



STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON FINANCIAL CONDITION EXAMINATION
OF THE
TRANSAMERICA FINANCIAL LIFE INSURANCE COMPANY

CONDITION:

DECEMBER 31, 2009

DATE OF REPORT:

APRIL 21, 2011

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EXAMINER:

PHARES CATON

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

Andrew M. Cuomo
Governor

James J. Wrynn
Superintendent

May 24, 2011

Honorable James J. Wrynn
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 30463, dated January 7, 2010 and annexed hereto, an examination has been made into the condition and affairs of the Transamerica Financial Life Insurance Company, hereinafter referred to as "the Company" or "TFLIC", at its home office located at 440 Mamaroneck Avenue, Harrison, NY 10528.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

1. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the *NAIC Financial Condition Examiners Handbook, 2009 Edition* (the “Handbook”). The examination covers the four-year period from January 1, 2006 through December 31, 2009. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2009 but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

The examination was conducted utilizing a risk focused approach in accordance with the provisions of the Handbook published by the National Association of Insurance Commissioners (“NAIC”). The Handbook guidance provides for the establishment of an examination plan based on the examiner’s assessment of risk in the insurer’s operations and utilizing that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the current financial condition as well as identify prospective risks that may threaten the future solvency of the insurer. The examiner identified key processes, assessed the risks within those processes and evaluated the internal control systems and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, and determining management’s compliance with Department statutes and guidelines, Statutory Accounting Principles as adopted by the Department, and annual statement instructions.

The examination was conducted in conjunction with the coordinated examination of the U.S. domiciled affiliates of AEGON USA, LLC (“the Companies”). The coordinated examination was led by the State of Iowa with participation from Arkansas, New York, Ohio and Vermont. Since the lead and participating states are accredited by the NAIC, all states deemed it appropriate to rely on each other’s work. The Companies’ operations are organized into four operating divisions, which include specific lines of business across insurance legal entities. The coordinated examination team identified and assessed risks in key functional activities across the divisions. The examination team also assessed the relevant prospective risks as they related to the operating divisions and insurance legal entities.

Information about the Company's organizational structure, business approach and control environment were utilized to develop the examination approach. The Company's risks and management activities were evaluated incorporating the NAIC's nine branded risk categories. These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit
- Market
- Liquidity
- Legal
- Reputational

The Company was audited annually, for the years 2006 through 2009, by the accounting firm of Ernst & Young, LLP. The Company received an unqualified opinion in all years under review. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Company has an operational risk and internal control group which was given the task of assessing the internal control structure and compliance with the Sarbanes-Oxley Act of 2002 ("SOX"). Where applicable, SOX workpapers and reports were reviewed and portions were relied upon for this examination.

The examiner reviewed the corrective actions taken by the Company with respect to the recommendation contained in the prior report on examination. The results of the examiner's review are contained in item 6 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

2. DESCRIPTION OF COMPANY

A. History

The Company was incorporated as a stock life insurance company under the laws of New York on October 3, 1947, under the name Zurich Life Insurance Company, was licensed on October 17, 1947 and commenced business in 1948. Initial resources of \$700,000 were provided through the sale of 7,000 shares of common stock with a par value of \$100 each.

On November 30, 1982, the Dreyfus Corporation acquired all of the outstanding shares of the Company and adopted the name Dreyfus Life Insurance Company (“Dreyfus”). In 1993, the Company was purchased by AUSA Life Insurance Company, a Maryland domiciled insurer and an indirect subsidiary of AEGON US Holding Corporation (“AEGON US”), and the Company adopted the name AUSA Life Insurance Company, Inc.

In December 1993, the Company entered into an indemnity reinsurance agreement with the Mutual Life Insurance Company of New York (“MONY”), whereby MONY ceded on a 100% coinsurance basis \$2,733,787,100 of its general account liabilities relating to fixed and variable annuities. On December 31, 1993, MONY transferred the general account assets to the Company at market value which consisted of \$1,045,010,955 of mortgage loans, \$1,486,230,389 of bonds, \$199,894,462 of short-term investments and \$40,549,857 of accrued investment income. In 1994, the Company assumed an additional \$3.4 billion of separate account assets and liabilities from MONY.

In July 1996, International Life Investors Insurance Company (“ILI”), an affiliated domestic insurer, was merged into the Company. At the effective date of the merger ILI had assets of approximately \$698,000,000, and capital and paid in and contributed surplus of \$55,544,000.

On October 1, 1998, pursuant to an Agreement and Plan of Merger, First Providian Life and Health Insurance Company (“First Providian”) was merged into the Company. At the effective date of the merger First Providian had assets of approximately \$441,535,114 and capital and paid in and contributed surplus of \$93,688,688.

In December 2002, a capital contribution in the amount of \$130,000,000 was made to the Company by First AUSA Life Insurance Company.

Effective April 1, 2003, Transamerica Life Insurance Company of New York (“TONY”) was merged into the Company. At the effective date of the merger TONY had assets of approximately \$1,915,484,591 and capital and paid in and contributed surplus of \$91,262,130. Immediately following the merger, the Company adopted the name Transamerica Financial Life Insurance Company.

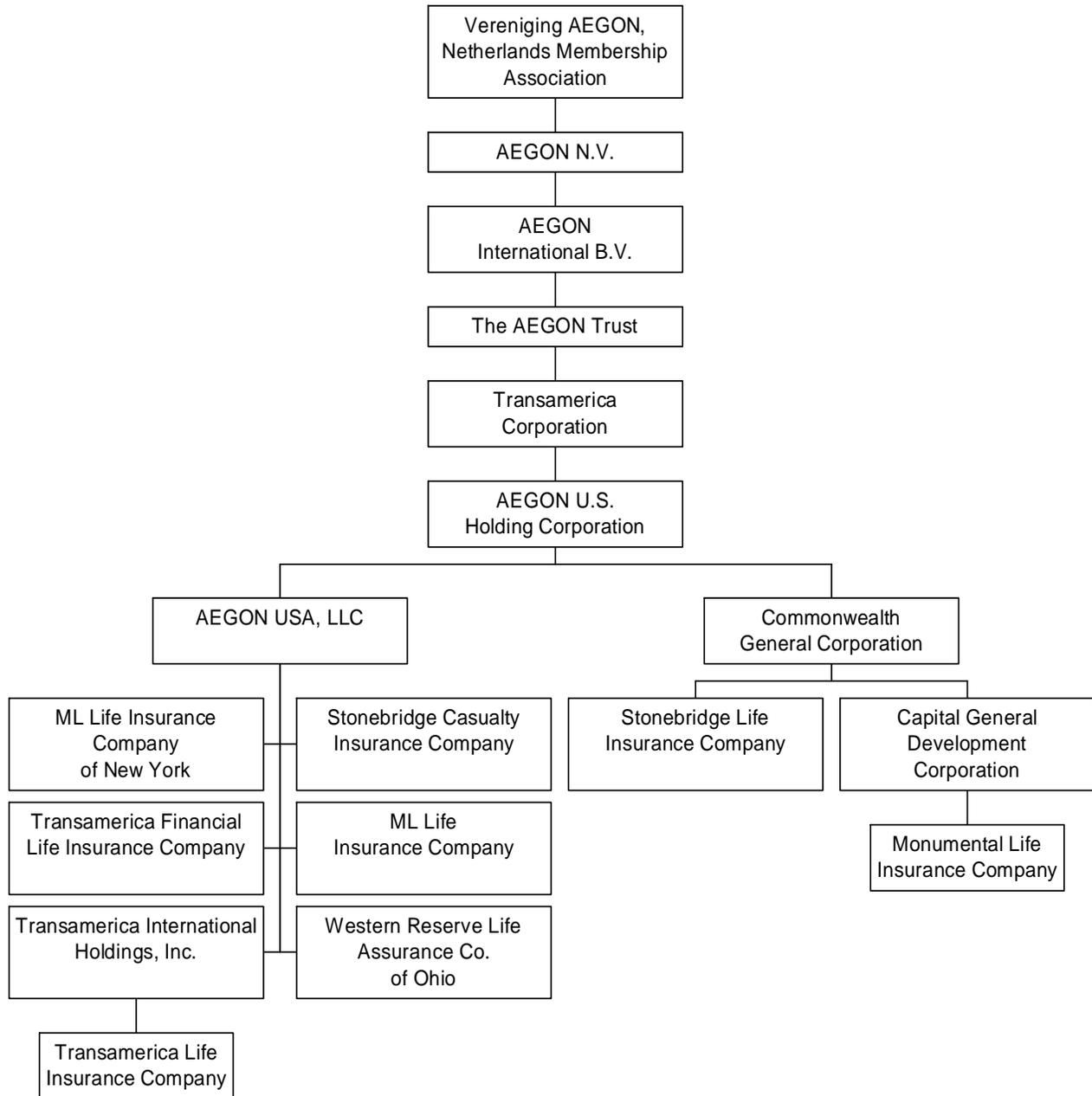
As a result of the above, the Company had \$2,058,250 of common capital stock and \$849,459,578 of gross paid in and contributed surplus as of December 31, 2009.

B. Holding Company

The Company’s outstanding shares of preferred and common stock are 87.4% owned by AEGON USA, LLC. (“AEGON”), domiciled in Iowa, and 12.6% owned by Transamerica Life Insurance Company (“TLIC”), an Iowa insurance company. The ultimate parent of the Company is Vereniging AEGON, a Netherlands based multinational financial services membership association.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2009 follows:



D. Service Agreements

The Company had 18 service agreements in effect with affiliates during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/(Expense)* For Each Year of the Examination
Administrative and Advisory File # 20399C This agreement 20399C is replaced by below agreement #40305 Administrative and Advisory File #40305	12/31/93 5/1/08	AEGON USA Realty Advisors, Inc	The Company	Services pertaining to real estate and mortgage loan assets	2006 (\$ 3,078,674) 2007 (\$ 3,860,032) 2008 (\$ 3,605,011) 2009 (\$ 2,865,011)
Service Agreement File # 20399C	12/31/93	Diversified Investment Advisors, Inc.	The Company	Retirement plan administration, plan/participant data maintenance, promotion, banking relations, separate accounts and data processing.	2006 (\$37,900,988) 2007 (\$33,768,772) 2008 (\$38,169,377) 2009 (\$44,237,215)
Investment Management File # 23721 Amendment File # 34544 File #23721 & #34544 replaced by #37739 below Investment Management File #37739	07/01/96 10/06/05 7/1/07	AEGON USA Management, LLC	The Company	Investment management of mortgage backed securities, bonds, equities and cash.	2006 (\$12,910,274) 2007 (\$10,127,332) 2008 (\$ 8,430,039) 2009 (\$ 5,218,777)

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/(Expense)* For Each Year of the Examination
Service Agreement File # 22369A Amendment No. 1 File # 22369G	07/01/96 09/24/99	Monumental Life Insurance Company	The Company	Executive, data processing, policy related advisory, legal and actuarial advisory, claims processing and settlement, underwriting, marketing, policyholder, printing and administrative services.	2006 (\$ 3,252,871) 2007 (\$ 3,082,071) 2008 (\$ 3,002,161) 2009 (\$ 2,946,465)
Underwriting Agreement	01/02/97	Diversified Investors Securities Corp.	The Company	Underwriting for the sale of contracts	Amounts generated from this service agreement are reflected in the totals reported for the service agreement with DIA (File # 20399C)
Service Agreement File # 25019 First and Second Amendments File # 25019A	08/01/97 06/01/01	Transamerica Occidental Life Insurance Company	The Company	Product development and installation, training, administrative, agent licensing, record keeping, new business processing, customer service, accounting, and underwriting.	2006 (\$ 1,904,480) 2007 (\$ 627,881) 2008 (\$ 2,738,350) 2009 (\$ 3,302,430)
Service Agreement File # 25139 Amendment No 1 File # 36005	10/01/97 5/1/07	Diversified Financial Products Inc.	The Company	Accounting, data processing, policy related advisory, benefits, underwriting, marketing, policyholder, printing and related services.	2006 (\$ 453,248) 2007 (\$ 502,347) 2008 (\$ 462,044) 2009 (\$ 534,337)
Service Agreement File # 26568 Amendment No. 1 File # 27482	03/25/99 03/07/00	Western Reserve Life Assurance Co. of Ohio	The Company	General advisory, accounting, data processing, policy related advisory, professional, claims, underwriting, marketing, policyholder service, printing and related services.	2006 (\$ 1,325,144) 2007 (\$ 1,436,050) 2008 (\$ 910,793) 2009 (\$ 1,695,912)

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/(Expense)* For Each Year of the Examination
Service Agreement File # 28886 .	09/01/00	Transamerica Life Insurance and Annuity Company	The Company	General advisory, accounting, data processing, policy related advisory, legal, benefit underwriting, marketing, policyholder, claims, printing and administrative	2006 (\$ 1,543,525) 2007 (\$12,605,360) 2008 (\$25,077,699) 2009 (\$30,731,912)
Service and Administration Agreement File # 29014	09/30/00	Transamerica Occidental Life Insurance Company	The Company	Management and administration of reinsurance contracts.	2006 (\$ 7,968,069) 2007 (\$11,463,929) 2008 (\$ 7,448,233) 2009 (\$ 5,301,648)
Service Agreement File # 33199 Amendment No. 1 File # 33199A Shared Services & Expense Allocation Schedule File #34217 Amendment No. 2 replaced ASFG with TCI File #37420 Amendment No. 3 File # 37420A . Amendment No. 4 File# 37420B	01/25/05 04/01/05 10/6/05 5/1/07 11/1/07 5/1/08	AFSG Securities Corporation	The Company	Distribution and underwriting services	2006 (\$ 435,865) 2007 (\$ 619,642) 2008 (\$6,342,893) 2009 (\$4,768,014)
Service Agreement File # 25885A Addendum to Agreement File # 25885B	08/01/03 05/01/04	Monumental Life Insurance Company	The Company	Accounting, claims processing and settlement, underwriting and marketing services. (Replaced File #25885)	2006 (\$1,696,103) 2007 (\$3,327,274) 2008 (\$3,602,811) 2009 (\$4,856,823)

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/(Expense)* For Each Year of the Examination
Service Agreement File # 29777	03/01/02	Monumental Life Insurance Company	The Company	Accounting, data processing, claims, underwriting, marketing and policyholder services to the Company's "premier block of business".	2006 (\$ 613,747) 2007 (\$ 492,858) 2008 (\$ 404,702) 2009 (\$ 1,456,737)
Service Agreement File # 22369B Amendment No. 1 File # 22369C	08/01/03 05/01/04	Transamerica Life Insurance Company	The Company	Accounting, data processing, claims, underwriting, marketing and policyholder services.	2006 (\$14,411,622) 2007 (\$17,382,383) 2008 (\$18,275,418) 2009 (\$14,956,442)
Investment Management Agreement File #41088	4/1/09	AEGON USA Investment Management, LLC	The Company	Activities in connection with Transamerica International Re (Bermuda) Ltd.	2009 (\$ 101,638)
Administrative Services Agreement File #38046 and #38047	2/1/08	Monumental Life Insurance Company	The Company	Administrative services	2008 (\$ 101,644) 2009 (\$ 126,130)
Service Agreement (replaced by below agreement) Distribution and Shareholder Services Agreement File #37876	05/1/2003 5/1/08	The Company	AFSG Securities Corporation Transamerica Capital Inc	Distribution and Shareholder services	2006 \$ 29,855 2007 \$ 96,723 2008 \$ 167,239 2009 \$ 277,092
Administrative Services Agreement Amendment and Novation of Administrative Services Agreement	1/1/2006 10/1/2007	The Company	Transamerica Fund Advisors, Inc.	Administrative Services Agreement	2006 \$ 554,825 2007 \$ 595,560 2008 \$ 681,609 2009 \$ 713,601

* Amount of Income or (Expense) Incurred by the Company

The Company participates in a federal income tax allocation agreement with its parent and affiliates.

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 21 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in March of each year. As of December 31, 2009, the board of directors consisted of 13 members. Meetings of the board are held quarterly.

The 13 board members and their principal business affiliation, as of December 31, 2009, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Elizabeth Belanger Sleepy Hollow, NY	Vice President, Senior Counsel Diversified Investment Advisors	2006
William Brown, Jr.* White Plains, NY	Executive Director Property Development & Management Co.	1995
William L. Busler* Solon, Iowa	Retired	1993
Joseph P. Carusone Norwalk, CT	Senior Vice President Diversified Investment Advisors	2004
Robert F. Colby Larchmont, NY	Vice President, Counsel & Assistant Secretary Transamerica Financial Life Insurance Company	2000
Steven E. Frushtick* Mamaroneck, NY	Partner Wiener, Frushtick & Straub	1993
Peter Kunkel Rockville Center, NY	Chairman of the Board, President Transamerica Financial Life Insurance Company	2002
James P. Larkin Port Washington, NY	Vice President & Assistant Secretary Transamerica Financial Life Insurance Company	2004
John Mallett Cedar Rapids, IA	Vice-President Transamerica Financial Life Insurance Company	2008
Ronald F. Mosher* Laguna Niguel, CA	Retired	2004
Peter P. Post* Armonk, NY	President 3P Consulting LLC	1993

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Colette F. Vargas Irvington, NY	Chief Actuary Transamerica Financial Life Insurance Co.	1996
Cornelis H. Verhagen Sarasota, Florida	Director; Past President AEGON Management Company	1993

* Not affiliated with the Company or any other company in the holding company system

On May 5, 2010, the Department approved a change to the Company's amended and restated by-laws and amended and restated charter reducing the number of directors from 13 to not less than seven nor more than 21. The by-laws and charter were revised in accordance with the recent changes in Section 1201 of the Insurance Law which permit a reduction in the minimum size of the board of directors of domestic insurance corporations from 13 (or nine for smaller companies) to seven and a reduction in the New York State residency requirements of the boards of domestic insurers from two to one.

The following directors were not re-elected on March 23, 2010: William L. Busler; Joseph P. Carusone; James P. Larkin; Ronald F. Mosher; and Cornelis H. Verhagen.

In December 2010, Robert F. Colby retired from the board and was replaced by Marc Cahn.

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2009:

<u>Name</u>	<u>Title</u>
Peter G. Kunkel	President and Chairman of the Board
Craig D. Vermie	Secretary and Corporate Counsel
Eric J. Martin	Controller
Colette F. Vargas	Chief Actuary

Carole Trostl is the designated consumer services officer per Section 216.4(c) of Department Regulation No. 64.

3. TERRITORY AND PLAN OF OPERATIONS

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in all 50 states and the District of Columbia. In 2009, 87% of life premiums, 91% of accident and health premiums, 94% of annuity considerations were received from New York State. Policies are written on a non-participating basis.

A. Statutory and Special Deposits

As of December 31, 2009, the Company had \$1.6 million (book value) of United States Treasury Notes on deposit with the State of New York, its domiciliary State, for the benefit of all policyholders, claimants and creditors of the Company. As reported in Schedule E of the 2009 filed annual statement and verified with confirmations, an additional \$2,050,072 (book value) was being held by the States of Arkansas, Georgia, Massachusetts, Missouri, New Mexico, North Carolina and Oklahoma.

B. Direct Operations

The Company functions through four operating divisions. The following are the Company's significant operating divisions as of December 31, 2009:

Life and Protection Division

Financial Partners – This business unit's target market includes lower income, middle income and high-net-worth individuals, families and businesses. The business unit markets through independent producers and broker-dealers as well as affiliated broker-dealers. The products include term life insurance, universal life insurance, indexed universal life insurance, variable life insurance and whole life insurance.

Monumental – This business unit targets families with annual household income between \$25,000 and \$75,000. The business unit provides traditional life insurance, supplemental health insurance and value-added services that address basic financial security needs such as final expenses, income replacement, education and mortgage protection and supplemental retirement income. The business unit markets through three distinct distribution channels: Career Agency, Independent Marketing Organizations and Pre-Need.

Direct Marketing Services (DMS) – This business unit uses a variety of direct response techniques such as direct mail, television, outbound and inbound telemarketing, point-of-sale, statement inserts and the internet to market products to the under-served middle market. The business unit offers consumers convenient alternatives for purchasing insurance. Its extensive insurance product portfolio includes whole and term life, accidental death, supplemental health and specialty products including travel, student health, disability and credit life insurance.

Long Term Care – This business unit markets long term care insurance products to policyholders who require care due to chronic illness or cognitive impairment. The business unit markets through the worksite, to groups and associations as well as individuals.

Individual Savings and Retirement Division

Transamerica Capital Management – This business unit markets fixed and variable deferred and immediate annuities. Distribution channels include independent producers, banks, broker-dealers and direct marketing.

Transamerica Retirement Management – This business unit markets through a team of financial advisors who are licensed registered representatives and investment advisors of Transamerica Financial Advisors, Inc., an affiliated registered broker-dealer. The

insurance products they may recommend include long term care insurance, life insurance and annuities administered by other operating divisions.

Employer Solutions and Pensions Division

Diversified Investment Advisors – This business unit markets defined benefit and defined contribution plans, including 401(k) and 403(b) (traditional and Roth); 457 deferred compensation; non-qualified deferred compensation; profit sharing; money purchase; cash balance and Taft Hartley plans; and traditional and Roth IRAs custom tailored to meet the needs of all organizations.

Transamerica Retirement Services – This division markets a wide range of products including 401(k), profit sharing, money purchase, defined benefit, cross-tested and multiple employer plans, and group annuities for terminating defined benefit plans to small and mid-sized businesses.

Worksite Marketing – This business unit markets voluntary health and life benefits to employer, union, and association-sponsored groups.

Reinsurance Division

Transamerica Reinsurance (TARe) – This division provides reinsurance products and services directly to ceding company clients rather than through brokers. TARe writes business through Iowa-based TLIC and New York-based TFLIC, as well as other affiliates within the holding company.

C. Reinsurance

As of December 31, 2009, the Company had reinsurance treaties in effect with 149 companies, of which 48 were authorized or accredited. The Company's life, accident and health business is reinsured on a coinsurance or yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$10,000,000. The total face amount of life insurance ceded as of December 31, 2009 was \$198,447,986,440, which represents 66.8% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies totaling \$1,302,516,992, was supported by letters of credit and trust agreements.

The total face amount of life insurance assumed as of December 31, 2009 was \$282,803,169,004.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth (decline) during the period under review:

	December 31, <u>2005</u>	December 31, <u>2009</u>	Increase (Decrease)
Admitted assets	<u>\$16,512,513,099</u>	<u>\$20,937,072,430</u>	<u>\$4,424,559,331</u>
Liabilities	<u>\$15,710,417,420</u>	<u>\$20,025,445,776</u>	<u>\$4,315,028,356</u>
Common capital stock	\$ 2,058,250	\$ 2,058,250	\$ 0
Preferred capital stock	441,750	441,750	0
Increase in admitted deferred tax assets pursuant to SSAP No. 10R	0	27,585,319	27,585,319
Surplus notes	0	150,000,000	150,000,000
Gross paid in and contributed surplus	600,099,844	849,459,578	249,359,734
Group Life Contingency reserve	1,520,258	0	(1,520,258)
Annuity mortality fluctuation reserve	2,005,909	3,753,499	1,747,590
Unassigned funds (surplus)	<u>195,969,668</u>	<u>(121,671,742)</u>	<u>(317,641,410)</u>
Total capital and surplus	<u>\$ 802,095,679</u>	<u>\$ 911,626,654</u>	<u>\$ 109,530,975</u>
Total liabilities, capital and surplus	<u>\$16,512,513,099</u>	<u>\$20,937,072,430</u>	<u>\$4,424,559,331</u>

The majority (59%) of the Company's admitted assets, as of December 31, 2009, was derived from Separate Accounts.

The Company's invested assets as of December 31, 2009, exclusive of separate accounts, were mainly comprised of bonds (84.9%), mortgage loans (10.3%), cash and short-term investments (2.3%) and other invested assets (1.2%)

The majority (92.1%) of the Company's bond portfolio, as of December 31, 2009, was comprised of investment grade obligations.

The following indicates, for each of the years listed below, the amount of life insurance issued and in force by type (in thousands of dollars):

<u>Year</u>	<u>Individual Whole Life</u>		<u>Individual Term</u>		<u>Group Life</u>	
	<u>Issued</u>	<u>In Force</u>	<u>Issued</u>	<u>In Force</u>	<u>Issued & Increases</u>	<u>In Force</u>
2005	\$600,132	\$5,443,479	\$1,058,217	\$269,526,601	\$72,813	\$ 603,998
2006	\$789,749	\$5,876,587	\$ 675,132	\$278,958,073	\$80,091	\$1,125,361
2007	\$785,377	\$6,441,627	\$ 722,325	\$284,650,860	\$44,518	\$1,090,842
2008	\$779,759	\$7,004,802	\$ 764,440	\$287,382,527	\$31,241	\$1,139,596
2009	\$767,571	\$7,380,209	\$1,783,811	\$287,768,952	\$59,270	\$1,071,279

The following has been extracted from the Exhibits of Annuities in the filed annual statements for each of the years under review:

	<u>Ordinary Annuities</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Outstanding, end of previous year	169,184	156,877	138,050	121,243	117,253
Issued during the year	149	221	204	11,445	9,049
Other net changes during the year	<u>(12,456)</u>	<u>(19,048)</u>	<u>(17,011)</u>	<u>(15,435)</u>	<u>(9,237)</u>
Outstanding, end of current year	<u>156,877</u>	<u>138,050</u>	<u>121,243</u>	<u>117,253</u>	<u>117,065</u>
	<u>Group Annuities</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Outstanding, end of previous year	9,929	10,638	11,653	20,309	20,561
Issued during the year	1,075	2,229	9,703	1,560	2,509
Other net changes during the year	<u>(366)</u>	<u>(1,214)</u>	<u>(1,047)</u>	<u>(1,308)</u>	<u>(1,085)</u>
Outstanding, end of current year	<u>10,638</u>	<u>11,653</u>	<u>20,309</u>	<u>20,561</u>	<u>21,985</u>

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Ordinary:				
Life insurance	\$16,624,845	\$ 28,657,062	\$ 8,920,551	\$ 22,724,442
Individual annuities	12,408,187	8,589,695	(340,565,013)	362,631,865
Supplementary contracts	<u>372,403</u>	<u>1,139,858</u>	<u>153,604</u>	<u>459,116</u>
Total ordinary	<u>\$29,405,435</u>	<u>\$ 38,386,615</u>	<u>\$(331,490,858)</u>	<u>\$385,815,423</u>
Credit life	\$ (5,099,556)	\$ (935,478)	\$ 5,706,690	\$ 5,919,688
Group:				
Life	\$ 2,781,984	\$ 2,674,127	\$ 7,410,543	\$ 295,171
Annuities	<u>72,210,373</u>	<u>73,421,312</u>	<u>33,258,598</u>	<u>52,841,153</u>
Total group	<u>\$74,992,357</u>	<u>\$ 76,095,439</u>	<u>\$ 40,669,141</u>	<u>\$ 53,136,324</u>
Accident and health:				
Group	\$ 1,707,699	\$ 1,435,164	\$ (39,021,446)	\$ 8,541,701
Credit	(1,048,821)	174,135	1,211,428	1,675,328
Other	<u>(1,784,044)</u>	<u>1,667,465</u>	<u>(1,137,766)</u>	<u>4,813,184</u>
Total accident and health	<u>\$ (1,125,166)</u>	<u>\$ 3,276,764</u>	<u>\$ (38,947,784)</u>	<u>\$ 15,030,213</u>
Total	<u>\$98,173,070</u>	<u>\$116,823,340</u>	<u>\$(324,062,811)</u>	<u>\$459,901,648</u>

The downturn in the economy contributed to the negative results in 2008. Annuity reserves increased by \$1.2 billion and can be attributed to several factors. A volatility assumption change on the guaranteed minimum withdrawal benefits ("GMWB") block of business increased reserves by \$442 million. Unfavorable market conditions, lower certificate of deposit rates, and competitor woes contributed to an increase in fixed annuity reserves of approximately \$700 million. The increase in fixed annuity reserves was offset by a comparable increase in fixed annuity premiums, so the increase in reserves due to the GMWBs is the primary cause of the negative results in the individual annuity line of business. The loss in the group accident and health line was attributable to a reinsurance transaction that transferred New York business that was formerly on the books of Stonebridge Life Insurance Company, an affiliate, to

TFLIC. TFLIC received reinsurance consideration of \$102,578,000, paid an initial expense allowance of \$77.2 million and established reserves of \$102.6 million, resulting in a pretax loss of \$77.2 million that has been included in the Summary of Operations as it was deemed an economic assumption reinsurance transaction.

In 2009, the Company experienced a decrease in considerations from the individual annuity line of business, from \$827 million in 2008 to \$584 million in 2009. The decrease in premiums was primarily attributable to a strategic decision by the Company to concentrate on fee-based business (variable annuities) rather than spread-based business (fixed annuities). As a result, fixed annuity sales decreased 90% in the business unit with the largest annuity production. This translated into an overall decrease in annuity premiums for the business unit of 64%. The Company also experienced a decrease in its total policyholder benefits from the individual annuity line of business from \$1.3 billion in 2008 to \$191 million in 2009. The main reason for the drop in policyholder benefits was that the increase in reserves decreased from \$987 million in 2008 to \$20 million in 2009. The year to year change in the increase in reserves was primarily the result of the improvement in the economy. With the economic environment improving, the reserves held for GMWB was significantly less in 2009 than in 2008. The net effect of the decrease in considerations and the change in the increase in reserves was the main cause of the Company's fluctuation in net income from 2008 to 2009.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2009, as contained in the Company's 2009 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2009 filed annual statement.

A. Independent Accountants

The firm of Ernst & Young ("E&Y") was retained by the Company to audit the Company's combined statutory basis statements of financial position of the Company as of

December 31st of each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

E&Y concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

B. Net Admitted Assets

Bonds	\$ 7,954,680,596
Stocks:	
Preferred stocks	3,037,280
Common stocks	8,650,252
Mortgage loans on real estate – first liens:	966,783,235
Cash, cash equivalents and short-term investments	215,352,426
Contract loans	59,654,368
Other invested assets	112,450,166
Derivatives	46,823,504
Investment income due and accrued	98,729,691
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	58,067,620
Deferred premiums, agents' balances and installments booked but deferred and not yet due	10,796,585
Accrued retrospective premiums	4,972,120
Reinsurance:	
Amounts recoverable from reinsurers	4,648,054
Other amounts receivable under reinsurance contracts	9,993,451
Current federal and foreign income tax recoverable and interest thereon	6,520,117
Net deferred tax asset	45,544,568
Guaranty funds receivable or on deposit	264,882
Receivables from parent, subsidiaries and affiliates	68,940,033
Account Receivable	24,280,068
Goodwill	2,016,428
Investment Receivables	617,033
From separate accounts, segregated accounts and protected cell accounts	<u>11,234,249,953</u>
Total admitted assets	<u>\$20,937,072,430</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$ 8,016,723,825
Aggregate reserve for accident and health contracts	110,686,584
Liability for deposit-type contracts	160,092,622
Contract claims:	
Life	70,360,593
Accident and health	15,678,876
Premiums and annuity considerations for life and accident and health contracts received in advance	820,932
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	2,750,086
Interest maintenance reserve	52,357,778
Commissions to agents due or accrued	1,686,160
Commissions and expense allowances payable on reinsurance assumed	11,243,754
General expenses due or accrued	570,859
Transfers to separate accounts due or accrued	15,477,110
Taxes, licenses and fees due or accrued, excluding federal income taxes	4,151,413
Unearned investment income	1,436,398
Amounts withheld or retained by company as agent or trustee	6,379,082
Amounts held for agents' account	818,366
Remittances and items not allocated	142,534,371
Miscellaneous liabilities:	
Asset valuation reserve	88,989,294
Reinsurance in unauthorized companies	3,717,922
Funds held under reinsurance treaties with unauthorized reinsurers	221,739
Payable to parent, subsidiaries and affiliates	26,479,730
Payable for securities	55,072,966
Amount incurred under modified coinsurance agreements	432,441
Synthetic GICs	1,000,000
Derivatives	10,214,320
From Separate Accounts statement	<u>11,225,548,555</u>
 Total liabilities	 <u>\$20,025,445,776</u>
 Common capital stock	 \$ 2,058,250
Preferred capital stock	441,750
Increase in admitted deferred tax assets pursuant to SSAP No. 10R	27,585,319
Surplus notes	150,000,000
Gross paid in and contributed surplus	849,459,578
Annuity mortality fluctuation reserve	3,753,499
Unassigned funds (surplus)	<u>(121,671,742)</u>
Surplus	\$ <u>909,126,654</u>
Total capital and surplus	\$ <u>911,626,654</u>
 Total liabilities, capital and surplus	 <u>\$20,937,072,430</u>

D. Condensed Summary of Operations

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Premiums and considerations	\$2,587,366,158	\$3,539,451,665	\$4,597,322,831	\$4,328,524,418
Investment income	427,614,120	433,200,201	469,020,070	507,863,984
Net gain from operations from Separate Accounts	290,455	440	(181)	57
Commissions and reserve adjustments on reinsurance ceded	52,191,441	59,818,278	58,708,070	56,903,448
Miscellaneous income	<u>92,214,103</u>	<u>96,809,863</u>	<u>112,809,866</u>	<u>93,793,897</u>
 Total income	 <u>\$3,159,676,277</u>	 <u>\$4,129,280,447</u>	 <u>\$5,237,860,656</u>	 <u>\$4,987,085,804</u>
 Benefit payments	 \$3,141,361,983	 \$3,086,631,090	 \$3,149,309,142	 \$2,632,095,948
Increase in reserves	(66,538,291)	157,034,686	1,302,229,708	137,284,492
Commissions	130,659,429	127,353,855	155,498,032	139,329,819
General expenses and taxes	92,723,782	107,737,319	132,796,738	128,119,669
Increase in loading on deferred and uncollected premiums	21,300	(119,179)	176,365	(228,208)
Net transfers to (from) Separate Accounts	(279,236,172)	456,130,208	877,216,379	1,367,434,330
Miscellaneous deductions	<u>15,035,983</u>	<u>41,335,703</u>	<u>20,793,651</u>	<u>31,681,361</u>
 Total deductions	 <u>\$3,034,028,014</u>	 <u>\$3,976,103,682</u>	 <u>\$5,638,020,015</u>	 <u>\$4,435,717,411</u>
 Net gain (loss)	 \$ 125,648,263	 \$ 153,176,765	 \$ (400,159,359)	 \$ 551,368,393
Dividends	0	6,352	2,696	16,939
Federal and foreign income taxes incurred	<u>27,475,191</u>	<u>36,347,073</u>	<u>(76,099,244)</u>	<u>91,449,806</u>
 Net gain (loss) from operations before net realized capital gains and losses	 \$ 98,173,072	 \$ 116,823,340	 \$ (324,062,811)	 \$ 459,901,648
Net realized capital gains (losses)	<u>(4,906,456)</u>	<u>7,936,934</u>	<u>27,212,091</u>	<u>(185,002,939)</u>
 Net income	 <u>\$ 93,266,616</u>	 <u>\$ 124,760,274</u>	 <u>\$ (296,850,720)</u>	 <u>\$ 274,898,709</u>

E. Capital and Surplus Account

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Capital and surplus, December 31, prior year	\$802,095,679	\$888,076,995	\$ 813,294,926	\$806,474,056
Net income	\$ 93,266,616	\$124,760,274	\$(296,850,720)	\$274,898,709
Change in net unrealized capital gains (losses)	(368,628)	12,415,028	134,817,330	(129,136,595)
Change in net unrealized foreign exchange capital gain (loss)	0	10,530	(20,007)	(3,159)
Change in net deferred income tax	17,113,083	(21,027,101)	29,446,722	(26,444,220)
Change in non-admitted assets and related items	(11,352,084)	32,371,995	18,680,007	(48,155,095)
Change in liability for reinsurance in unauthorized companies	(1,362,764)	(13,594,221)	(6,667,978)	22,416,809
Change in reserve valuation basis	0	0	(42,622,162)	4,576,993
Change in asset valuation reserve	(10,516,230)	(10,695,070)	17,288,271	(5,098,211)
Surplus (contributed to), withdrawn from				
Separate Accounts during period	1,635,435	440	(248,500)	(21,763)
Other changes in surplus in Separate Accounts statement	(1,858,087)	2,582,213	15,257,327	(9,256,757)
Change in surplus notes	0	0	150,000,000	0
Cumulative effect of changes in accounting principles	(40,287)	0	0	(5,198,406)
Surplus adjustments:				
Paid in	2,030,291	(610,835)	247,955,982	(15,704)
Change in surplus as a result of reinsurance	(995,322)	(995,322)	(995,322)	(995,322)
Dividends to stockholders	0	(200,000,000)	(300,000,000)	0
Contributed Surplus related to stock appreciation rights plan of indirect parent	(1,570,707)	0	0	0
Increase in admitted deferred tax assets pursuant to SSAP No. 10R	0	0	0	27,585,319
Correction of an error-GWMB reserves	0	0	38,456,527	0
Correction of interest on taxes	0	0	367,883	0
Changes in deferred premiums associated with reserve valuation change	0	0	(11,686,230)	0
Net change in capital and surplus for the year	\$ 85,981,316	\$ (74,782,069)	\$ (6,820,870)	\$105,152,598
Capital and surplus, December 31, current year	\$888,076,995	\$813,294,926	\$ 806,474,056	\$911,626,654

6. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the recommendation contained in the prior report on examination, with respect to financial matters, and the subsequent actions taken by the Company in response to the citation:

<u>Item</u>	<u>Description</u>
A	<p>The examiner recommended that the Company review all its agreements with affiliates and formally withdraw any agreements that are no longer in use.</p> <p>The Company reviewed its agreements and has implemented standards to ensure that only the active agreements are maintained.</p>

Respectfully submitted,

_____/s/_____
Phares Caton
Associate Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Phares Caton, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/s/_____
Phares Caton

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 30463

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, JAMES J. WRYNN, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

PHARES CATON

as a proper person to examine into the affairs of the

TRANSAMERICA FINANCIAL LIFE INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 7th day of January, 2010



JAMES J. WRYNN
Superintendent of Insurance

James J. Wrynn
Superintendent