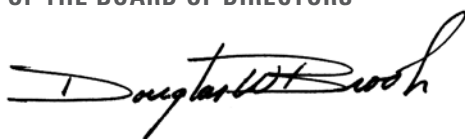
BALANCE SHEET

As at December 31, 2008	Note	2008	2007
(thousands of dollars)			
ASSETS			
Cash and cash equivalents	4, 5	\$ 72,797	\$ 44,109
Short-term investments	4, 5	272,032	230,462
Bonds and debentures	4, 5	3,496,707	3,982,321
Exchange traded funds	4, 5	473,947	805,071
Mutual funds	4, 5	251,467	292,743
Mortgage loans	4, 5	12,711	17,882
Derivatives assets	3, 4, 5, 6	1,220,987	12,785
Other invested assets	4, 5	65,843	74,593
Loans to policyholders	4, 5	184,047	164,100
Total Invested Assets		\$ 6,050,538	\$ 5,624,066
Premiums in the course of collection		1,975	2,281
Accrued investment income		16,672	23,015
Amounts receivable under reinsurance agreements		2,854	3,405
Other assets	14	71,994	113,781
Future income taxes receivable	9	316,002	141,446
Total Assets		\$ 6,460,035	\$ 5,907,994
Segregated Funds Net Assets	17	\$ 3,376,690	\$ 4,947,547
LIABILITIES			
Actuarial liabilities under insurance and annuity contracts	7	\$ 4,681,245	\$ 4,088,689
Amounts on deposit		14,834	20,393
Policy claims in the course of settlement		13,031	14,377
Amounts on deposit from reinsurers	7,8	679,128	642,458
Amounts payable under reinsurance agreements		30,509	9,854
Derivative liabilities	3, 4, 5, 6	4,109	1,030
Other liabilities	15	234,112	166,918
Total Liabilities		\$ 5,656,968	\$ 4,943,719
SHAREHOLDERS' EQUITY			
Capital stock	12	802,705	802,705
Contributed surplus	12	630,000	200,000
Retained deficit		(623,725)	(40,357)
Accumulated other comprehensive income		(5,913)	1,927
Total Shareholders' Equity		\$ 803,067	\$ 964,275
Total Liabilities and Shareholders' Equity		\$ 6,460,035	\$ 5,907,994
Segregated Funds Contract Liabilities	17	\$ 3,376,690	\$ 4,947,547

(See accompanying notes)

ON BEHALF OF THE BOARD OF DIRECTORS

Approved by:


Douglas Brooks, FCIA, Director
President & CEO


George A. Wilson, Director

STATEMENT OF INCOME/(LOSS)

For the year ended December 31, 2008	Note	2008	2007
(thousands of dollars)			
REVENUE			
Premiums:			
Life insurance		\$ 403,796	\$ 432,983
Annuities		25,014	31,018
Net investment income (loss)	4	(111,135)	18,211
Other income	17	112,669	127,163
Total Revenue		\$ 430,344	\$ 609,375
POLICY BENEFITS AND EXPENSES			
Benefits:			
Death claims		\$ 91,715	\$ 81,840
Maturity and surrender values		118,365	121,919
Annuity benefits		65,784	67,975
Interest credited to policyholders		1,294	1,898
Policyholder dividends	13	386	395
Total Benefits		\$ 277,544	\$ 274,027
Provision for future benefits:			
Actuarial liabilities for insurance and annuity contracts	7, 8	\$ 592,557	\$ 353,623
Sales commissions and bonuses		140,524	161,535
Interest expense on deposits from reinsurers	8	52,924	49,940
Marketing and operating expenses	10	101,205	100,369
Policy related taxes, licenses and fees		11,464	11,026
Total Policy Benefits and Expenses		\$ 1,176,218	\$ 950,520
Provision for reimbursement of excess fees charged to segregated funds	16	1,250	105,000
Loss before income taxes		\$ (747,124)	\$ (446,145)
Income tax provision	9	(163,756)	(138,932)
Net Income/(Loss) for the Year		\$ (583,368)	\$ (307,213)

(See accompanying notes)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2008	Note	2008	2007
(thousands of dollars)			
<i>Common shares</i>			
Balance, January 1	12	\$ 618,705	\$ 618,705
Common shares issued		–	–
Balance, December 31		\$ 618,705	\$ 618,705
<i>Preferred shares</i>			
Balance, January 1	12	\$ 184,000	\$ 184,000
Preferred shares issued		–	–
Balance, December 31		\$ 184,000	\$ 184,000
<i>Contributed surplus</i>			
Balance, January 1		\$ 200,000	\$ 200,000
Additional contributed surplus, contributed in cash during the year	12	430,000	–
Balance, December 31		\$ 630,000	\$ 200,000
<i>Retained earnings (deficit)</i>			
Balance, January 1		\$ (40,357)	\$ 218,026
Cumulative effect of adopting new accounting policies	1	–	48,830
Net loss for the year		(583,368)	(307,213)
Balance, December 31		\$ (623,725)	\$ (40,357)
<i>Accumulated other comprehensive (loss) income</i>			
Balance, January 1		\$ 1,927	–
Cumulative effect of adopting new accounting policies	1	–	9,260
Other comprehensive loss for the year		(7,840)	(7,333)
Balance, December 31		\$ (5,913)	\$ 1,927
Total shareholders' equity		\$ 803,067	\$ 964,275

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2008	2008	2007
(thousands of dollars)		
Net Loss	\$ (583,368)	\$ (307,213)
Other comprehensive income (loss), net of income tax:		
Unrealized gains (losses) on available-for-sale assets arising during the year:		
Bonds	1,288	(7,444)
Other	(3,269)	(594)
Reclassification adjustment for (gains) losses included in the net loss:		
Bonds	(5,859)	705
Other	–	–
Total other comprehensive loss	\$ (7,840)	\$ (7,333)
Comprehensive loss	\$ (591,208)	\$ (314,546)

STATEMENT OF CASH FLOWS

For the year ended December 31, 2008 (thousands of dollars)	2008	2007
OPERATING ACTIVITIES		
Net loss	\$ (583,368)	\$ (307,213)
Items not affecting cash:		
Decrease in accrued investment income	6,343	755
Decrease in other assets	42,093	26,667
Future income tax provision on operating income	(178,043)	(152,286)
Increase in actuarial liabilities	592,556	353,623
(Decrease)/Increase in other insurance policy and contract liabilities	(5,489)	869
Increase in accounts payable and other liabilities	65,778	77,885
Increase in amounts on deposit from reinsurers	36,670	37,635
Decrease in net amounts due from reinsurers	21,206	(4,608)
Net realized and unrealized losses/(gains), including impairments	311,261	240,829
Net amortization of premium/(accrual of discount) on bonds and mortgage loans	(115,978)	(102,985)
Net Cash Provided By Operating Activities	\$ 193,029	\$ 171,171
FINANCING ACTIVITIES		
Contributed surplus	\$ 430,000	\$ –
Net Cash Provided By Financing Activities	\$ 430,000	\$ –
INVESTING ACTIVITIES		
Sales, maturities and scheduled redemptions of:		
Bonds and other fixed-term securities	\$ 2,812,724	\$ 1,848,008
Exchange traded funds	179,139	18,332
Mutual funds	349,716	51,319
Mortgage loans	5,171	31,855
Derivatives-put options	8,991	–
Other invested assets	229,161	706,812
Purchases and issues of:		
Bonds and other fixed-term securities	(2,494,016)	(1,869,271)
Exchange traded funds	(69,774)	(42,727)
Mutual funds	(390,307)	(133,847)
Derivatives-put options	(948,583)	–
Other invested assets	(222,252)	(710,900)
Short-term investments, net	(34,364)	(27,586)
Loans to policyholders	(19,947)	(25,292)
Net Cash Used in Investing Activities	\$ (594,341)	\$ (153,297)

STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended December 31, 2008	2008	2007
(thousands of dollars)		
Net increase/(decrease) in cash and cash equivalents during the year	28,688	17,874
Cash and cash equivalents, beginning of year	44,109	26,235
Cash and cash equivalents, end of year	\$ 72,797	\$ 44,109
Cash, end of year	40,309	–
Cash equivalents, end of year	\$ 32,488	\$ 44,109
Cash and cash equivalents, net, end of year	\$ 72,797	\$ 44,109
Interest paid	\$ –	\$ –
Income taxes paid	\$ 7,780	\$ 6,564

(See accompanying notes)

STATEMENT OF CHANGES IN SEGREGATED FUNDS NET ASSETS

For the year ended December 31, 2008	2008	2007
(thousands of dollars)		
Additions to segregated funds:		
Deposits	\$ 334,823	\$ 574,238
Net realized and unrealized gains (losses)	(1,096,795)	(145,117)
Interest and dividend income	(39,212)	237,268
	\$ (801,184)	\$ 666,389
Deductions from segregated funds:		
Payments to policyholders and their beneficiaries	\$ 646,337	\$ 834,334
Management fees	100,891	122,905
Other expenses, including GST on management fees	22,445	28,104
	\$ 769,673	\$ 985,343
Net additions to segregated funds for the year	\$ (1,570,857)	\$ (318,954)
Segregated fund net assets, beginning of year	4,947,547	5,266,501
Segregated funds net assets, end of year	\$ 3,376,690	\$ 4,947,547

STATEMENT OF SEGREGATED FUNDS NET ASSETS

As at December 31, 2008	2008	2007
(thousands of dollars)		
Investments, at market values:		
Cash and short-term investments	\$ 217,239	\$ 395,268
Bonds	284,647	319,208
Stocks, mutual funds and exchange traded funds	2,882,390	4,246,602
Other assets	13,848	18,645
Liabilities	(21,434)	(32,176)
TOTAL SEGREGATED FUNDS NET ASSETS	\$ 3,376,690	\$ 4,947,547

(See accompanying notes)

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (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 B.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, 2008, the Company adopted four new Canadian Institute of Chartered Accountants (CICA) Handbook Sections: Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures, Section 3863, Financial Instruments – Presentation, and CICA Section 1400 – General Standards on Financial Statement Presentation.

Capital Disclosures

Section 1535 requires disclosure of an entity's objectives, policies and processes for managing capital; information about what the entity regards as capital; whether the entity has complied with any capital requirements; and the consequences of not complying with these capital requirements.

Financial Instrument Disclosure and Presentation

Effective January 1, 2008, Section 3862 Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation sections replace existing Section 3861, Financial Instruments – Disclosure and Presentation. Presentation standards are carried forward unchanged. Disclosure standards are enhanced and expanded to complement the changes in accounting policy adopted in accordance with Section 3855, Financial Instruments – Recognition and Measurement during 2007.

Going Concern

CICA Section 1400, *General Standards on Financial Statement Presentation*, prescribes additional requirements to assess and disclose the Company's ability to continue as a going concern.

(c) Significant Accounting Policies:

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

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

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. 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.

The Company classifies financial assets, backing insurance liabilities, excluding mortgages and land leases 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 backing 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 Other Comprehensive Income (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 available-for-sale ("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 any subsequent 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. Any other than temporary impairment is recorded as a charge to income.

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.

(ii) *Investments*

Cash, cash equivalents and short-term investments:

Cash, cash equivalents and short-term investments are comprised of cash, current operating accounts, term deposits, and fixed income securities which are 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 security.

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.

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 Accumulated Other Comprehensive Income (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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (thousands of dollars)

1. Basis of Presentation and Significant Accounting Policies (continued)**(c) Significant Accounting Policies: (continued):***(ii) Investments (continued):*

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 AOCI 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 further 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 under the fair value option. All accrued 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 under the fair value option.

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 314 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.

(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.

(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.

(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 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.

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.

CICA 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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (thousands of dollars)

1. Basis of Presentation and Significant Accounting Policies (continued)**(h) Derivative financial instruments: (continued)**

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.

(k) Future Accounting Policy Changes

The Company will be implementing International Financial Reporting Standards effective January 1, 2011 in accordance with regulatory requirements.

2. 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 on-going basis. Transamerica has in place an established organization, framework and policies and procedures for managing the significant risks associated with its business.

The Board of Directors is ultimately responsible for the Company's risk management, and regularly monitors risk management policies and practices. It is part of the mandate of the Investment 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, directing 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 into the future. It oversees the Company's risk management culture and ensures current risk management policies and procedures are consistent with regulatory standards and industry best practices. Risk Management works with 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 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 by counterparties 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. The Company also holds a general provision for possible future asset defaults within the actuarial liabilities.

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in similar industries. The Company mitigates concentration risk by limiting exposure to any single industry or issuer. The Company's Credit Name Limit Policy uses a comprehensive approach to measuring the Company's economic exposure to credit risk. Credit limits are developed separately for each credit rating. Credit swap arrangements are used to mitigate any exposure that falls outside of the Company's tolerance limits.

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.

(a) Portfolio Investments:

The following table summarizes the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowance for losses.

	2008
Bonds	\$ 3,496,707
Mortgages	12,711
Other Receivables	13,025
Derivatives with a positive fair value	1,220,987
TOTAL	\$ 4,743,430

The amounts shown are gross of any collateral held or other credit enhancements. See Note 2 (c) for further details regarding the credit quality of the Company's invested assets.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (thousands of dollars)

2. Risk Management and Control Practices (continued)*INVESTMENT RISK MANAGEMENT (continued)*

(b) Concentration of Credit Risk

The following provides details of the carrying value of bonds by industry sector:

	Designated Held For Trading	Available for Sale	Total
Government	\$ 1,415,364	\$ 177,035	\$ 1,592,399
Energy	55,394	14,614	70,008
Industrial	168,565	51,202	219,767
Consumer Cyclical / (Discretionary)	4,744	–	4,744
Consumer Non-Cyclical/ (Staples)	205,937	–	205,937
Diversified / (Health Care)	25,847	10,867	36,714
Financial	855,023	124,630	979,653
Communications	162,249	5,278	167,527
Utilities	174,543	45,415	219,958
TOTAL	\$ 3,067,666	\$ 429,041	\$ 3,496,707

(c) Asset Quality Ratings of Bonds and Short-Term Investments

The following table summarizes the quality of the Company's bond portfolio by their credit rating:

Fair Value at December 31, 2008

Bond Ratings	Designated Held For Trading	Available for Sale	Total	Percent of Portfolio
AAA	\$ 445,943	\$ 189,335	\$ 635,278	18.17%
AA	1,120,137	36,161	1,156,298	33.07%
A	1,100,503	127,279	1,227,782	35.11%
BBB	287,976	76,216	364,192	10.41%
BB or Lower	113,107	50	113,157	3.24%
TOTAL	\$ 3,067,666	\$ 429,041	\$ 3,496,707	100.00%

(d) 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 following table shows the derivative financial instruments with a positive fair value as at December 31, split by counterparty rating:

Over the Counter Contracts: 2008

AAA	\$ –
AA	1,218,864
A	2,123
TOTAL	\$ 1,220,987

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.

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 increase net income by approximately \$47,000. Conversely, a 1% decrease in the general level of interest rates would decrease net income by approximately \$57,000. These interest rate sensitivities are illustrative only as they are based on simplified scenarios. The asymmetric nature of the results is primarily related to minimum interest rate guarantees on policyholder investment accounts.

Actuarial liabilities under insurance and annuity contracts are separated into the following categories as at December 31, 2008 and 2007:

	2008	2007
Universal Life	\$ 1,733,073	\$ 1,747,352
Other policy liabilities	2,948,172	2,341,337
TOTAL	\$ 4,681,245	\$ 4,088,689

Universal Life policy liabilities account for 37% of the Company's total liabilities. Universal Life policyholders have the option of investing funds into accounts which either track an external index or provide a guaranteed return for a fixed period subject to a minimum guaranteed rate on reset. Assets backing index accounts are managed on a pass-through basis. Assets backing guaranteed interest accounts are managed to achieve the guaranteed return plus a profit spread, while meeting the Company's investment policy criteria such as duration mismatch and credit quality.

Other policy liabilities represent approximately 63% of the Company's total 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 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 liability also reflects the market value of hedge instruments as well as the cash flows from the hedge instruments that are available to pay for the guarantees.

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 80 for the establishment of its actuarial liabilities for 2008. This has increased from CTE75 that was used in 2007, and provides additional margins against recent increases in volatility.

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, 2008 the fund value of all segregated funds totaled \$3.4 billion (2007 - \$4.9 billion) and the net amount at risk as at December 31, 2008 totaled \$1.6 billion (2007 - \$ 0.9 billion).

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (thousands of dollars)

2. Risk Management and Control Practices (continued)*INVESTMENT RISK MANAGEMENT (continued)**Equity Risk (continued)*

Segregated Fund Reserve Analysis as at December 31, 2008 and 2007:

	2008	2007
Segregated Fund Reserves at CTE 80	\$ 1,270,700	–
Segregated Fund Reserves at CTE 75	–	\$ 689,600
Expected Payout at CTE 0	1,123,500	384,100
Excess of Reserves over Expected Payout	\$ 147,200	\$ 305,500

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 MCCR requirements to support the business. The Company also monitors overall equity risk tolerance limits.

The approximate impact of an immediate 10% increase in the general level of equity markets would be to increase net income by approximately \$54,000. Conversely, a 10% decrease in the general level of equity markets would be to decrease net income by approximately \$63,000. 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 replaced 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 (GROW*Safe* block). Similarly in the fourth quarter of 2008, the Company purchased twenty-five static put options to hedge against a portion of the maturity and death benefit guarantees on a targeted block of segregated fund policies for a portion of the Alliance funds (see note 3).

The residual programs 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 are 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 or equal to the adjusted policyholder liabilities.

As at December 31, 2008, the coverage ratio for normal asset market conditions and normal withdrawals over a seven day scenario is 157.2 (2007 – 173.2) and over a three year scenario 3.01 (2007 – 3.70). The coverage ratio for impaired asset market conditions and extremely high withdrawals over a seven day scenario is 3.00 (2007 – 2.11) and over a three year scenario 2.03 (2007 – 2.15).

Contractual Obligations

In the normal course of business, the Company enters into contracts that give rise to obligations fixed by agreement as to the timing and dollar amount of payment. As at December 31, 2008, the Company's contractual obligations and commitments are as follows:

Payments due by Period	Total	Less than 1 year	1-2 years	3-5 years	After 5 years
General Fund Policyholder Liabilities ¹	\$ 49,784,440	\$ 569,318	\$ 2,104,433	\$ 867,882	\$ 46,242,807
Capital and Operating Leases ²	69,839	7,265	14,447	13,228	34,899
	\$ 49,854,279	\$ 576,583	\$ 2,118,880	\$ 881,110	\$ 46,277,706

¹ General Fund Policyholder Liabilities cash flows include estimates related to the timing and payment of death and disability claims, policyholder surrenders, policyholder maturities, annuity payments, commissions and premium taxes are offset by contractual future premiums on in-force contracts. These estimated cash flows are based on the best estimate assumptions used in the determination of policy liabilities. These amounts are undiscounted and do not reflect the recoveries from reinsurance agreements. Future Segregated Fund obligations have not been offset by the two static hedge programs that were implemented in 2008. Due to the use of assumptions, actual cash flows will differ from these estimates. For further information see note 3 and 7.

² Capital and Operating Leases are more fully explained in note 20.

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. Limits are established with respect to risk-based target income. 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 6 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 liability 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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (thousands of dollars)

2. Risk Management and Control Practices (continued)*INSURANCE RISK MANAGEMENT (continued)**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, loss to reputation, opportunity loss, inefficiency, loss of competitive position or regulatory censure.

The Company performs 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 relevant operational risk laws and regulatory requirements. In addition, internal auditors review the adequacy of the internal controls, reporting quarterly to Management and the Audit Committee.

3. Segregated Fund Hedging Strategy

In 2008, the Company implemented two static hedge programs which significantly reduced the Company's exposure to equity risk in its segregated funds. The liability risk profile resembles long-dated put options where a claim payment is made whenever the account value is less than a guaranteed withdrawal amount, guaranteed account value, or guaranteed minimum death benefit. The hedging of the equity risk and the reduction of income volatility are the main objectives of these programs.

GROWSafe Hedge Program

In the first quarter of 2008, the Company replaced its dynamic hedge program with a series of multi index equity put options ("static program") together with a small residual dynamic hedging program. The Company received approval from OSFI to reflect 70% of the impact of the static program within the actuarial liabilities and the required capital. No credit is taken for regulatory capital calculation for the residual dynamic hedge 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 program consists of a static portfolio of customized European-style put options written on five global equity indices (S&P 500, NASDAQ100, DJEurostoxx50, Nikkei225 and S&P/TSX60). The Company purchased 3,649 put options with a notional value of \$836,514 and a market value of \$681,497 from an affiliate, Transamerica International Re (Bermuda) ("TIRe"). The market value of the put options as of December 31, 2008 was \$962,952. See Note 6 - Derivatives for more detailed information pertaining to these assets.

TIRe is required to post collateral equal to the market value of the put options plus 70% times 8% times the sum of the strike prices of all unexpired put options. The collateral account is trued up monthly. As of December 31, 2008, the market value of the collateral account was \$1,031,578. An independent third party actuarial consulting firm provides market value of the put option on a monthly basis.

The residual program functions much like the previous full dynamic hedging program but with the constraint that the static put option portfolio must be part of the aggregate optimal hedge position.

Alliance Hedge Program

In the fourth quarter of 2008, the Company purchased 25 static put options to hedge against a portion of the maturity and death benefit guarantees on the Alliance funds. The hedge covers maturities that occur between January 1, 2009 and

August 27, 2010. The static put options also hedge the majority of the currency risk associated with this block. The puts were purchased from three federally regulated Canadian banks. In addition to the static put options, the Company will maintain a small dynamic residual program. The static put options are reflected in the Company's reserving and capital requirements. The market value of the put options as of December 31, 2008 is \$252,776. See Note 6 - Derivatives for more detailed information pertaining to these assets.

The put options for both programs are modeled within the Company's valuation model. Updated notional amounts and market values for each put option are provided monthly.

The Company's Risk Management department performs an independent review of the segregated fund reserve and capital model results on a monthly basis. In addition, the segregated fund MCCR calculation is also reviewed to ensure consistency in results. As part of the agreement under both static hedge programs, the counterparties are required to post collateral in trust for the benefit of the Company. The Company can request the counterparty to post collateral as defined in the International Swap and Derivatives Association agreement ("ISDA") and the Credit Support Annex ("CSA"). The counterparty and the Company have the discretion to true up the collateral account daily. As of December 31, 2008 no collateral was posted. However, \$251,665 was posted as collateral in January 2009.

4. 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	2008 Total		2007 Total	
	Fair Value	Fair Value	Fair Value	Amortized Cost	Outstanding Principal Balance	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash, Cash Equivalents and Short-Term Investments	\$ 6,811	\$ 338,018				\$ 344,829	\$ 344,829	\$ 274,571	\$ 274,571
Bonds and Debentures	429,041	3,067,666				3,496,707	3,496,707	3,982,321	3,982,321
Exchange Traded Funds		473,947				473,947	473,947	805,071	805,071
Mutual Funds	3,980	247,487				251,467	251,467	292,743	292,743
Loans to Policyholders					\$ 184,047	184,047	184,047	164,100	164,100
Mortgage Loans				\$ 12,711		12,711	12,711	17,882	20,840
Derivatives Assets			\$ 1,220,987			1,220,987	1,220,987	12,785	12,785
Other Invested Assets:									
- Segregated Fund Seed Money	8,516					8,516	8,516	15,486	15,486
- Land Leases				2,898		2,898	2,898	3,252	3,252
- Futures Margins		54,429				54,429	54,429	55,855	55,855
Total Invested Assets	\$ 448,348	\$ 4,181,547	\$ 1,220,987	\$ 15,609	\$ 184,047	\$ 6,050,538	\$ 6,050,538	\$ 5,624,066	\$ 5,627,024
Derivative Liabilities			\$ 4,109			\$ 4,109	\$ 4,109	\$ 1,030	\$ 1,030

(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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (thousands of dollars)

4. Portfolio Investments (continued)

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

	2008			
	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss	AOCI Before Tax
Bonds and Debentures	\$ 429,041	\$ 14,092	\$ (17,800)	\$ (3,708)
Mutual Fund Seed Money	3,980	-	(799)	(799)
Segregated Fund Seed Money	8,516	-	(1,725)	(1,725)
Total unrealized gains and losses on available-for-sale assets		\$ 14,092	\$ (20,324)	\$ (6,232)

	2007			
	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss	AOCI Before Tax
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 99% of the Company's investments in bonds and debentures are 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:

2008

Bonds and Debentures	Held-for-Trading				2008 Total
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	
Government – Federal					
Carrying value	\$ 25,839	\$ 78,055	\$ 41,827	\$ 46,904	\$ 192,625
Average yield	2.73%	3.21%	3.64%	4.20%	3.47%
Government – Provincial					
Carrying value	\$ 4,736	\$ 23,374	\$ 74,214	\$ 1,117,569	\$ 1,219,893
Average yield	4.05%	7.21%	7.42%	6.07%	6.19%
Municipal, Public Authorities and Schools					
Carrying value		\$ 2,845			\$ 2,845
Average yield		8.07%			8.07%
Corporate					
Carrying value	\$ 69,476	\$ 450,227	\$ 300,261	\$ 798,173	\$ 1,618,137
Average yield	4.64%	4.98%	6.80%	7.43%	6.75%
Foreign Issuers					
Carrying value				\$ 34,166	\$ 34,166
Average yield				4.87%	4.87%
	\$ 100,051	\$ 554,501	\$ 416,302	\$ 1,996,812	\$ 3,067,666

Bonds and Debentures	Available-for-Sale				2008 Total
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	
Government – Federal					
Carrying value		\$ 89,210	\$ 53,975	\$ 28,454	\$ 171,639
Average yield		3.23%	3.44%	4.11%	3.57%
Government – Provincial					
Carrying value	\$ 3,990			\$ 1,406	\$ 5,396
Average yield	2.67%			6.59%	3.98%
Corporate					
Carrying value	\$ 21,407	\$ 71,561	\$ 75,824	\$ 83,214	\$ 252,006
Average yield	5.31%	5.30%	5.71%	5.92%	5.63%
	\$ 25,397	\$ 160,771	\$ 129,799	\$ 113,074	\$ 429,041

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (thousands of dollars)

4. Portfolio Investments (continued)

2007

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%
	\$ 117,579	\$ 994,575	\$ 389,718	\$ 2,053,793	\$ 3,555,665

Bonds and Debentures	Available-for-Sale				2007 Total
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	
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%
	\$ 44,115	\$ 135,467	\$ 109,313	\$ 137,761	\$ 426,656

- (d) Management periodically 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. No allowances exist at the current balance sheet date.

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 \$3,138 and \$1,813 for 2008 and 2007 respectively.

- (e) Net investment income is comprised of the following components:

					2008	2007
	Designated Held-for- Trading	Classified as Held- for-Trading	Available For Sale	Other	Total	Total
Cash and short-term securities						
Interest Income	\$ 6,677		\$ 448		\$ 7,125	\$ 11,758
Gains and Losses	38		972		1,010	(374)
Bonds						
Interest Income	172,905		18,795		191,700	198,099
Gains and Losses	(260,119)		10,445		(249,674)	(211,692)
Exchange Traded Funds and Mutual Funds						
Gains and Losses	(302,611)		(1,209)		(303,820)	(16,392)
Dividends	22,731				22,731	18,909
Derivatives						
Gains and Losses		224,150			224,150	20,218
Mortgages						
Land Leases				1,052	1,052	3,402
Loans to Policyholder				213	213	227
				15,814	15,814	13,239
Miscellaneous Income	1,285		(148)		1,137	915
Impairment Expense			(3,138)		(3,138)	(1,457)
Investment income before investment expenses and Investment income tax					\$ (91,700)	\$ 36,852
Investment expenses					(11,312)	(9,555)
Investment income tax					(8,123)	(9,086)
Net Investment Income					\$ (111,135)	\$ 18,211

Gains and losses include both realized and unrealized gains and losses for securities designated as held-for-trading under the fair value option and realized gains and losses for AFS securities.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (thousands of dollars)

4. Portfolio Investments (continued)

- e) 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.

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 2008 the net impact on net investment income from the segregated fund hedging strategy was a gain of \$351,628 (2007 - a loss of \$24,451).

(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, 2008, the Company had loaned securities (which are included in invested assets) with a fair value of \$226,000. 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. Collateral requirements are driven by changes in the market value of the futures contracts outstanding. As at December 31, 2008, the Company had pledged securities (which are included in other invested assets) with a fair value of \$54,429. These transactions are conducted under terms that are usual and customary to these activities.

5. 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 are measured at fair value that are quoted in active markets are based on bid prices for financial assets or ask prices for financial liabilities. 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 established models, but is recorded net of valuation adjustments, which recognize the need to address market, liquidity, and 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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (thousands of dollars)

5. Determination of Fair Value (continued)*Derivative Financial Instruments (continued)*

The fair value of financial instruments carried at fair value were determined as follows:

	Fair Value	Published quoted market prices ¹	Valuation techniques with significant observable market inputs or broker dealer quotes ²	Valuation techniques with significant non-observable market inputs ³
Financial Assets				
Designated as Held for Trading				
Bonds	\$ 3,067,666	76%	24%	
Exchange Traded Funds	\$ 473,947	100%		
Mutual Funds	\$ 247,487	100%		
Cash and Cash Equivalents and Short-Term Investments	\$ 338,018	100%		
Pledged Securities	\$ 54,429	100%		
Classified as Held for Trading				
Put Options	\$ 1,215,728		100%	
Swaps	\$ 3,136			100%
Forwards	\$ 2,123		100%	
Designated as Available for Sale				
Bonds	\$ 429,041	87%	13%	
Mutual Funds	\$ 3,980	100%		
Short-Term Investments	\$ 6,811	100%		
Other - Seed	\$ 8,516	100%		
Financial Liabilities				
Swaps	\$ 1,539			100%
Forwards	\$ 2,570		100%	

¹ Included in this category are financial assets and liabilities that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arms length basis.

² This category includes financial assets and financial liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument or based on available market data. Main asset classes included in this category are financial assets for which pricing is obtained via pricing services but where prices have not been determined in an active market and financial assets with fair value based on broker quotes.

³ This category includes financial assets and financial liabilities whose fair value is determined using a valuation technique (model) for which more than an insignificant level of input in terms of the overall valuation are not market observable.

6. Derivatives

(a) Discussion of 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.

The notional amount and fair value of credit derivatives as at December 31, 2008 was \$85,500 and \$1,597 respectively (2007 - \$ 80,500 and \$3,751). 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, 2008 was \$13,749 (2007 - \$13,183).

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (thousands of dollars)

6. Derivatives (continued)

(a) Discussion of derivatives (continued)

Equity Derivatives (continued)

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, 2008 was \$42,410 (2007 - \$66,844).

In 2008, the Company replaced its dynamic hedge program with a series of multi index equity put options ("static program") together with 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 GROW*Safe* segregated fund policies and a portion of the maturity and death benefit guarantees on the Alliance funds. The residual program functions much like the previous full dynamic hedging program but with the constraint that the static put option portfolio must be part of the aggregate optimal hedge position.

The notional amount and fair value of equity put options as at December 31, 2008 for the GROW*Safe* hedge program was \$566,452 and \$ 962,952 respectively. The notional amount and fair value of equity put options as at December 31, 2008 for the Alliance hedge program was \$237,953 and \$252,776 respectively.

The notional amount of equity futures associated with the residual hedge program as at December 31, 2008 was \$30,514 (2007 - \$801,090). The put options held in this program expired during the year. The notional amount and fair value of equity put options as at December 31, 2007 was \$16,960 and \$709 respectively.

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, 2008 was \$115,971 (2007 - \$174,739).

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, 2008 of \$19,000 and \$263 respectively (2007 - (\$78,000) and \$1,320).

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, 2008 of \$56,325 and \$710 respectively (2007 - \$239,055 and \$5,975).

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

	Term to maturity			2007
	Within 1 Year	1-5 years	2008 Total	
<i>Exchange-Traded Contracts</i>				
Equity Futures Contracts	\$ 188,895	–	\$ 188,895	\$ (559,506)
Interest Rate Futures Contracts	13,749	–	13,749	13,183
<i>Over the Counter Contracts</i>				
Foreign Exchange forward contracts	(37,325)	–	(37,325)	(317,055)
Credit Default Swaps	–	85,500	85,500	80,500
Equity Put Options	166,501	637,904	804,405	16,960

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:

	2008 Fair Value		2007 Fair Value	
	Positive	Negative	Positive	Negative
<i>Over the Counter Contracts</i>				
Foreign Exchange forward contracts	\$ 2,123	\$ 2,570	\$ 8,115	\$ 820
Credit Default Swaps	3,136	1,539	3,961	210
Equity Put Options	1,215,728	–	709	–
TOTAL	\$ 1,220,987	\$ 4,109	\$ 12,785	\$ 1,030

(b) Hedges for Segregated Funds

The following tables presents details on the notional amount and carrying values of the futures, put options and currency forwards that are used to partially manage exposures related to the death benefit and maturity guarantees of segregated fund policies.

GROWSafe Fund Static Hedge:

Put Options:

Expiry Date	Notional Amount	Carrying Value
2009	\$ 116,068	\$ 153,497
2010	440,101	800,958
2011	10,283	8,496
	\$ 566,452	\$ 962,952

Each put option has exposure to a blend of five indices, with each blend being tailored to a segment of the segregated fund liability exposure. The weighted average allocation by Index (by notional amount) as at December 31, 2008 is listed below:

S&P 500	NASDAQ	Dow Jones Euro STOXX 50	Nikkei	TSX 60	Total
18.27%	5.96%	9.55%	7.26%	58.96%	100%
\$ 103,491	\$ 33,761	\$ 54,096	\$ 41,124	\$ 333,980	\$ 566,452

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (thousands of dollars)

6. Derivatives (continued)

(b) Hedges for Segregated Funds (continued)

GROWSafe Dynamic Hedge

2008				2007		
Put Options:						
Index	Notional Amount	Expiry Date	Carrying Value	Notional Amount	Expiry Date	Carrying Value
S&P 500	\$ -	-	-	\$ 16,960	May 08	\$ 709
Currency Forwards:						
Currency	Notional Amount	Expiry Date	Carrying Value	Notional Amount	Expiry Date	Carrying Value
US Dollar	\$ 2,000	Mar 09	\$ (64)	\$ (40,000)	Mar 08	\$ 621
Euro	\$ 10,000	Mar 09	414	\$ 10,000	Mar 08	(207)
Japanese Yen	\$ 7,000	Mar 09	(87)	\$ (48,000)	Mar 08	906
Net Carrying Value			\$ 263	\$ 1,320		
Futures:						
Currency	Notional Amount	Expiry Date	Carrying Value	Notional Amount	Expiry Date	Carrying Value
S&P TSE 60	\$ 36,713	Mar 2009	-	\$ (424,647)	Mar 2008	-
S&P 500	\$ -	-	-	\$ (183,413)	Mar 2008	-
DJ Euro STOXX 50	\$ (4,149)	Mar 2009	-	\$ (86,173)	Mar 2008	-
Nikkei 225 OSE	\$ 8,267	Mar 2009	-	\$ (46,228)	Mar 2008	-
NASDAQ 100	\$ (10,317)	Mar 2009	-	\$ (60,629)	Mar 2008	-

*Alliance Fund Static Hedge:***Put Options:**

Expiry Date	Notional Amount	Carrying Value
2009	\$ 50,433	\$ 45,795
2010	141,041	173,577
2011	46,479	33,404
	\$ 237,953	\$ 252,776

Each put option has exposure to one of five indices, with each put option being tailored to a segment of the segregated fund liability exposure. The average allocation by Index (by notional amount) as at December 31, 2008 is listed below:

S&P 500	NASDAQ	Dow Jones Euro STOXX 50	Nikkei	TSX 60	Total
29.96%	3.31%	17.30%	13.10%	36.33%	100%
\$ 71,291	\$ 7,876	\$ 41,166	\$ 31,172	\$ 86,448	\$ 237,953

7. 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 Canadian Institute of Actuaries ("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 Appointed 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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (thousands of dollars)

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

(b) Policy assumptions (continued)

Mortality and Morbidity (continued)

Overall mortality experience has exhibited a gradual declining trend. In prior years, no future mortality improvements were assumed in the valuation of life insurance, because mortality improvements resulted in a lower estimate of future claims and therefore a lower actuarial liability. With the implementation of a significant in-force reinsurance treaty during the fourth quarter of 2008, the life insurance portfolio of the Company has now become death supported, which means that improvements in mortality result in an increase in actuarial liabilities. Consistent with guidance from the Canadian Institute of Actuaries (CIA), future mortality improvements are assumed in determining actuarial liabilities for death supported blocks. In addition, some mortality improvements are assumed for single premium immediate annuity policies.

The effect on policy liabilities of a 1% increase in future mortality and morbidity rates is a reduction of \$3,117. The effect on policy liabilities of a 1% decrease in future mortality and morbidity rates is an increase of \$3,200.

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.

The effect on policy liabilities of a 10% adverse change in future lapse rates is \$75,101. Policy lapse rates are set to either 90% or 110% of the base rates, depending on which assumption is more adverse.

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 \$67,000 (2007 - \$19,580). Conversely, a 1% decrease in the general level of interest rates would increase the provision for future policy benefits by approximately \$81,000 (2007 - \$64,778). These reserve changes would be largely offset by the impact that a 1% increase or decrease in interest rates would have on the fair value of held-for-trading bonds that support the policy liabilities.

In addition to these measures, Transamerica monitors the impact of changes in the overall equity markets. 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 \$147,000 (2007 - \$164,000). Conversely, a 10% decrease in the general level of equity markets would increase the provision for future policy benefits by approximately \$158,000 (2007 - \$171,000). These equity market sensitivities are illustrative only as they are based on simplified scenarios.

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 \$ 265,740 as at December 31, 2008 (2007 - \$ 287,009). Potential credit losses are based on past Company and industry experience as well as specific reviews of the current investment portfolio.

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. The effect on policy liabilities of a 10% increase in future expense levels is \$29,704.

Income Taxes

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,

2008. 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:

	2008			
	Life and Health	Annuity	Shareholders' Funds	Total
Net actuarial liabilities	\$ 2,805,493	\$ 1,875,752	0	\$ 4,681,245
Other policy liabilities	17,398	0	0	17,398
Amounts on deposit from reinsurers	679,128	0	0	679,128
Total policy liabilities	\$ 3,502,019	\$ 1,875,752	\$ 0	\$ 5,377,771
Assets backing policy liabilities:				
Portfolio investments and accrued investment income – carrying value	\$ 3,487,100	\$ 2,087,366	\$ 492,744	\$ 6,067,210
Portfolio investments and accrued investment income – fair value	\$ 3,487,100	\$ 2,087,366	\$ 492,744	\$ 6,067,210

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (thousands of dollars)

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

(c) Actuarial liabilities and supporting assets (continued)

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

(d) Changes in actuarial liabilities:

	2008	2007
Balance – beginning of year	\$ 4,088,689	\$ 2,687,547
Cumulative effect of adopting new accounting policies	–	1,047,519
Set aside on new and existing business	741,312	266,443
Impact of net unrealized losses on HFT bonds	(263,500)	(221 200)
Net change resulting from management action and changes in assumptions		
Persistency	81,668	226,780
Mortality	14,993	2,380
Expenses	(5,709)	14,856
Investment Returns	46,200	7,800
Unit Trust Investment Strategy	–	30,600
Model Refinements	21,629	25,964
In-force Reinsurance Treaty	(44,037)	0
Balance, end of year	\$ 4,681,245	\$ 4,088,689

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 resulted 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.

Excluding the segregated fund portfolio, the unrealized change in the carrying value of bonds supporting actuarial reserves reduced investment income by \$263,705 in 2008 (2007 - \$218,217). Actuarial reserves were correspondingly reduced by \$263,500 (2007 - \$221,200) as part of the CALM valuation.

Persistency, mortality and expense assumptions are updated annually reflecting a combination of industry and Company experience. The changes to lapse and persistency assumptions predominately reflected changes in experience on the Universal Life block. Updates to the lapse assumptions resulted in a reserve increase of \$41,625 and updates to the premium persistency assumption resulted in a reserve increase of \$39,700.

Changes to the mortality assumption resulted in an increase of \$14,993 to the actuarial liabilities. This increase reflects the impact of additional mortality experience during 2008, and also reflects mortality improvements now being reflected in the actuarial liabilities. Consistent with guidance from the CIA, future mortality improvements are assumed in determining actuarial liabilities for life insurance, if the actuarial liabilities would increase as a result of improved mortality. The Company has entered into a significant reinsurance transaction in the fourth quarter, with the result that the life insurance actuarial liabilities have become death supported during 2008.

The net change in actuarial liabilities due to changes in investment returns is primarily the result of updated economic assumptions used in the projection of future cash flows arising from Universal Life and Segregated fund policies of \$14,538, as well as changes made in the valuation of the annuity products of \$31,600. The annuity valuation models were adjusted to better reflect the investment strategies of the Company.

The changes due to model refinements include several items. Actuarial liabilities for life insurance policies decreased by \$34,811 resulting from a systems conversion and other minor model refinements completed during 2008. Segregated fund actuarial liabilities are established within a confidence range defined as the Conditional Tail Expectation (CTE). The acceptable range of CTE established by the 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 CTE80 the average of the most adverse twenty percent. The Company has increased the confidence range from CTE75 to CTE80 during 2008, to provide additional margins in light of increased volatility in equity markets. This has increased segregated fund actuarial liabilities by \$11,400. As well, the Company has written down \$48,400 of deferred acquisition costs (DAC) on its segregated fund portfolio, due to reduced expectations of management fees available in the future. Consistent with accounting and actuarial standards, the actuarial liabilities are reduced by the amount of DAC on the balance sheet. A write-down of DAC is therefore reflected as an increase in actuarial liabilities. Other adjustments of (\$3,360) account for the balance of the model refinements.

The Company entered into a significant in-force reinsurance transaction during the fourth quarter of 2008. This transaction ceded the majority of the remaining mortality and lapse risk on certain Term and Universal Life portfolios. The actuarial liabilities were reduced by \$44,037 upon implementation of this treaty.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (thousands of dollars)

8. Reinsurance Ceded

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

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

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:

	2008	2007
Actuarial liabilities under insurance and annuity contracts (balance sheet)	\$ 1,444,042	\$ 1,428,250
Premiums	\$ 275,951	\$ 242,191
Provision for future policy benefits (statement of income)	\$ 15,794	\$ 11,143
Commissions	\$ 8,079	\$ 8,256

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

as amounts on deposit from reinsurers on its balance sheet. On the income statement, the Company classifies the interest accrued on these funds withheld liabilities as interest expense on deposits from reinsurers.

The funds withheld liability, including accrued interest, as at December 31, 2008 was \$679,128 (2007 - \$642,459). The interest expense on the funds withheld liability for the year ended December 31, 2008 was \$52,924 (2007 - \$49,941).

9. Income Taxes

(a) Income tax provision:

	2008	2007
Current income taxes	\$ 9,669	\$ 13,354
Future income taxes relating to temporary differences and tax rate changes	(173,425)	(152,286)
TOTAL	\$ (163,756)	\$ (138,932)

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

	2008		2007	
Expected provision for income taxes at statutory rates	\$ (238,276)	31.89%	\$ (152,962)	34.29%
Increase (decrease) resulting from:				
Exempt investment income	43,525	-5.83%	2,985	-0.67%
Capital and other non-deductible taxes	7,140	-.96%	955	-0.21%
Other	(2,394)	.32%	(6,164)	1.38%
Future federal and provincial tax rate changes	26,249	-3.50%	16,254	-3.64%
Income tax provision at effective rate	\$ (163,756)	21.92%	\$ (138,932)	31.15%

(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, 2008:

	2008	2007
Net unrealized gains (losses) on available for sale securities	\$ (286)	\$ (4,084)
Reclassification of (gains) losses on available for sale securities to income	(855)	335
Total income taxes benefit (expense) included in OCI	\$ (1,131)	\$ (3,749)

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

	Dec 31, 2008	Dec 31, 2007
Actuarial Liabilities	\$ (498,006)	\$ (358,573)
Investment – Held-for-trading	221,022	249,226
Investment – Available-for-sale	(262)	811
Provision for reimbursement of excess fees charged to segregated funds	(33,408)	(33,549)
Other	(5,348)	639
TOTAL	\$ (316,002)	\$ (141,446)

(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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (thousands of dollars)

10. 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 6 to the financial statements.

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.

Transamerica International Re (Bermuda) ("TIRe") in the first quarter of 2008, sold to the Company 3,649 multi index put options. The payment for the put options was structured to include a large initial cost and a smaller residual fee that would be paid off over 36 months. The monthly residual fee paid will vary with market performance in a manner similar to the Management Expense Ratio ("MERs") received by the Company, with the result that when the Company receives lower MERs in a down market, it will pay a lower fee to TIRe and vice versa in an up market. This results in a better hedge effectiveness for the Company. The notional amount, maturity date and fair value for these put options is disclosed in note 6 to the financial statements.

On July 1, 2008, AEGON Canada Inc. (ACI) sold 100% of the outstanding shares of National Financial Corporation (NFC) to Investia Financial Services Inc., an indirect subsidiary of Industrial Alliance and Financial Services Inc. NFC is a holding company that owns the shares of AEGON Dealer Services Canada Inc. and Money Concepts Canada (MCC). NFC owns 100% of the preferred shares of National Financial Insurance Agency Inc. (NFIA), while MCC owns 100% of the common shares of NFIA. In 2007, 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.

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	2008		2007	
		(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	\$ 54,995	\$ 6,982	\$ 54,153	\$ 4,956
ACM	Investment management fees	6,790	(164)	7,144	(749)
	Operating expenses	(612)	39	(837)	75
Other companies under control of ACI	Operating expenses	(367)	12	(611)	1,476
	Commissions	—	—	—	—
Companies under control of ultimate parent company:					
AEGON USA and subsidiaries	Operating expenses and commissions	12,370	(61)	14,089	(130)
TIRe	Present Value of Outstanding Residual Premium	—	(16,345)	—	—

11. Pension Obligations

Substantially all of ACI's employee expenses are charged to the Company. Certain employees of ACI participate in a defined benefit pension plan and are entitled to other post retirement benefits. The expenses of these plans and benefits are passed on to the Company through the administrative services charges. Key information on the ACI defined benefits pension plans as at December 31, 2008 are:

	Pension Plans	Post Retirement Benefits
Benefits obligation	\$ 24,660	\$ 5,192
Plans Assets	\$ 22,761	
Unrecognized Amounts	\$ 7,967	
Expense	\$ 4,307	\$ 383

The last actuarial valuations of the Pension and Post Retirement Plans were performed as of January 1, 2008 and January 1, 2006, respectively.

Certain employees of ACI also participate in a stock compensation plan administered by AEGON NV. \$1,122 (2007 – \$1,143) of expenses were incurred by ACI in respect of the stock compensation plan, which cost has been passed on to the Company through the administrative services charges.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (thousands of dollars)

12. Capital Stock

The authorized capital stock of the Company as at December 31, 2008 is comprised of an unlimited number of Common Shares, an unlimited number of First Preference Shares and 1,000,000 authorized Preferred Shares. All Preferred Shares are issuable in series, non-voting, and non-cumulative as to cash dividends. Common Shares are all without nominal or par values.

In 2008, AEGON Canada Inc. and AEGON International B.V. contributed additional capital in cash of \$313,470 and \$116,530 respectively. The additional capital contributed by each company was equivalent to each of their proportionate levels of ownership prior to the contributions. The Company had no capital transactions during 2007. 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 B.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:

	2008		
	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
			\$ 802,705
			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
			\$ 802,705

13. Required Capital

The Company manages its capital in accordance with its Capital Risk Management Policy which is approved by the Board annually. The Capital Risk Management Policy establishes the roles, responsibilities, and procedures that govern the capital management practices of Transamerica Life Canada in accordance with prudent risk management standards, policy and procedure guidelines put forth by the Office of the Superintendent of Financial Institutions (OSFI) and provisions of the Insurance Companies Act.

The Company's goal is to maintain adequate levels of available capital to provide sufficient margin over capital levels required by the Office of the Superintendent of Financial Institutions (OSFI), to maintain consumer confidence, and to maintain ratings with external rating agencies. The Company manages its capital and surplus based upon the ratio of available capital to required capital as defined by OSFI's Minimum Continuing Capital and Surplus Requirements (MCCSR). The Company's MCCSR ratio is currently targeted to be managed within a range of 175% to 185%. The minimum target for the Company's Tier 1 ratio is 115%. OSFI has issued a supervisory guideline that stipulates that Canadian insurance companies should maintain an MCCSR ratio of at least 150%.

The MCCSR ratio is reported on a quarterly basis to the Investment Committee of the Board. If according to management's best estimates, the MCCSR ratio is expected

to fall below the minimum of the Company's target range at any time in the 3-year forecast period, action plans will be established to restore the ratio in the forecast. In addition, given the potential volatility inherent in the capital requirements for segregated fund products, market performance as measured by the major indices is monitored frequently. The movements since the previous month end are compared with the results from the previous quarterly shock testing to estimate the potential impact on the MCCSR ratio. Corrective actions are recommended to Senior Management, if necessary.

The Company's Senior Management engages the Board of Directors and the shareholders with regards to taking any actions necessary to restore the capital levels to the range set out by the Company.

In the first quarter of 2008 the Company developed and implemented a static equity put option portfolio designed to hedge the majority of the hedgeable market risk for the *GROWSafe* block of segregated fund policies. During the fourth quarter of 2008, the Company implemented a static hedge program for the Alliance block and also implemented an inforce reinsurance transaction which significantly reduced the required capital of the Company. The Company received capital infusions during 2008 totaling \$430 million. These infusions, together with the hedging and reinsurance initiatives implemented in 2008, resulted in an MCCSR ratio of 191% as of December 31, 2008 (2007 – 153%).

	2008	2007
Net Tier 1 Capital	\$ 514	\$ 674
Tier 2 Capital Allowed	\$ 293	\$ 289
Total Capital Allowed	\$ 807	\$ 963
Total Capital Required	\$ 423	\$ 630
MCCSR Ratios		
Tier 1	121%	107%
Total	191%	153%

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.

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 (thousands of dollars)

14. Other Assets

Other assets are comprised of the following items:

	2008	2007
Agents' compensation paid in advance	\$ 27,058	\$ 30,648
Agents' receivables	5,094	6,202
Accounts receivable	5,075	9,501
Due from investment brokers	2,443	7,163
Capital assets	22,143	26,559
Prepaid assets and deferred charges	2,256	3,949
Due from related parties	6,994	6,432
Deposit with Canada Revenue Agency	839	839
Income taxes recoverable	-	22,396
Other	92	92
	\$ 71,994	\$ 113,781

15. Other Liabilities

Other liabilities are comprised of the following items:

	2008	2007
Bank overdraft	\$ -	\$ 2,745
Accrued expenses, fees and other taxes	28,709	32,217
Commissions payable	9,199	8,444
Due to investment brokers	65,480	505
Due to related parties	185	804
Advance premiums	2,564	2,494
Unallocated premiums	4,170	4,140
Capital lease obligation	2,472	3,933
Provision accrued for reimbursement of excess fees charged to segregated funds (note 16)	106,250	105,000
Income taxes payable	4,645	-
Other	10,438	6,636
	\$ 234,112	\$ 166,918

16. 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. In September, 2008 the Company notified policyholders of planned changes in the management fees charged to their segregated fund investments. The communicated fees were implemented in November of 2008, and as a result, segregated fund management fees have been set equal to the maximums allowed by the contracts. Subject to any directions received from the judge in the Class Action proceedings, affected policyholders will be

contacted in 2009 with details as to the repayment of any excess fees charged. 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 totalling \$106,250 (2007 - \$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.

17. Segregated Fund Net Assets

The value of the seeded units held by the Company in segregated funds managed by the Company at December 31, 2008 is \$8,516 (2007 - \$15,486) and is included in other invested assets.

Management fees and other expenses earned by the Company for the management of these segregated funds totaled \$102,574 (2007 - \$124,768) and are included in other income on the Company's statement of income.

18. 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 \$205,932 (2007 - \$244,411) 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 \$3,980 (2007 - \$9,768) 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, 2008 was \$310,189 (2007 - \$585,363). 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, 2008 was \$85,151 (2007 - \$130,155).

19. 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.

20. 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
2009	\$ 5,893	\$ 1,372
2010	6,193	1,226
2011	6,193	835
2012	6,193	428
2013	6,193	414
Thereafter	34,379	520
	\$ 65,044	\$ 4,795

18. Comparative Figures

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in 2008.

TRANSAMERICA LIFE CANADA BOARD OF DIRECTORS

Patrick S. Baird ¹
Douglas W. Brooks ⁴
Darryl D. Button (Chairman)
Brenda K. Clancy ²
Ronald L. Corey

Glenn J. Daniels
David E. Gooding
Paul D. Reaburn ³
Gary U. Rolle

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

¹ Resigned on June 11, 2008
² Appointed as of June 11, 2008
³ Resigned on September 23, 2008
⁴ Appointed as of September 24, 2008

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