AEGON NV
Form 20-F
March 22, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 20-F

-

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from__________to__________

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-10882

-

Aegon N.V.

(Exact name of Registrant as specified in its charter)

-

Not Applicable

(Translation of Registrant s name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

Aegonplein 50, PO Box 85, 2501 CB The Hague, The Netherlands

(Address of principal executive offices)

D. D. Button

Executive Vice-President

Aegon N.V.

Aegonplein 50, 2501 CB The Hague, The Netherlands

+31-70-3448334

Darryl.Button@aegon.com

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common shares, par value EUR 0.12 per share	**New York Stock Exchange**

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Not applicable

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Not applicable

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report: 1,909,654,051 common shares

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

x Yes No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ¨ Yes No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. x Yes No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer

Indicate by checkmark which basis of accounting the registrant has used to prepare the financial statements included in this filing

¨ U.S. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other

If other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

¨ Item 17 ¨Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes No x

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Introduction

Filing

This document contains Aegon s Annual Report 2012 and will also be filed as Aegon s Annual Report on Form 20-F with the United States Securities and Exchange Commission (SEC).

About this report

This report serves as Aegon s Annual Report prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (IFRS), and with Part 9 of Book 2 of the Dutch Civil Code for the year ended December 31, 2012, for Aegon N.V. (the company) and its subsidiaries (collectively known as Aegon). This report presents the Consolidated Financial Statements of Aegon (pages 132-286) and the Parent Company Financial Statements of Aegon (pages 290-304). Cross references to Form 20-F are set out on pages I-II of this report.

Presentation of certain information

Aegon N.V. is referred to in this document as Aegon, or the company. Aegon N.V. together with its member companies are referred to as the Aegon Group. For such purposes, member companies means, in relation to Aegon N.V., those companies that are required to be consolidated in accordance with legislative requirements of the Netherlands relating to consolidated accounts.

References to the NYSE are to the New York Stock Exchange and references to the SEC are to the Securities and Exchange Commission. Aegon uses EUR and euro when referring to the lawful currency of the member states of the European Monetary Union; USD, and US dollar when referring to the lawful currency of the United States of America; GBP , UK pound and pound sterling when referring to the lawful currency of the United Kingdom; CAD and Canadian dollar whe referring to the lawful currency of Canada; PLN when referring to the lawful currency of Poland; CNY when referring to the lawful currency of the People s Republic of China; RON when referring to the lawful currency of Romania; HUF when referring to the lawful currency of Hungary; TRY when referring to the lawful currency of Turkey and CZK when referring to the lawful currency of Czech Republic.

Aegon prepares its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code for purposes of reporting with the U.S. Securities and Exchange Commission (SEC), including financial information contained in this Annual Report on Form 20-F. Aegon s accounting policies and its use of various options under IFRS are described in note 2 to the consolidated financial statements.

Other than for SEC reporting, Aegon prepares its Annual Accounts under International Financial Reporting Standards as adopted by the European Union, including the decisions Aegon made with regard to the options available under International Financial Reporting Standards as adopted by the EU (IFRS-EU). IFRS-EU differs from IFRS in respect of certain paragraphs in IAS 39 Financial Instruments: Recognition and Measurement regarding hedge accounting for portfolio hedges of interest rate risk. Under IFRS-EU, Aegon applies fair value hedge accounting for portfolio hedges of interest rate risk (fair value macro hedges) in accordance with the EU carve out version of IAS 39. Under IFRS, hedge accounting for fair value macro hedges cannot be applied to mortgage loans and ineffectiveness arises whenever the revised estimate of the amount of cash flows in scheduled time buckets is either more or less than the original designated amount of that bucket.

This information is prepared by reversing the hedge accounting impacts that are applied under the EU carve out version of IAS 39. Financial information under IFRS accordingly does not take account of the possibility that had Aegon applied IFRS as its primary accounting framework it might have applied alternative hedge strategies where those alternative hedge strategies could have qualified for IFRS compliant hedge accounting. These decisions could have resulted in different shareholders equity and net income amounts compared to those indicated in this Annual Report on Form 20-F.

A reconciliation between IFRS-EU and IFRS is included in note 2.1 to the consolidated financial statements.

Letter of the CEO

There has never been a better time - or a greater need - for Aegon s core business of helping people achieve long-term financial security and peace of mind. I am therefore pleased to report that during 2012 we made meaningful progress in transforming Aegon s ability to better understand the needs of our customers.

Faced with lingering uncertainty over the current economic environment, individuals and families seek broader options in managing their finances and planning for retirement - not only with regard to the solutions available, but in how they access them. At the same time, both our current and future customers increasingly demand new ways of interacting with us, and with the ease that online technology makes possible in their many other commercial and social interactions. They also bring greater scrutiny to the products and services we provide - and are readily aware of alternatives available elsewhere. They expect higher levels of service, clearer communications and the assurance that the products we provide them actually address the specific needs they have identified. We believe these circumstances present a tremendous opportunity for Aegon, but they require that we change the way we think about and manage our business.

It is for these reasons that we have embarked on a journey to get much closer to the people who depend on us. During the past year, our management has taken a number of decisive steps to realign our businesses and improve our interactions with customers. These include working to re-establish and strengthen their trust; working to leverage the potential of digital technology to provide greater customer access, better service and a distinctive, positive experience, and at the same time, working to create greater simplicity and transparency in our products and services. Clear examples of how our customer-centric approach is being integrated in all parts of our businesses include involving actual customers in rewriting marketing brochures and correspondence so that they are easily understood by all customers, simplifying back-office systems, introducing new products and online distribution channels and using social media to strengthen customer relationships and Aegon s brand identity. We have also engaged Aegon employees through in-depth discussions about the basis of our strategy to ensure broad understanding and a clear view for how each and every person can contribute to our ambitions. We recognize the essential role our employees play in creating the level of customer loyalty that will distinguish Aegon as a leader in each of our markets. Consequently, we are committed to providing the training and tools necessary for personal and professional development, as well as fostering a culture of innovation whereby new ideas and approaches have the opportunity to be heard and implemented.

Aegon is today a company transformed by the actions we have taken to realign our entire organization to a very simple objective: putting the customer first in everything we do, as well as how we do it. In the Americas, the United Kingdom and the Netherlands we have been working to streamline our operations in order to improve our ability to respond to market opportunities. In these established markets, we are committed to further leveraging our strong capabilities to address the needs of the at-retirement population, those looking to retire in a few short years and needing to make provisions for a steady income during retirement. Given the continued shift in responsibilities of retirement security from governments and employers to individuals - and with people living longer than at any other time in history - we are determined to fully exploit our expertise in providing the long-term financial guarantees which create the possibility for a retirement with confidence and dignity.

Within our newer markets in Asia, Central & Eastern Europe and Latin America, we are making steady progress in building sustainable businesses, as well as strengthening and developing new approaches in digital distribution. In these markets the potential for protection and savings products is significant, and we intend to serve a larger share of the developing need.

Ensuring that our ability to keep the promises we make to our customers is never in doubt, we have substantially improved Aegon s risk profile, while maintaining a strong balance sheet and capital position - advantages that have served us well in the continuing economic turmoil. With interest rates at historic lows, we have repriced certain products, lowered guarantees of others, and ceased selling those that no longer offer value for our customers or reflect our risk-return discipline. We have likewise maintained a sharp focus on reducing our costs, recognizing that in this new environment we must now compete with non-traditional providers who increasingly sell financial products online or through retail outlets, and typically with a much lower cost base. Moreover, reducing costs is essential to our ability not only to improve the returns generated by our businesses, but on the capital our shareholders continue to provide.

During the course of 2012, we have further strengthened our broader commitments to society and defined additional criteria for measuring our performance, beyond financial metrics.

Last year, we joined other leading insurance companies in signing the United Nations Principles for Sustainable Insurance. These four principles aim to incorporate sustainability measurers into the day-to-day management of business operations and we have established clear targets reflecting our commitment to them. In addition, we have developed a new Responsible Investment Policy to ensure that as a substantial investor we also take environmental, economic, social and governance factors into account - in addition to financial performance - when making decisions to invest in other companies.

Our ambition has not changed - it is to be a leader in all our chosen markets. This does not necessarily mean being the largest provider, though sufficient scale is necessary to offer products at competitive prices and also attract the most talented employees. Ultimately, we define leadership as being the most recommended by customers, by business partners and our intermediaries - and, equally important - being the most preferred employer in our sector.

On behalf of our management team, I wish to thank our talented and dedicated colleagues around the world who each day commit themselves to delivering on our promises, improving our operations and making a positive difference in the communities in which they

work and live. They have been responsible for changing Aegon for the better during these past several years and continue to be our greatest advantage in competing successfully in the new environment which is redefining our business.

We are likewise grateful for the continued confidence of our many other stakeholders and pledge our determined efforts to further justify that confidence, while creating the long-term value that they, and all who entrust us with their financial security needs, have every reason to expect.

Alex Wynaendts

Chief Executive Officer and Chairman

of the Executive Board of Aegon N.V.

Composition of the Executive Board and the Management Board

Alexander R. Wynaendts (1960, Dutch)

Chief Executive Officer

Chairman of the Executive Board

Chairman of the Management Board

Alex Wynaendts began his career in 1984 with ABN AMRO Bank, working in Amsterdam and London in the Dutch bank s capital markets, asset management, corporate finance and private banking operations. In 1997, Mr. Wynaendts joined Aegon as Senior Vice President for Group Business Development. Since 2003, he has been a member of Aegon s Executive Board, overseeing the company s international growth strategy. In April 2007, Mr. Wynaendts was named Aegon s Chief Operating Officer. A year later, he became CEO and Chairman of Aegon s Executive and Management Boards.

Jan J. Nooitgedagt (1953, Dutch)

Chief Financial Officer

Member of the Executive Board

Member of the Management Board

Jan Nooitgedagt has worked in Europe s financial services sector for over 30 years. Formerly with PWC, he joined Ernst & Young in 1980, becoming a partner in the firm in 1989. Mr. Nooitgedagt headed Ernst & Young s financial services business in the Netherlands for five years until his appointment in 2005 to the firm s Executive Committee. A year later, Mr. Nooitgedagt was appointed Chairman of Ernst & Young in the Netherlands and became Managing Partner for the Netherlands and Belgium in July 2008. He was appointed member of Aegon s Executive Board and Chief Financial Officer in April 2009. Mr. Nooitgedagt will retire at the end of his current term (May 2013), in line with Aegon s retirement arrangements for Executive Board members. Mr. Nooitgedagt is a member of the Supervisory Board of Bank Nederlandse Gemeenten N.V. (not listed) and Chairman of the Supervisory Board of Nyenrode Foundation (not listed).

Adrian Grace (1963, British)

Member of the Management Board

Chief Executive Officer of Aegon UK

Adrian Grace built his career at GE Capital, where he held a variety of business development roles including periods based in the US and Far East. Mr. Grace also held managing director roles at Sage Group, HBoS and Barclays Insurance, and is a member of the Board of Scottish Financial Enterprise and the Association of British Insurers. Mr. Grace was appointed Chief Operating Officer of Aegon UK in February 2010, and then CEO in March 2011. He was appointed to Aegon s Management Board in 2012.

Tom Grondin (1969, Canadian)

Member of the Management Board

Chief Risk Officer of Aegon N.V.

Tom Grondin began his career working in various positions in Canadian insurance companies. In 1997 he moved to the United States to take up a position at Tillinghast-Towers Perrin as a consultant. Mr. Grondin joined Aegon in 2000 as Director of Product Development and Risk Management and was later promoted to Chief Actuary of Aegon USA s Institutional Markets operating unit. Mr. Grondin was appointed Chief Risk Officer of Aegon N.V. in August 2003 and a member of Aegon s Management Board on January 1, 2013.

Marco B.A. Keim (1962, Dutch)

Member of the Management Board

Chief Executive Officer of Aegon the Netherlands

Marco Keim began his career with accountants Coopers & Lybrand/Van Dien. Mr. Keim has also worked for aircraft manufacturer Fokker Aircraft and NS Reizigers, part of the Dutch railway company, NS Group. In 1999, he joined Swiss Life in the Netherlands as a member of the Board. Three years later, Mr. Keim was appointed CEO. In June 2008, he became CEO of Aegon the Netherlands and a member of Aegon s Management Board.

Gábor Kepecs (1954, Hungarian)

Member of the Management Board

Chief Executive Officer of Aegon Central & Eastern Europe

Gábor Kepecs began his career with the Hungarian government before joining former state-owned insurance company Állami Biztosító. In 1990, he was appointed CEO, two years before Állami Biztosító was privatized and acquired by Aegon. Between 1992 and 2009, Mr. Kepecs was the CEO of Aegon Hungary. In that time, he has headed the expansion of Aegon s businesses not only in Hungary but also across the Central & Eastern European region. Mr. Kepecs has been a member of Aegon s Management Board since it was established in 2007.

Mark Mullin (1963, American)

Member of the Management Board

Chief Executive Officer of Aegon Americas

Mark Mullin has spent more than 20 years with Aegon in various management positions in both the United States and Europe. Mr. Mullin has served as President and CEO of one of Aegon s US subsidiaries, Diversified, and as head of the company s annuity and mutual fund businesses. In January 2009, he was named President of Aegon Americas and he became President and CEO of Aegon Americas and a member of the Management Board one year later.

Aegon s strategy

Aegon is an international provider of life insurance, pensions and asset management products, with businesses in more than 20 markets in the Americas, Europe and Asia and EUR 458 billion in revenue-generating investments. Aegon employs over 24,000 people, who serve millions of customers across the globe.

Aegon s ambition is to become a leader in all its chosen markets by 2015. This means becoming the most recommended life and pensions provider among customers, the preferred partner among distributors, and the employer of choice for both current and prospective employees. Aegon is focused on reshaping its business, forging new direct relationships and earning customers trust.

Since the 2008 financial crisis, Aegon has undergone a significant financial transformation, including rationalizing its portfolio (for example divestment of its reinsurance business in the United States and Guardian in the United Kingdom), major cost restructurings in its main markets and running-off or de-emphasizing several of its US-based businesses, due to the historically low interest rate environment. In 2011, Aegon completed full repayment of the capital support provided by the Dutch government at the beginning of the financial crisis.

These actions have enabled Aegon to achieve a solid financial position and deal effectively with the persistent market uncertainty, while reshaping its businesses to better serve the developing and varied needs of its customers seeking long-term financial security. During 2012, Aegon continued its divestment of non-core businesses, while capturing new business opportunities and further strengthening business prospects in its main markets. This includes increasing earnings generated from fee-based business (versus earnings derived from spread business dependent on interest rate spreads) as one of the key elements of the company s strategy to reduce its exposure to financial markets.

Market conditions

The global economy weakened over the course of 2012. The United States continued its moderate recovery, however, the eurozone dropped back into recession.

The US growth rate of approximately 2% compares favorably to Western Europe. However, it is seen as too weak to significantly improve labor market conditions. To support economic growth the Federal Reserve in September 2012 announced its third quantitative easing program. Furthermore, the Federal Reserve stated its intention to keep the Federal funds rate near zero until at least mid-2015. Toward the end of 2012, further economic uncertainty arose over the legislative budget impasse in the United States and the prospect of the fiscal cliff. This refers to automatic austerity measures of roughly 5% of the Gross

Domestic Product being enacted in the event that Congress and the Administration are unable to reach agreement on measurers to address the sizeable budget deficit. A positive development in 2012 was the early improvement experienced in the US housing market.

In Europe, economic growth deteriorated due to the eurocrisis and the severe austerity measures being implemented. Greece, Italy, Portugal and Spain all experienced deep recessions, but other countries were also negatively affected. The German economy grew by approximately 1%, France experienced stagnant growth, while the United Kingdom, the Netherlands and the southern peripheral economies were in a state of recession. Growth also slowed in Central & Eastern Europe, Asia and Latin America. The emerging markets were adversely impacted by a combination of effects from the advanced economies and unfavorable domestic developments.

At the start of 2012, spreads on peripheral bonds decreased due to large liquidity operations by the European Central Bank (ECB). The positive sentiment proved to be short-lived. Toward the summer, the eurocrisis deepened as financial market pressures intensified, especially with respect to Spain, and to a lesser extent to Italy. The deepening of the crisis necessitated additional policy measures at national and European level. National authorities expanded their austerity programs. The European Council started negotiations on the banking union and agreed on broadening of the European Stability Mechanism (ESM) mandate. Mario Draghi, the president of the ECB, pledged to do whatever it takes to save the euro and the ECB announced the possibility to undertake so-called Outright Monetary Transactions (OMTs), through which it can purchase government securities of countries requesting assistance from the European Financial Stability Facility /ESM. The eurozone members progressed toward a solution for troubled Greece. The combination of measures resulted in a significant easing of market pressures.

The safe haven German 10-year interest rates dropped to below 1.2% at the height of the eurozone crisis. With the easing of market pressures, interest rates increased somewhat, but remain at very low levels. At the short end of the yield curve, German interest rates remained close to, or below, zero.

The deepening of the eurocrisis resulted in a weakening of the euro against the US dollar, which was reversed with the easing of the crisis. The euro ended the year at approximately the same level against the US dollar as at the beginning of 2012.

Despite the difficult economic environment and a drop over the second quarter of 2012, the main equity markets ended the year higher than at the beginning of the year.

The easing of financial market conditions is a welcome development. However, the continuing fragile economic environment, the large degree of uncertainty and, especially the low interest rate environment, remain challenges going forward. It would be helpful if, in 2013, further progress is made in resolving the broad range of macroeconomic difficulties and the outlook for economic growth improves.

Long-term industry trends

The life insurance and pensions industry is still going through a period of significant change, with increasing and changing customer demands and the resulting impact of new digital technologies. Moreover, the industry will continue to face further regulatory reforms and changing capital requirements under Solvency II.

These conditions notwithstanding, there are several factors creating significant growth potential for Aegon s businesses:

- **People are living longer, healthier lives.** In many countries, people are spending longer in retirement than before, and there is a growing demand for life insurance, private pensions and long-term investment products.
- **Reduced safety net.** Fewer economically active people fund the traditional safety net of pay-as-you-go state pensions. As a result, governments, particularly in Europe, are under pressure to reform pension systems. At the same time, individuals increasingly rely on private sector providers to help them finance their retirement. The private sector providers are well-positioned to offer this service, while facing the challenge of low interest rates and volatile equity market returns.
- **Customer behavior is changing.** Customers are more aware of financial risk and consequently demand simpler, more transparent products with clear financial guarantees. At the same time, public trust in the financial sector has diminished. Governments are introducing new regulations to protect consumers while there is increasing pressure for the industry to become more customer-centric.
- **Distribution patterns are changing due to new technology and changes in the regulatory environment.** Customers are increasingly using the internet and social media to identify, research and purchase financial products. In some countries, this has led to the emergence of new competitors using online distribution models, or non-traditional suppliers such as supermarkets and retailers. Established providers are under increasing pressure to reduce costs and adapt their distribution mix. Tighter government regulation to reduce commission-based selling (for example the Retail Distribution Review in the United Kingdom, new regulation in the Netherlands) will lead to changes in business models across the industry.
- **Emerging markets are becoming more important**. Economic growth and political reform have opened up new markets in Central & Eastern Europe, Asia and Latin America. In these markets, a new and ambitious middle class is emerging, creating an increased demand for life insurance, pensions and asset management products and services. Given that these fast-growing markets have the lowest life insurance penetration, the potential in these markets is substantial. China and India account for 40% of the world s population, but currently only 8% of the global life insurance market.

Aegon s strategy

Aegon s purpose is to help people take responsibility for their financial future. The company focuses on offering understandable products and services in the protection, savings and retirement market. Aegon has successfully transformed its risk profile, strengthened its capital base and simultaneously reduced its overall cost base. As a result, Aegon is now well-positioned to meet the rapidly changing demands of aging populations and an increasingly affluent developing world.

Aegon s services have never been more needed, **yet it is still adapting to the new reality.** The company is actively identifying new and growing market opportunities, as well as working to better understand the essential financial needs of all its customers, while adjusting products and services accordingly. Simultaneously, it is transforming itself further to compete in the new environment and respond effectively to new competitors and regulation.

Aegon has to get much closer to the people who depend on its products and services. A key element of Aegon s strategy is to get closer to its customers by utilizing technology and investing in innovative capabilities to address customer needs at every stage of the life cycle. Bringing established protection and saving products to new and emerging markets in Central & Eastern Europe, Asia and Latin America, as well as continuing to develop Aegon s products to meet changing customer needs remains to be one of the company s most immediate and important goals.

Aegon is pursuing these objectives by:

- Reshaping its businesses,
- Forging new direct relationships and
- Earning customers trust by putting them first in everything it does.

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Aegon s ambition is to become a leader in all its chosen markets by 2015.

In order to achieve its ambition, Aegon has defined four strategic areas of focus which it regards as essential to positioning its businesses for the future. During 2012, the company continued to make clear progress within each of these key strategic objectives:

Optimize portfolio - Focus on those businesses that reflect Aegon s core expertise and which adhere to Aegon s risk and return requirements.

- Despite challenging market conditions, Aegon s market share has been growing in various segments or remains stable across most of its businesses.
- Continuing its business transformation, Aegon divested its stake in Prisma (a 3rd party asset manager in the United States) and exited its Spanish joint venture with Banca Civica, while continuing to actively manage its other joint venture relationships in Spain given the structural reform program that has been implemented in Spain s financial sector, which triggered a wave of mergers and acquisitions among Aegon s distribution partners. In early 2013, Aegon also reached an agreement to exit its partnership with Unnim, another of its bank joint ventures in the Spanish market. In December, Aegon entered into an exclusive 25- year strategic partnership with Banco Santander, Spain s largest financial group, to distribute both protection and general insurance products through the group s extensive network of over 4,600 bank branches (including Banesto, Banif and Openbank). This partnership provides Aegon access to a potential client base of over twelve million customers. Also in December, Aegon entered into its seventh market in the Central Eastern European region with its acquisition of Fidem Life in Ukraine, the country s fifth largest life insurance provider. This newest market entry is consistent with Aegon s focus on those developing markets with a growing need for its core products and services and strong economic development prospects.
- Intent on developing a closer and ongoing relationship with customers to serve their broader financial needs, Aegon is making substantial investments in digital technology to increase direct access to customers and provide intermediaries with the necessary means to do so as well. In 2012, the company launched several initiatives focusing on building digital customer relationships, including its Retirement Choices platform in the United Kingdom, online bank Knab in the Netherlands, LifeQuote in the United States - an online platform to assess personal need and secure a preliminary pricing quote - and iHealth, the first online health product launched in India.
- Aegon continues to extend its at-retirement propositions in the company s main markets to better address the needs of its customers intent on accumulating assets even while facing retirement, and then manage those assets for a longer period of time once having fully entered retirement. Aegon achieved substantial growth in retirement-related products and services, including its strong variable annuity business. This further supports the company s shift from spread-based business to fee-based business.

Enhance customer loyalty - Establish a long-term relationship with customers to serve their diverse needs throughout the life cycle; providing simpler, transparent products and services.

- In order to ensure that Aegon fully understands the developing needs of its customers, Aegon s businesses have continued to adopt the Net Promoter Score (NPS) methodology to regularly measure customer loyalty on a consistent basis. NPS is now measured in 74% of the company s businesses. The results are used to further enhance service levels and increase client satisfaction.
- Aegon successfully rolled-out a branding campaign around the Transform Tomorrow theme for its Transamerica businesses and adopted this same tagline in its own brand positioning.

Deliver operational excellence - Fully leverage Aegon s significant expertise and resources across the organization; investing in technology to drive innovation and further enable cost and operational efficiencies.

- In restructuring its main businesses in the United States, the United Kingdom and the Netherlands, Aegon has significantly reduced operating costs. In the United States the company lowered expenses in its main Life & Protection business by USD 100 million; in the United Kingdom costs have been reduced by 25%; in the Netherlands, Aegon will save an additional EUR 100 million.
- Aegon received the Life Transaction of the Year Award for excellence and innovation in the insurance sector. The award is based on a transaction with Deutsche Bank to offset tail risk related to longevity. The innovative swap transaction was the first of its kind in Europe.
- Aegon continues to improve service quality across its local businesses.

Empower employees - Provide the environment and resources necessary for employees to realize their full potential, while fostering a customer-centric culture that embraces new thinking and new approaches for responding to opportunities and customer demand.

- ¿ Actions to address the results of the Global Employee Survey in 2011 have been successfully implemented. The second Employee Survey was launched in January 2013.
- ¿ To ensure that Aegon s employees are in a position to fully understand customer needs, the company launched Customer License Programs in several businesses, whereby non-customer facing employees are able to engage directly with customers or experience Aegon from a customer perspective.
- ¿ As part of its global approach for identifying and supporting Aegon s talent, the company conducted talent reviews in all its businesses in order to identify those with the highest potential in the organization and to ensure that they are fully supported in their professional development.
- ¿ Senior management committed to a broad engagement program to ensure that employees within their country and business units understand the strategic direction of Aegon, and importantly, how the strategy relates to individual roles and responsibilities. A series of Town Hall meetings, as well as intranet-based tools and insight articles were created to support alignment across the organization.

Solvency II

Despite the continued uncertainty around the implementation date of Solvency II, Aegon has continued to remain on track with its preparations. Aegon has allocated considerable resources to the development of its partial internal model. This model is currently in the pre-application phase with Aegon s College of Supervisors. Through its engagement with several industry bodies, Aegon actively participates in discussions surrounding Solvency II with the aim of contributing to the resolution of outstanding issues. In particular, it provides input to discussions around appropriate measures to address long-term guarantee issues. A number of Aegon companies were requested by their national supervisory authorities to participate in the recent long-term guarantees assessment. Aegon has set up risk management processes and governance structures in line with Solvency II requirements so as to actively manage its business in a market-consistent and risk-sensitive manner. These processes and structures include product pricing, asset and liability management, capital management, and business strategy setting. Aegon is also continuing with refining its Own Risk and Solvency Assessment (ORSA). Aegon has started analyzing the reporting requirements in order to optimize its reporting process and align it with the requirements expected to be introduced by Solvency II. To ensure Aegon is not put at a competitive disadvantage in the way that Solvency II is implemented, Aegon is contributing to the discussions with European and US regulators and supervisors. The outcome of the EU-US Dialogue Project agreement at the end of 2012 - to pursue seven common objectives over the next five years - is an important step towards convergence between EU and US prudential regimes and will be the basis for equivalence recognition. In addition, Aegon is actively participating in a global initiative by the International Association of Insurance Supervisors (IAIS) to establish a common framework for the supervision of internationally active insurance groups (ComFrame). Aegon is on track with the ongoing transition of embedding Solvency II requirements into its existing business processes in a business as usual environment, while simultaneously keeping abreast of the latest regulatory developments.

Business overview

History and development of Aegon

Aegon N.V., domiciled in the Netherlands, is a public limited liability company organized under Dutch law. Aegon N.V. was formed in 1983 through the merger of AGO and Ennia, both of which were successors to insurance companies founded in the 1800s.

Aegon N.V., through its member companies that are collectively referred to as Aegon or the Aegon Group, is an international life insurance, pensions and asset management company. Aegon is headquartered in the Netherlands and employs, through its subsidiaries, approximately 24,000 people worldwide. Aegon s common shares are listed on stock exchanges in Amsterdam (NYSE Euronext) and New York (NYSE).

Aegon N.V. is a holding company. Aegon s businesses focus on life insurance, pensions and asset management. Aegon is also active in accident, supplemental health, general insurance, and has some limited banking activities. The company s operations are conducted through its operating subsidiaries.

The main operating units of Aegon are separate legal entities organized under the laws of their respective countries. The shares of those legal entities are directly or indirectly held by three intermediate holding companies incorporated under Dutch law: Aegon Europe Holding B.V., the holding company for all European activities, Aegon International B.V., which serves as a holding company for the Group companies of all non-European countries and Aegon Asset Management B.V., the holding company for some of its asset management entities.

Aegon operates in more than 20 countries in the Americas, Europe and Asia, serving millions of customers. Its main markets are the United States, the Netherlands and the United Kingdom.

The company encourages product innovation and fosters an entrepreneurial spirit within its businesses. New products and services are developed by local business units with a continuous focus on helping people take responsibility for their financial future. Aegon uses a multi-brand, multichannel distribution approach to meet its customers needs.

Aegon has the following reportable operating segments: the Americas (which include the United States, Canada, Brazil and Mexico), the Netherlands, the United Kingdom, and New Markets, which includes a number of countries in CEE and Asia, Spain, France, Aegon Asset Management, and Variable Annuities Europe.

Selected financial data

The financial results in this Annual Report are based on Aegon s consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

Application of the accounting policies in the preparation of the financial statements requires management to apply judgment involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from those estimates. Accounting policies that are critical to the presentation of

the financial statements and that require complex estimates or significant judgment are described in the notes to the financial statements.

A summary of historical financial data is found in the table below. It is important to read this summary in conjunction with the consolidated financial statements and related notes included elsewhere in this Annual Report.

Selected consolidated income statement information					
In EUR million (except per share amount)	**2012**	2011	2010	2009	2008
Amounts based upon IFRS					
Premium income	19,526	19,521	21,097	19,473	22,409
Investment income	8,501	8,167	8,762	8,681	9,965
Total revenues [1)]	29,937	29,159	31,608	29,751	34,082
Income/ (loss) before tax	1,852	916	1,914	(464)	(1,061)
Net income/ (loss)	**1,532**	**872**	**1,760**	**204**	**(1,082)**
Earnings per common share					
Basic	0.67	(0.06)	0.76	(0.16)	(0.92)
Diluted	0.67	(0.06)	0.68	(0.16)	(0.92)

1 Excluded from the income statements prepared in accordance with IFRS are receipts related to investment-type annuity products and investment contracts.

Selected consolidated balance sheet information					
In million EUR (except per share amount)	**2012**	2011	2010	2009	2008
Amounts based upon IFRS					
Total assets	366,066	345,576	331,995	298,540	289,156

Insurance and investment contracts	278,266	270,679	270,693	248,903	240,030
Trust pass-through securities and (subordinated) borrowings [1)]	12,881	10,040	8,604	7,314	4,824
Shareholders equity	24,630	21,000	17,328	12,273	6,169

1 Excludes bank overdrafts

Number of common shares					
In thousands	**2012**	2011	2010	2009	2008
Balance at January 1	1,909,654	1,736,049	1,736,049	1,578,227	1,636,545
Share issuance	-	173,605	-	157,822	-
Stock dividends	62,376	-	-	-	41,452
Share withdrawal	-	-	-	-	(99,770)
Balance at end of period	**1,972,030**	**1,909,654**	**1,736,049**	**1,736,049**	**1,578,227**

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Dividends

Aegon declared interim and final dividends on common shares for the years 2008 through 2011 in the amounts set forth in the following table. The 2012 interim dividend amounted to EUR 0.10 per common share. The interim dividend was paid in cash or stock at the election of the shareholder. The interim dividend was payable as of September 14, 2012. At the General Meeting of Shareholders on May 15, 2013, the Supervisory Board will, absent unforeseen circumstances, propose a final dividend of

EUR 0.11 per common share (at each shareholders option in cash or in stock), which will bring the total dividend for 2012 to EUR 0.21. Dividends in US dollars are calculated based on the foreign exchange reference rate as published each working day at 14:15 hours by the European Central Bank on the business day following the announcement of the interim dividend or on the business day following the General Meeting of Shareholders approving the relevant final dividend.

	EUR per common share [1)]			USD per common share [1)]		
Year	Interim	Final	Total	Interim	Final	Total
2008	0.30	-	0.30	0.45	-	0.45
2009	-	-	-	-	-	-
2010	-	-	-	-	-	-
2011	-	0.10	0.10	-	0.13	0.13
2012	0.10	0.11[2)]	0.21	0.12	-	-

1 Paid at each shareholder s option in cash or in stock
2 Proposed

The annual dividend on Aegon s class A and class B preferred shares is calculated on the basis of the paid-in capital on the preferred shares using a rate equal to the European Central Bank s fixed interest percentage for basic refinancing transactions plus 1.75%, as determined on NYSE Euronext Amsterdam s first working day of the financial year to which the dividend relates. Apart from this, no other dividend is paid on the preferred shares. This resulted in a rate of 2.75% for the year 2011. Applying this rate to the weighted average paid-in capital of its preferred shares during 2011, the total amount of annual dividends Aegon made in 2012 on its preferred shares for the year 2011 was EUR 59 million. The rate for annual dividends, if any, on preferred shares to be made in 2013 for the year 2012, as determined on January 1, 2012, is 2.75% and the annual dividends, if any, on preferred shares for the year 2012, based on the weighted average paid-in capital on the preferred shares during 2012 will be EUR 59 million.

Exchange rates

Fluctuations in the exchange rate between the euro and the US dollar will affect the dollar equivalent of the euro price of Aegon s common shares traded on NYSE Euronext Amsterdam and, as a result, are likely to impact the market price of Aegon s common shares in the United States. Such fluctuations will also affect any US dollar amounts received by holders of common shares upon conversion of any cash dividends paid in euros on Aegon s common shares.

As of March 1, 2013, the USD exchange rate was EUR 1 = USD 1.2988.

The high and low exchange rates for the US dollar per euro for each of the last six months through February 2013 are set forth below:

Closing rates	Sept. 2012	Oct. 2012	Nov. 2012	Dec. 2012	Jan. 2013	Feb. 2013
High (USD per EUR)	1.3142	1.3133	1.3010	1.3260	1.3584	1.3692
Low (USD per EUR)	1.2566	1.2876	1.2715	1.2930	1.3047	1.3054

The average exchange rates for the US dollar per euro for the five years ended December 31, 2012, calculated by using the average of the exchange rates on the last day of each month during the period, are set forth below:

Year ended December 31,	Average rate[1]
2008	1.4695
2009	1.3955
2010	1.3216
2011	1.4002
2012	1.2909

1 The US dollar exchange rates are the noon buying rates in New York City for cable transfers in euros as certified for customs purposes by the Federal Reserve Bank of New York.

Business lines

Americas

Includes Aegon s businesses and operating units in the United States, Canada, Brazil and Mexico.

¿ Life & Protection

Products with mortality, morbidity and longevity risks, including traditional and universal life, as well as endowment, term and whole life insurance products. Accident and health business, including accidental death and dismemberment insurance, critical illness, cancer treatment, disability, income protection and long-term care insurance.

¿ Individual Savings & Retirement

Primarily fixed and variable annuity products and retail mutual funds.

¿ Employer Solutions & Pensions

Includes both individual and group pensions, as well as 401(k) plans and similar products usually sponsored by, or obtained via, an employer.

The Netherlands

¿ Life & Savings

Products with mortality, morbidity, and longevity risks, including traditional and universal life, as well as employer, endowment, term, whole life insurance products, mortgages, saving deposits and annuity products.

¿ Pensions

Individual and group pensions usually sponsored by, or obtained via, an employer.

¿ Non-life

General insurance, consisting mainly of automotive, liability, disability, household insurance and fire protection.

¿ Distribution

Aegon s Unirobe Meeùs distribution business.

United Kingdom

¿ **Life**

Immediate annuities, individual protection products, such as term insurance, critical illness and income protection.

¿ **Pensions**

Individual pensions, including self invested personal pensions and income drawdown products. Group pensions, sponsored by, or obtained via, an employer.

¿ **Distribution**

Relates to Aegon s financial advice businesses, Origen and Positive Solutions.

New Markets

Includes all businesses and operating units in Central & Eastern Europe, Asia, Spain and France as well as Aegon s variable annuity activities in Europe and Aegon Asset Management.

¿ **Central & Eastern Europe**

Active in six countries: Czech Republic, Hungary, Poland, Romania, Slovakia and Turkey. Includes life insurance, individual and group pension products, savings and investments, as well as general insurance. At the end of 2012, Aegon entered into an agreement to acquire a life insurance company in Ukraine.

¿ **Spain**

Distribution partnerships with Spanish banks, offering life insurance, accident and health insurance and investment products.

¿ **France**

Partnership with French insurer and pension specialist AG2R La Mondiale.

¿ **Asia**

Direct and affinity products are marketed in Asia through Aegon Direct & Affinity Marketing Services. Aegon offers life insurance to high-net-worth individuals via the Transamerica brand Transamerica Life Bermuda. There are joint ventures in China, India and Japan. Products include (term) life insurance in China and India and variable annuities in Japan.

¿ **Variable Annuities Europe**

Variable annuities offered by Aegon companies operating in Europe and international/offshore bonds for the UK market.

¿ **Aegon Asset Management**

Asset management products, including both equity and fixed income, covering third party clients and Aegon s own insurance companies.

Results of operations

Results 2012 worldwide

Underlying earnings geographically			
Amounts in EUR millions	**2012**	2011	%
Net underlying earnings	**1,382**	**1,233**	**12%**
Tax on underlying earnings	405	289	40%
Underlying earnings before tax geographically			
Americas	1,317	1,273	3%
The Netherlands	315	298	6%
United Kingdom	105	5	-
New markets	274	249	10%
Holding and other activities	(224)	(303)	26%
Underlying earnings before tax	**1,787**	**1,522**	**17%**
Net Fair value items	-	(416)	-
Gains / (losses) on investments	407	446	(9%)
Impairment charges	(176)	(388)	55%
Other income / (charges)	(162)	(267)	39%
Run-off businesses	2	28	(93%)
Income before tax (excluding income tax from certain proportionately consolidated associates)	**1,858**	**925**	**101%**
Income tax from certain proportionately consolidated associates included in income before tax	6	9	(33%)
Income tax	(326)	(53)	-
Of which Income tax from certain proportionately consolidated associates included in income before tax	(6)	(9)	33%
Net income	**1,532**	**872**	**76%**
Commissions and expenses	5,829	6,272	(7%)
of which operating expenses	3,241	3,442	(6%)

This Annual Report includes the non-IFRS financial measure: underlying earnings before tax. The reconciliation of this measure to the most comparable IFRS measure is presented in the table above as well as in note 5 of the consolidated financial statements. This non-IFRS measure is calculated by consolidating on a proportionate basis the revenues and expenses of Aegon s associated companies in Spain, India, Brazil and Mexico. Aegon believes that its non-IFRS measure provides meaningful information about the underlying operating results of Aegon s businesses including insight into the financial measures that senior management uses in managing the businesses.

The table also includes the non-IFRS financial measure: net underlying earnings. This is the after-tax equivalent of underlying earnings. The reconciliation of net underlying earnings to the most comparable IFRS measure is presented in the table above.

Aegon s senior management is compensated based in part on Aegon s results against targets using the non-IFRS measure presented herein. While many other insurers in Aegon s peer group present substantially similar non-IFRS measures, the non-IFRS measure presented in this document may nevertheless differ from the non-IFRS measures presented by other insurers.

There is no standardized meaning to these measures under IFRS or any other recognized set of accounting standards and readers are cautioned to consider carefully the different ways in which Aegon and its peers present similar information before comparing them. Aegon believes the non-IFRS measure shown herein, when read together with Aegon s reported IFRS financial statements, provides meaningful supplemental information for the investing public to evaluate Aegon s businesses after eliminating the impact of current IFRS accounting policies for financial instruments and insurance contracts, which embed a number of accounting policy alternatives that companies may select in presenting their results (that is companies can use different local GAAPs) and that can make the comparability from period to period difficult.

As of the first quarter of 2012, Aegon has revised its financial reporting to reflect changes in its organization. Businesses in Asia, which were previously managed by Aegon Americas, are included in the Asia line of business within the New Markets segment. For the full year 2011, the underlying earnings before tax generated by the Asian operations totaling EUR 37 million were previously reported under the Americas segment.

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New life sales

Amounts in EUR millions	2012	2011	%
Americas	520	418	24%
The Netherlands	246	254	(3%)
United Kingdom	936	852	10%
New markets	253	311	(19%)
Total life production	**1,955**	**1,835**	**7%**

Gross deposits (on and off balance)

Amounts in EUR millions	2012	2011	%
Americas	27,042	23,028	17%
The Netherlands	1,484	2,048	(28%)
United Kingdom	37	56	(34%)
New markets	10,909	6,556	66%
Total gross deposits	**39,472**	**31,688**	**25%**

Worldwide revenues

geographically 2012

Amounts in EUR millions	Americas	The Netherlands	United Kingdom	New Markets	Holding, other activities and eliminations	Segment total	Associates eliminations	Consolidated
Total life insurance gross premiums	6,541	3,004	6,047	1,374	(73)	16,893	(227)	16,666
Accident and health insurance premiums	1,833	220	-	188	-	2,241	-	2,241
General insurance premiums	-	475	-	144	-	619	-	619
Total gross premiums	**8,374**	**3,699**	**6,047**	**1,706**	**(73)**	**19,753**	**(227)**	**19,526**
Investment income	3,654	2,212	2,337	319	-	8,522	(21)	8,501
Fees and commision income	1,177	329	133	524	(263)	1,900	-	1,900
Other revenue	5	-	-	3	5	13	(3)	10
Total revenues	**13,210**	**6,240**	**8,517**	**2,552**	**(331)**	**30,188**	**(251)**	**29,937**
Number of employees, including agent employees	11,967	4,457	2,793	7,160	473	26,850	(2,443)	24,407

By product segment

Amounts in EUR millions	2012	2011	%
Life	986	945	4%
Individual Savings and Retirement	481	474	1%
Pensions	383	254	51%
Non-life	13	51	(75%)
Distribution	14	-	-
Asset management	101	60	68%
Other	(224)	(303)	26%
Associates	33	41	(20%)
Underlying earnings before tax	**1,787**	**1,522**	**17%**

Results 2012 worldwide

Aegon s 2012 net income of EUR 1,532 million and underlying earnings before tax of EUR 1,787 million were higher than in 2011 resulting from business growth, implemented cost reduction programs, the non-recurrence of certain charges in the United Kingdom, and favorable markets. Sales and deposits increased compared to 2011 despite repricing and product changes made to reflect the continued low interest rate environment. Growth was driven mostly by pensions, variable annuities, mortgages and asset management. Aegon has continued to maintain a strong capital position while maintaining its commitment to delivering sustainable earnings growth with an improved risk-return profile.

Net income

Net income increased to EUR 1,532 million driven by higher underlying earnings, more favorable results on fair value items, lower impairments and lower other charges. These were only partly offset by higher tax charges and lower realized gains.

Underlying earnings before tax

Aegon s underlying earnings before tax increased 17% to EUR 1,787 million in 2012. This is the result of business growth, implemented cost reduction programs, the non-recurrence of certain charges in the United Kingdom, and favorable equity markets and currency movements.

Underlying earnings before tax from the Americas rose to EUR 1,317 million. The 3% increase compared to 2011 is mainly due to growth of the business and a strengthening of the US dollar against the euro. The positive effect of business growth and favorable equity markets was partly offset by lower fixed annuity earnings (as the product is de-emphasized) and lower Life & Protection earnings mostly the result of the non-recurrence of favorable items in 2011, recurring charges for Corporate Center expenses implemented in 2012, higher performance-related expenses and an increase in employee benefit expenses.

In the Netherlands, underlying earnings before tax increased to EUR 315 million. The 6% increase compared to 2011 was mainly due to cost savings, lower funding costs, and the wind up of several contracts in Pensions, partly offset by a higher claim ratio and investments in banking activities. Higher earnings in Life & Savings driven by lower funding costs on its growing mortgage portfolio more than offset lower earnings in Pensions and Non-life mostly driven by unfavorable claim experience.

In the United Kingdom, underlying earnings before tax increased to EUR 105 million. This improvement in earnings compared to 2011 was driven by the implementation of the cost reduction program and the non-recurrence of charges and execution expenses related to a program to correct historical issues within customer policy records, partly offset by the benefit of changes to employee benefit plans recorded in 2011. Earnings were negatively impacted in 2012 by additional DAC amortization related to adverse persistency and investments in new propositions in the pension business.

Underlying earnings before tax from New Markets increased 10% to EUR 274 million as higher earnings from Aegon Asset Management and Asia more than offset lower underlying earnings from Spain and Central & Eastern Europe. Results in Spain were impacted by the divestment of the joint venture with Banca Cívica and the exclusion of results from Aegon s partnership with CAM pending the exit from this joint venture.

For the holding, underlying earnings before tax amounted to a loss before tax of EUR 224 million. This EUR 79 million improvement compared to 2011 was driven mostly by lower expenses as Aegon s Corporate Center expenses are now being charged, in part, to operating units. These charges reflect the services and support provided to operating units by the Corporate Center and amounted to EUR 64 million in 2012. Funding costs were also lower in 2012.

Fair value items

Results from fair value items amounted to EUR 0 million driven by positive results on the guarantee portfolio in the Netherlands, offset by negative results in the Americas and in the United Kingdom on hedges, due to higher equity markets.

Realized gains on investments

Realized gains on investments amounted to EUR 407 million and were mainly the result of asset liability management and normal activity in the investment portfolio in a low interest rate environment.

Impairment charges

Impairments decreased 55% in 2012 compared to 2011 to EUR 176 million and continue to be linked primarily to residential mortgage-backed securities in the Americas.

Other charges

Other charges in 2012 amounted to EUR 162 million and were primarily the result of a EUR 265 million charge in the Netherlands related to the acceleration of product improvements for unit-linked insurance policies and a BOLI wrap charge in the United States (EUR 26 million). Providing most of the offset against these charges were the book gain of EUR 100 million on the sale of Aegon s minority stake in Prisma Capital Partners and the divestment of Aegon s 50% stake in the joint venture with Banca Cívica (EUR 35 million).

Run-off businesses

The results of run-off businesses amounted to a gain of EUR 2 million, with positive results from the institutional spread-based business only partially offset by accelerated amortization of the pre-paid cost of reinsurance asset related to the divestment of the life reinsurance activities in 2011 due to increased transfers of clients from Aegon to SCOR.

Income tax

Net income contained a tax charge of EUR 326 million in 2012 (including a tax charge of EUR 6 million related to profits of associates), resulting in an effective tax rate of 18%. Deviation from the nominal tax rate is largely the result of tax exempt items in the United States and the Netherlands, tax credits which primarily relate to low income housing and renewable energy in the United States (EUR 69 million), benefits from a tax rate reduction in the United Kingdom (EUR 70 million), benefits from cross border intercompany reinsurance transactions (EUR 38 million) and a benefit related to the run-off of the company s institutional spread-based activities in Ireland (EUR 51 million). These benefits were partly offset by charges for non recognition and impairment of deferred tax assets (EUR 56 million) mainly in the United Kingdom.

Commissions and expenses

Commissions and expenses in 2012 decreased by 7% compared to 2011 to EUR 5,829 million, largely driven by lower operating expenses. Operating expenses decreased 6% compared to 2011 to EUR 3,241 million mainly as a result of the implementation of cost savings programs in the United Kingdom, the Netherlands and the Americas.

Production

New life sales increased in 2012 compared to 2011 in the Americas and the United Kingdom, partially offset by decreases in the Netherlands and New Markets. Gross deposits increased by 25% driven by variable annuity, retail mutual fund, retirement plan and asset management deposits. New premium production for accident & health insurance increased by 19% for the year mainly driven by travel and supplemental health insurance sales in the Americas and growth in Central & Eastern Europe.

Capital management

Aegon s core capital excluding revaluation reserves amounted to EUR 18.5 billion, equivalent to 76.7% of the company s total capital base at December 31, 2012 (2011: 73.5%) . This is above the company s capital base ratio target of at least 75% by the end of 2012.

Shareholders equity increased to EUR 24.6 billion, mainly as a result of net income and an increase in the revaluation reserves. The revaluation reserves increased EUR 2.6 billion during the year to EUR 6.1 billion, mainly a reflection of lower interest rates and credit spreads. Shareholders equity per common share, excluding preference capital and revaluation reserves, amounted to EUR 8.45 at December 31, 2012 (2011: EUR 8.19).

During 2012, Aegon aimed to maintain excess capital at the holding of at least EUR 750 million. At the end of the year, excess capital in the holding amounted to EUR 2.0 billion, an increase of EUR 0.8 billion compared to year-end 2011, as dividends received from business units were only partly offset by interest payments and operational expenses.

At December 31, 2012, Aegon s Insurance Group Directive (IGD) ratio amounted to 228%, an increase from the level of 195% at December 31, 2011. Measured on a local solvency basis, the Risk Based Capital (RBC) ratio in the United States increased to approximately 495%, driven mainly by strong net income throughout the year and a capital management transaction in third quarter, offset by dividends paid to the holding company. The IGD ratio in the Netherlands increased to approximately 251% driven mainly by a change in the yield curve to discount liabilities as prescribed by the Dutch Central Bank, offset somewhat during the year by interest rate movements. The Pillar I ratio in the United Kingdom decreased to approximately 126%.

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Results 2011 worldwide

Underlying earnings geographically			
Amounts in EUR millions	2011	2010	%
Net underlying earnings	1,233	1,417	(13%)
Tax on underlying earnings	289	416	(31%)
Underlying earnings before tax geographically			
Americas	1,273	1,414	(10%)
The Netherlands	298	385	(23%)
United Kingdom	5	72	(93%)
New markets	249	245	2%
Holding and other activities	(303)	(283)	(7%)
Underlying earnings before tax	**1,522**	**1,833**	**(17%)**
Net Fair value items	(416)	221	-
Gains / (losses) on investments	446	658	(32%)
Impairment charges	(388)	(452)	14%
Other income / (charges)	(267)	(309)	14%
Run-off businesses	28	(26)	-
Income before tax (excluding income tax from certain proportionately consolidated associates)	**925**	**1,925**	**(52%)**
Income tax from certain proportionately consolidated associates included in income before tax	9	11	(18%)
Income tax	(53)	(165)	68%
Of which income tax from certain proportionately consolidated associates included in income before tax	(9)	(11)	18%
Net income	**872**	**1,760**	**(50%)**
Commissions and expenses	6,272	6,145	2%
of which operating expenses	3,442	3,397	1%

New life sales			
Amounts in EUR millions	2011	2010	%
Americas	418	459	(9%)
The Netherlands	254	248	2%
United Kingdom	852	1,061	(20%)
New markets	311	313	(1%)
Total life production	**1,835**	**2,081**	**(12%)**

Gross deposits (on and off balance)			
Amounts in EUR millions	2011	2010	%
Americas	23,028	21,018	10%
The Netherlands	2,048	2,382	(14%)
United Kingdom	56	96	(42%)
New markets	6,556	9,082	(28%)
Total gross deposits	**31,688**	**32,578**	**(3%)**

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Worldwide revenues geographically 2011

Amounts in EUR millions	Americas	The Netherlands	United Kingdom	New Markets	Holding, other activities and eliminations	Segment total	Associates eliminations	Consolidated
Total life insurance gross premiums	6,004	3,213	6,474	1,600	(55)	17,236	(383)	16,853
Accident and health insurance premiums	1,672	216	-	179	-	2,067	-	2,067
General insurance premiums	-	452	-	149	-	601	-	601
Total gross premiums	**7,676**	**3,881**	**6,474**	**1,928**	**(55)**	**19,904**	**(383)**	**19,521**
Investment income	3,565	2,192	2,154	320	7	8,238	(70)	8,168
Fees and commision income	766	329	137	469	(237)	1,464	-	1,464
Other revenue	1	-	-	1	4	6	-	6
TOTAL REVENUES	**12,008**	**6,402**	**8,765**	**2,718**	**(281)**	**29,612**	**(453)**	**29,159**
Number of employees, including agent employees	12,242	4,839	3,203	8,659	327	29,270	(3,982)	25,288

By product segment

Amounts in EUR millions	2011	2010	%
Life	945	1,048	(10%)
Individual Savings and Retirement	474	500	(5%)
Pensions	254	409	(38%)
Non-life	51	53	(4%)
Distribution	-	10	-
Asset management	60	46	30%
Other	(303)	(283)	(7%)
Associates	41	50	(18%)
Underlying earnings before tax	**1,522**	**1,833**	**(17%)**

Results 2011 worldwide

Aegon s 2011 underlying earnings before tax of EUR 1,522 million and net income of EUR 872 million were impacted by considerable charges, expenses related to the customer redress program in the United Kingdom and business restructuring in its established markets. New life sales volumes were below those of 2010 as a result of repricing of products, however, deposits continued to be strong, particularly in the Americas. Aegon maintained a strong capital position during the year and by completing the repurchase of convertible core capital securities, the company has turned its focus on carrying out a strategy to deliver sustainable earnings growth with an improved risk-return profile.

Net income

Net income in 2011 of EUR 872 million was lower than net income in 2010 (2010: EUR 1,760 million), primarily the result of lower underlying earnings before tax, less gains on investments and a significant decline in results on fair value items.

Underlying earnings before tax

Aegon s underlying earnings before tax declined to EUR 1,522 million in 2011 from EUR 1,833 million in 2010. The decline compared to last year was mainly due to higher charges and expenses in the United Kingdom related to the customer redress program, higher provisioning for longevity in the Netherlands and the effects of lower interest rates and lower equity markets.

Underlying earnings before tax in the Americas decreased 5% to USD 1,771 million. Earnings from Life & Protection decreased mainly as a result of unfavorable persistency and lower spreads. Individual Savings & Retirement earnings remained stable as increased earnings from variable annuities and retail mutual funds were offset by lower earnings from fixed annuities as the product is de-emphasized. Earnings from Employer Solutions & Pensions increased as a result of continued strong growth of the business.

Underlying earnings from Aegon s operations in the Netherlands amounted to EUR 298 million, a decrease of 23% compared to 2010. Additional provisioning for longevity of EUR 82 million was only partly offset by the positive impact of favorable technical results.

In the United Kingdom, underlying earnings before tax declined significantly to GBP 5 million. This was mainly due to charges and expenses related to an ongoing program to correct historical issues within customer policy records and the execution of this program partly offset by the benefit of changes to employee benefit plans. The sale of Guardian during the third quarter 2011, and the subsequent loss of earnings, also contributed to the decrease.

In New Markets, Aegon reported underlying earnings before tax of EUR 249 million, an increase of 2% compared to 2010. The increase is primarily the result of higher underlying earnings before tax from Aegon Asset Management.

For Holding and other activities, underlying earnings before tax amounted to a loss of EUR 303 million which is the result of higher expenses related primarily to the preparation for implementation of Solvency II, and higher funding costs.

Fair value items

In 2011, fair value items recorded a loss of EUR 416 million. The significant decline compared to 2010 was driven mainly by lower results from fair value items in the Americas as Aegon lowered its interest rate assumptions which negatively impacted results during the third quarter with EUR 168 million. In addition, lower interest rates, spread widening and volatile equity markets also negatively affected results on fair value items. Less favorable results on fair value movements in the Netherlands also contributed to the decline.

Realized gains on investments

In 2011, realized gains on investments amounted to EUR 446 million and were the result of a decision to replace equities by fixed income securities in the Netherlands, the divestment of the life reinsurance activities in the Americas in addition to normal trading in the investment portfolio.

Impairment charges

Impairment charges improved from the 2010 level of EUR 452 million and amounted to EUR 388 million in 2011. In the United States, impairments were mostly linked to residential mortgage-backed securities. Impairments in the United Kingdom related primarily to exchange offers on specific holdings of European banks and in Central & Eastern Europe impairments were largely attributable to new legislation in Hungary, related to Swiss franc denominated mortgages, affecting the mortgage portfolio.

Other charges

Other charges amounted to EUR 267 million, an improvement compared to charges of EUR 309 million in 2010. In the Americas, a charge of EUR 37 million related to increased reserves in connection with the company s use of the US Social Security Administration s death master-file. Restructuring charges in the Netherlands related to a restructuring program to reduce operating expenses going forward amounted to EUR 92 million and a write-down of intangible assets related to the distribution businesses led to a charge of EUR 75 million. In the United Kingdom, restructuring charges amounted to EUR 86 million. In New Markets, charges of EUR 17 million related to the Hungarian bank tax are included, offset by a benefit of EUR 37 million related to a settlement of legal claims by Aegon Asset Management.

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Run-off businesses

As of 2011, Aegon s run-off line of businesses comprises of the institutional spread-based business, structured settlement pay-out annuities, BOLI/COLI and life reinsurance. The results of run-off businesses improved to EUR 28 million as a result of lower amortization yield paid on internally transferred assets related to the institutional spread-based business and favorable mortality results in the pay-out annuities block of business. This was partly offset by the amortization of the prepaid cost of reinsurance and transaction costs related to the divestment of the life reinsurance activities.

Income tax

Net income contained a tax charge of EUR 53 million in 2011 (including a tax charge of EUR 9 million related to profits of associates). Deviation from the nominal tax rate is largely the result of tax credits which primarily relate to low income housing and renewable energy in the United States (EUR 67 million), tax benefits related to utilization of losses for which previously no deferred tax asset was recognized (EUR 62 million), benefits from a tax rate reduction in the United Kingdom (EUR 48 million) and benefits from cross border intercompany reinsurance transactions (EUR 39 million). These benefits were partly offset by charges for non recognition and impairment of deferred tax assets (EUR 59 million) in the United Kingdom.

Commissions and expenses

Commissions and expenses increased 1% in 2011 to EUR 6.3 billion. In 2011, operating expenses increased 1% to EUR 3,442 million as achieved costs savings and the positive effect of changes to employee benefit plans were more than offset by investments in new propositions and restructuring charges, mainly in the Netherlands and the United Kingdom.

Production

New life sales declined, mainly as a result of lower single premium production in the United Kingdom and the effect of the discontinuance of single premium universal life sales in the bank channel during the second half of 2010, as well as repricing of certain universal life products in 2011 in the Americas to reflect the low interest rate environment. Gross deposits of EUR 31.7 billion were supported by variable annuity and pension deposits in the United States, partly offset by lower asset management inflows.

Capital management

Aegon s core capital, excluding revaluation reserves, amounted to EUR 17.5 billion, equivalent to 73.5% of the company s total capital base at year-end 2011. Aegon is on track to reach a capital base ratio of at least 75% by the end of 2012.

Shareholders equity increased to EUR 21 billion, mainly as a result of the appreciation of the US dollar against the euro -reflected in the foreign currency translation reserves - and a significant increase in the revaluation reserves during the year. The revaluation reserves at December 31, 2011, increased mainly as the result of a decrease in interest rates which had a positive effect on the value of fixed income securities. Shareholders equity per common share, excluding preferred capital, amounted to EUR 8.19 at December 31, 2011.

Aegon aims to maintain at least 1.5 times holding expenses as a buffer in the holding, in 2011 equivalent to approximately EUR 900 million. At year-end 2011, excess capital in the holding amounted to EUR 1.2 billion.

At December 31, 2011, Aegon s Insurance Group Directive (IGD) ratio amounted to 195%. Measured on a local solvency basis, the Risk Based Capital (RBC) ratio in the United States amounted to approximately 450%, the IGD ratio in the Netherlands amounted to approximately 195%, while the Pillar I ratio in the United Kingdom was approximately 150% at year-end 2011.

In February 2011, Aegon issued ordinary shares in an amount of 10% of its share capital, via an accelerated book-build offering. The issue was conducted under Aegon s US Shelf Registration through the sale of 173,604,912 new common shares of Aegon N.V. with a nominal value of EUR 0.12. The shares were issued at a price of EUR 5.20 per share. The proceeds of EUR 903 million were used to fund part of the repurchase of 375 million convertible core capital securities issued to the Dutch State.

In June 2011, Aegon completed the repurchase of convertible core capital securities from the Dutch State with a final payment of EUR 1.125 billion to repurchase 187.5 million of convertible core capital securities for EUR 750 million and EUR 375 million in premium. With this payment, Aegon fulfilled its key objective of repurchasing all of the EUR 3 billion core capital securities issued to the Dutch State at the height of the financial crisis in 2008. Aegon has paid to the Dutch State a total amount of EUR 4.1 billion, which included EUR 1.1 billion in premium and interest payments.

Results 2012 Americas

	Amounts in USD millions			Amounts in EUR millions		
	2012	2011	%	**2012**	2011	%
Net underlying earnings	**1,248**	**1,331**	**(6%)**	**971**	**957**	**1%**
Tax on underlying earnings	444	440	1%	346	316	9%
Underlying earnings before tax by product segment						
Life & Protection	647	727	(11%)	504	523	(4%)
Fixed annuities	253	286	(12%)	197	206	(4%)
Variable annuities	352	358	(2%)	274	258	6%
Retail mutual funds	22	22	-	17	15	13%
Individual Savings and Retirement	627	666	(6%)	488	479	2%
Employer Solutions & Pensions	366	326	12%	285	234	22%
Canada	40	51	(22%)	31	37	(16%)
Latin America	12	1	-	9	-	-
Underlying earnings before tax	**1,692**	**1,771**	**(4%)**	**1,317**	**1,273**	**3%**
Net Fair value items	(98)	(663)	85%	(76)	(477)	84%
Gains / (losses) on investments	225	166	36%	175	119	47%
Impairment charges	(151)	(349)	57%	(117)	(250)	53%
Other income / (charges)	(37)	(49)	24%	(28)	(35)	20%
Run-off businesses	3	39	(92%)	2	28	(93%)
Income before tax (excluding income tax from certain proportionately consolidated associates)	**1,634**	**915**	**79%**	**1,273**	**658**	**93%**
Income tax from certain proportionately consolidated associates included in income before tax	4	1	-	3	1	-
Income tax	(318)	(20)	-	(248)	(15)	-
Of which Income tax from certain proportionately consolidated associates included in income before tax	(4)	(1)	-	(3)	(1)	-
Net income	**1,316**	**895**	**47%**	**1,025**	**643**	**59%**
Life insurance gross premiums	8,405	8,350	1%	6,541	6,004	9%
Accident and health insurance premiums	2,356	2,326	1%	1,833	1,672	10%
Total gross premiums	**10,761**	**10,676**	**1%**	**8,374**	**7,676**	**9%**
Investment income	4,694	4,959	(5%)	3,654	3,565	2%
Fees and commission income	1,512	1,066	42%	1,177	766	54%
Other revenues	6	2	-	5	1	-
Total revenues	**16,973**	**16,707**	**2%**	**13,210**	**12,008**	**10%**
Commissions and expenses	4,341	4,941	(12%)	3,378	3,553	(5%)
of which operating expenses	1,887	1,950	(3%)	1,469	1,402	5%

	Amounts in USD millions			Amounts in EUR millions		
New life sales	**2012**	2011	%	**2012**	2011	%
Life & Protection	532	442	20%	414	317	31%
Employer Solutions & Pensions	31	24	29%	24	17	41%
Canada	60	65	(8%)	47	47	-
Latin America	45	51	(12%)	35	37	(5%)
Total recurring plus 1/10 single	**668**	**582**	**15%**	**520**	**418**	**24%**

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	Amounts in USD millions			Amounts in EUR millions		
	2012	2011	%	**2012**	2011	%
New premium production accident and health insurance	905	812	11%	705	584	21%

	Amounts in USD millions			Amounts in EUR millions		
Gross deposits (on and off balance)	**2012**	2011	%	**2012**	2011	%
Life & Protection	12	12	-	9	9	-
Fixed annuities	371	313	19%	289	225	28%
Variable annuities	5,350	5,314	1%	4,163	3,821	9%
Retail mutual funds	3,437	2,785	23%	2,675	2,002	34%
Individual Savings and Retirement	9,158	8,412	9%	7,127	6,048	18%
Employer Solutions & Pensions	25,383	23,266	9%	19,755	16,727	18%
Canada	177	335	(47%)	138	241	(43%)
Latin America	17	4	-	13	3	-
Total gross deposits	**34,747**	**32,029**	**8%**	**27,042**	**23,028**	**17%**

Exchange rates	Weighted average rate		Closing rate as of	
Per 1 EUR	**2012**	2011	**December 31, 2012**	December 31, 2011
USD	1.2849	1.3909	1.3184	1.2982
CAD	1.2839	1.3744	1.3127	1.3218

Results 2012 Americas

Aegon s businesses in the Americas[1] continued to perform well in 2012. Sales of life, accident and health insurance all increased over 2011 on expanded distribution capabilities. Variable annuity, pension and retail mutual fund balances increased while fixed annuity balances continued to decline, a direct result of Aegon s efforts to grow its fee-based earnings.

Net income

Net income from Aegon s businesses in the Americas increased to USD 1,316 million in 2012. Better results from fair value items, lower impairments and higher realized gains on investments more than offset lower underlying earnings, lower earnings from run-off businesses and higher taxes.

Results from fair value items improved from USD (663) in 2011 to USD (98) million in 2012 as better than expected alternative asset performance and the impact of tightening credit spreads more than offset by the negative impact of the macro hedge caused by higher equity markets and the continued low interest rate environment. In addition, Aegon lowered its interest rate assumptions in 2011 which led to a charge of USD 237 million in 2011.

Gains on investments of USD 225 million were realized as a result of normal trading activity. Net impairments amounted to USD 151 million, down from USD 349 million in 2011, and continue to be primarily caused by mortgage related securities.

Underlying earnings before tax

Underlying earnings before tax from the Americas amounted to USD 1,692 million in 2012, a decrease of 4% compared to 2011. The positive effect of business growth and favorable equity markets was offset by lower Life & Protection earnings mostly the result of the non-recurrence of favorable items in 2011, recurring charges for Corporate Center expenses and higher employee benefit expenses.

¿ Life & Protection underlying earnings before tax decreased by 11% to USD 647 million, mostly the result of the non- recurrence of favorable items in 2011.
¿ Underlying earnings before tax from Individual Savings & Retirement decreased by 6% to USD 627 million in 2012 driven mostly by lower fixed annuity earnings due to declining account balances as the product is de-emphasized. Earnings from variable annuities were down slightly to USD 352 million as the benefit of higher account balances was offset mainly by the negative effect of policyholder assumption changes of USD 55 million. Earnings from retail mutual funds were flat at USD 22 million.
¿ Employer Solutions & Pensions underlying earnings before tax increased by 12% to USD 366 million in 2012 driven mostly by growing retirement plan account balances.
¿ Underlying earnings before tax from Canada decreased to USD 40 million in 2012. In Latin America underlying earnings before tax increased to USD 12 million driven by improvements in both Brazil and Mexico.

Commissions and expenses

Commissions and expenses decreased by 12% to EUR 4,341 million in 2012, mainly due to lower amortization of deferred policy acquisition costs. Operating expenses decreased by 3% to USD 1,887 million, as cost savings and lower expenses related to the divestment of the life reinsurance business were only partly offset by higher performance related employee expenses, an increase in employee benefit expenses and costs to support growth.

Production

New life sales increased 15% to USD 668 million in 2012, primarily driven by strong indexed universal life sales as distribution expanded into the brokerage channel and by higher sales of certain products as they were withdrawn from the market. New premium production for accident & health insurance amounted to USD 905 million, up 11% on increased travel insurance sales following the addition of a new distribution partner in the second half of 2011.

Gross deposits amounted to USD 34.7 billion in 2012 compared to USD 32.0 billion in 2011. Gross deposits in variable annuities, retail mutual funds and retirement plans were all higher than in 2011. Variable annuities gross deposits increased in 2012 despite product re-pricing throughout the year to reflect the continued low interest rate environment and subsequent higher hedging costs. The increase in retirement plan deposits was driven by higher takeover deposits and successful efforts to increase inflows from the existing client base through higher contributions and larger participation count.

1 As of the first quarter of 2012, Aegon has revised its financial reporting to reflect changes in its organization. Businesses in Asia, which were previously managed by Aegon Americas, are included in the Asia line of business within the New Markets segment. For the full year 2011, the underlying earnings before tax generated by the Asian operations totaling EUR 37 million were previously reported under the Americas segment. The 2011 and 2010 figures have been revised to reflect this change.

Results 2011 Americas

	Amounts in USD millions			Amounts in EUR millions		
	2011	2010	%	2011	2010	%
Net underlying earnings	**1,331**	**1,383**	**(4%)**	**957**	**1,047**	**(9%)**
Tax on underlying earnings	440	485	(9%)	316	367	(14%)
Underlying earnings before tax by product segment						
Life & Protection	727	837	(13%)	523	634	(18%)
Fixed annuities	286	439	(35%)	206	333	(38%)
Variable annuities	358	216	66%	258	164	57%
Retail mutual funds	22	9	144%	15	7	114%
Individual Savings and Retirement	666	664	-	479	504	(5%)
Employer Solutions & Pensions	326	307	6%	234	231	1%
Canada	51	54	(6%)	37	40	(8%)
Latin America	1	6	(83%)	-	5	-
Underlying earnings before tax	**1,771**	**1,868**	**(5%)**	**1,273**	**1,414**	**(10%)**
Net Fair value items	(663)	(32)	-	(477)	(24)	-
Gains / (losses) on investments	166	497	(67%)	119	376	(68%)
Impairment charges	(349)	(504)	31%	(250)	(382)	35%
Other income / (charges)	(49)	(402)	88%	(35)	(304)	88%
Run-off businesses	39	(35)	-	28	(26)	-
Income before tax (excluding income tax from certain proportionately consolidated associates)	**915**	**1,392**	**(34%)**	**658**	**1,054**	**(38%)**
Income tax from certain proportionately consolidated associates included in income before tax	1	2	(50%)	1	2	(50%)
Income tax	(20)	66	-	(15)	50	-
Of which Income tax from certain proportionately consolidated associates included in income before tax	(1)	(2)	50%	(1)	(2)	50%
Net income	**895**	**1,458**	**(39%)**	**643**	**1,104**	**(42%)**
Life insurance gross premiums	8,350	8,584	(3%)	6,004	6,499	(8%)
Accident and health insurance premiums	2,326	2,308	1%	1,672	1,748	(4%)
Total gross premiums	**10,676**	**10,892**	**(2%)**	**7,676**	**8,247**	**(7%)**
Investment income	4,959	5,282	(6%)	3,565	3,999	(11%)
Fees and commission income	1,066	1,341	(21%)	766	1,015	(25%)
Other revenues	2	2	-	1	1	-
Total revenues	**16,707**	**17,517**	**(5%)**	**12,008**	**13,262**	**(9%)**
Commissions and expenses	4,941	4,720	5%	3,553	3,574	(1%)
of which operating expenses	1,950	1,931	1%	1,402	1,463	(4%)

	Amounts in USD millions			Amounts in EUR millions		
New life sales	2011	2010	%	2011	2010	%
Life & Protection	442	481	(8%)	317	364	(13%)
Employer Solutions & Pensions	24	22	9%	17	16	6%
Canada	65	60	8%	47	46	2%
Latin America	51	44	16%	37	33	12%
Total recurring plus 1/10 single	**582**	**607**	**(4%)**	**418**	**459**	**(9%)**

	Amounts in USD millions			Amounts in EUR millions		
	2011	2010	%	2011	2010	%
New premium production accident and health insurance	812	734	11%	584	555	5%

	Amounts in USD millions			Amounts in EUR millions		
Gross deposits (on and off balance)	2011	2010	%	2011	2010	%
Life & Protection	12	10	20%	9	8	13%
Fixed annuities	313	585	(46%)	225	443	(49%)
Variable annuities	5,314	3,830	39%	3,821	2,899	32%
Retail mutual funds	2,785	3,486	(20%)	2,002	2,639	(24%)
Individual Savings and Retirement	8,412	7,901	6%	6,048	5,981	1%
Employer Solutions & Pensions	23,266	19,247	21%	16,727	14,570	15%
Canada	335	606	(45%)	241	459	(47%)
Total gross deposits	**32,029**	**27,764**	**15%**	**23,028**	**21,018**	**10%**

Exchange rates	Weighted average rate		Closing rate as of	
Per 1 EUR	**2011**	2010	**December 31, 2011**	December 31, 2010
USD	1.3909	1.3210	1.2982	1.3362
CAD	1.3744	1.3599	1.3218	1.3322

Results 2011 Americas

Aegon s business in the Americas performed well during 2011. Consistent with Aegon s strategy, earnings from fee-based businesses grew compared with the previous year. During the year, Aegon divested its life reinsurance activities as the company sharpened its focus on its core businesses. Aegon continued to pursue further efficiencies by building scale and achieving scalability in its businesses to capture the full benefits of organizational integration, a process that started in 2009. The company has also adapted and revised products to better respond to ever changing market conditions.

Net income

Net income from Aegon s businesses in the Americas declined to USD 895 million. This was the result of lower underlying earnings before tax, lower than expected results from fair value items and fewer gains on investments. Lower other charges and improved levels of impairments only partly offset the decline.

In the third quarter of 2011, to reflect the low interest rate environment, Aegon lowered its long-term assumption for 10-year US Treasury yields by 50 basis points to 4.75% (graded uniformly from current yields over the next five years) and lowered the 90-day rate to 0.2% for the next two years followed by a three year grade to 3%. No change was made to the long-term credit spread or default assumptions.

In addition, Aegon lowered its assumed return for separate account bond fund returns by 200 basis points to 4% over the next five years, followed by a return of 6% thereafter. The bond fund return is a gross assumption from which asset management and policy fees are deducted to determine the policyholder return. In total, these assumption changes led to a charge of USD 237 million in the third quarter of 2011.

Underlying earnings before tax

Underlying earnings before tax amounted to USD 1,771 million, a decline of 5% compared with 2010.

- Earnings from Aegon s Life & Protection business in the Americas decreased to USD 727 million, mainly as a result of unfavorable persistency and lower spreads. Also higher Long Term Care provisions, and a charge related to Executive Life of New York, contributed unfavorably to the results. In addition, 2010 included an employee benefit release.
- Individual Savings & Retirement earnings amounted to USD 666 million. Increased earnings from variable annuities of USD 358 million and retail mutual funds of USD 22 million in 2011 were offset by lower earnings from fixed annuities of USD 286 million as a result of declining asset balances as this product was de-emphasized. Variable annuity underlying earnings before tax increased as a result of continued inflows and higher asset balances and included a benefit related to updated assumptions for revenue sharing with third-party fund managers.
- Earnings from Employer Solutions & Pensions increased to USD 326 million as a result of continued strong growth of the business and rate increases for synthetic guaranteed investment contracts.
- Earnings from Aegon Canada decreased slightly compared to 2010 to USD 51 million, while earnings from Aegon s joint-ventures in Brazil and Mexico declined to USD 1 million.

Commissions and expenses

Total commissions and expenses increased by 5% in 2011. Operating expenses increased 1% to USD 2 billion, as cost savings were offset by growth of the business and merit increases.

Production

New life sales decreased 5% to USD 582 million, mainly the effect of the discontinuance of single premium universal life sales in the bank channel during the second half of 2010, as well as repricing of certain universal life products in 2011 to reflect the low interest rate environment. New premium production for accident & health insurance increased to USD 812 million, primarily the result of improved sales in the employer benefits and affinity marketing businesses.

Gross deposits increased 15% to USD 32 billion. The increase was driven by strong pension and variable annuity sales and only partly offset by lower retail mutual fund deposits.

The deposits businesses showed net inflows of USD 3 billion - excluding run-off businesses - as a result of strong inflows for pensions and variable annuities. Aegon is de-emphasizing sales of fixed annuities as part of a strategic repositioning and therefore incurs significant net outflows for this business as a result. Outflows from run-off businesses amounted to USD 4.4 billion, as Aegon has discontinued these activities.

Overview Americas

Aegon Americas comprises Aegon USA, Aegon Canada and the group s operations in Brazil and Mexico.

Aegon USA

Aegon USA is one of the leading[1] life insurance organizations in the United States and is the largest of Aegon s operating units. Aegon USA administers millions of policies and employs approximately 11,000 people. Aegon USA companies can trace their roots back as far as the mid-19th century. Aegon USA operates under one of the best known names[2] in the US insurance business: Transamerica. Aegon USA s main offices are in Cedar Rapids, Iowa, and Baltimore, Maryland, with affiliated companies offices located throughout the United States.

Through these subsidiaries and affiliated companies, Aegon USA provides a wide range of life insurance, pensions, long-term savings and investment products.

Like other Aegon companies around the world, Aegon USA uses a variety of distribution channels to ensure customers can access the products in a way that best suits their needs. Aegon USA has long-standing relations with banks across the United States, and also distributes products and services through other channels: agents, broker-dealers, specialized financial advisers, the internet as well as direct and worksite marketing.

Aegon Canada

Based in Toronto, Aegon Canada offers a range of insurance products and financial services, primarily through its Transamerica Life Canada subsidiary. At December 31, 2012, Aegon Canada had approximately 600 employees.

Aegon Brazil

In 2009, Aegon acquired a 50% interest in Mongeral Aegon S.A. Seguros e Previdência, Brazil s sixth largest independent life insurer. At December 31, 2012, Aegon Brazil had approximately 400 employees.

Aegon Mexico

In 2006, Aegon acquired a 49% interest in Seguros Argos S.A. de C.V., a Mexican life insurance company. At December 31, 2012, Aegon Mexico had approximately 200 employees.

Organizational structure

Aegon USA

Aegon USA was founded in 1989 when Aegon brought all of its operating companies in the United States under a single financial services holding company, Aegon USA, LLC. Business

is conducted through its subsidiaries. Aegon USA has operating licenses in every US state, the District of Columbia, Puerto Rico, the Virgin Islands and Guam.

Aegon USA s primary insurance subsidiaries are:

¿ Transamerica Life Insurance Company
¿ Transamerica Financial Life Insurance Company
¿ Transamerica Advisors Life Insurance Company
¿ Transamerica Advisors Life Insurance Company of New York
¿ Monumental Life Insurance Company

- Stonebridge Life Insurance Company
- Stonebridge Casualty Insurance Company
- Western Reserve Life Assurance Co. of Ohio

Aegon s subsidiary companies in the United States contain three business lines acting through one or more of the Aegon USA life insurance companies:

- Life & Protection
- Individual Savings & Retirement
- Employer Solutions & Pensions

These lines of business, which are described in further detail below, represent groups of products that are sold through Aegon USA s operating companies by various distribution methods and sales channels. The business structure is designed to enable Aegon USA to manage and improve the efficiency of the organization and operating processes, to identify business synergies and to pursue cross-selling opportunities. Coordinated support services complement operations by providing functional support in systems technology, investment management, regulatory compliance, and various corporate functions. Products are also offered and distributed through one or more of the Aegon USA licensed insurance or brokerage subsidiary companies.

Aegon Canada

In Canada, Aegon has two main operating subsidiaries:

- Transamerica Life Canada
- Canadian Premier Life

1 Source: LIMRA.
2 Source: Brand Power Analysis.

Overview sales and distribution channels

Aegon USA

Aegon USA uses a variety of sales and distribution channels in the United States. These include:

- Independent and career agents
- Financial planners
- Registered representatives
- Independent marketing organizations
- Banks
- Regional and independent broker-dealers
- Benet consulting firms
- Wirehouses
- Affinity groups
- Institutional partners
- Third party administrators

In addition, Aegon USA provides a range of products and services online, and uses direct and worksite marketing. This approach allows Aegon USA customers more ways to access products and services. Generally, Aegon USA companies are focused on particular products or market segments, ranging from lower income to high-net-worth individuals and from small to large corporations.

Aegon Canada

Aegon Canada uses a variety of distribution channels which promote, and process business of, independent financial advisers. These channels are:

- Independent and career agents
- Independent managing general agencies
- Agencies owned by Transamerica Life Canada
- Bank-owned national broker-dealers and mutual fund dealers

Overview business lines

Aegon USA

Life & Protection

Life & Protection offers a comprehensive portfolio of products tailored to meet the diverse needs of its key stakeholders: families and individuals, business clients and distributors.

Products

Products offered include whole life, universal life, variable universal life, indexed universal life and term life insurance, and supplemental health, special accident, and long-term care protection products.

Life & Protection (L&P), the largest of the Aegon USA divisions, serves customers in a broad range of market segments. Consumers can choose to purchase directly or through career/ independent agents or sponsored/affinity groups. L&P offers a wide array of life, health and specialty insurance with a common purpose: to protect families and their dreams.

Term life insurance

Term life insurance provides protection for a stated period of time. Benefits are paid to policy beneficiaries in the event of the death of the insured during a specified period.

Universal life insurance

Universal life insurance pays death benefits, accumulates cash values at interest rates that adjust periodically, and has flexible premiums. Indexed universal life products have both interest rate guarantees and interest crediting linked in part to performance of an index, subject to a cap. Variable universal life products include varying investment options for cash values.

Whole life insurance

Whole (permanent) life insurance provides life-long death benefit protection as long as required premiums are paid, while accumulating tabular cash values based on statutory requirements. Premiums are generally fixed and usually payable over the life of the policy.

Other life insurance

Life products also include life insurance sold as part of defined benefit pension plans, single premium products, and additional optional benefits.

Supplemental health and specialty insurance

Supplemental health insurance products are sold primarily through affinity markets and include accidental death, other injury, critical illness, hospital indemnity, Medicare supplement, and student health. Specialty lines include travel, membership and creditor (installment/mortgage/guaranteed auto protection) products.

Long-term care insurance

Long-term care (LTC) insurance products provide benefits to policyholders who require care due to a chronic illness or cognitive impairment. LTC insurance serves as an asset protection tool by reimbursing policyholders for costly expenses associated with LTC services, and it may also help a family better manage the financial, health and safety issues that are associated with LTC.

Sales and distribution

The Life & Protection division is organized by distribution channel, with a shared services support platform. Each channel focuses on a specific type of distribution method and target market. The L&P distribution channels include affinity markets, agency group, brokerage, international markets, and broker-dealer.

Affinity Markets

The Affinity Markets group markets directly to consumers through either the broad market or affinity relationships, including associations, employers, financial institutions, retailers, and other sponsor groups. Life, supplemental health, and specialty accident and membership products are offered through a variety of direct response marketing channels, including mail, phone, digital, direct response TV and point-of-sale.

Agency Group

Transamerica Agency Group includes Transamerica Agency Network - Independent Group, Transamerica Agency Network - Career Agency, Transamerica Senior Markets, Carillon Financial Network, ORBA Financial Management and several independent marketing organizations. This group provides life insurance, health insurance and securities products, as well as marketing services to closely tied distribution groups serving the middle income and small business markets.

Brokerage

Transamerica Brokerage offers life and long-term care insurance products and services through independent brokerage distributors to high-net-worth, affluent, emerging affluent and middle income individuals, families and businesses. These products are designed for family protection, business needs, and estate and legacy planning.

International Markets

Transamerica also sells its producs both in the United States and abraod through direct marketing and abroad to high-net-worth individuals through international brokers and bankassurances. The Direct Marketing group makes its products and direct response marketing expertise available through brokers and alliances with financial institutions, retailers, telecommunications providers, insurance companies and other database owners in Europe and Latin America. The High-Net-Worth unit offers life insurance products underwritten by Transamerica Life (Bermuda) Ltd., through international brokers and bankassurances. These products are tailored to meet both individual and business needs of affluent customers who reside in Asia, Europe, and Latin America.

Broker-dealer

Transamerica Financial Advisors, Inc. (TFA) is a full service, Financial Industry Regulatory Authority (FINRA) registered independent broker-dealer and Securities and Exchange Commission (SEC) Registered Investment Adviser with approximately 5,000 Registered Representatives. TFA focuses on creating, growing and protecting wealth through a range of financial products and services.

Individual Savings & Retirement

Through its insurance companies, broker-dealers and investment advisers, Aegon USA offers a wide range of savings and retirement products and services, including mutual funds, fixed and variable annuities. The Individual Savings and Retirement division administers and distributes these products through a variety of channels: including wirehouse firms, banks,

regional broker dealers, independent financial planners and direct to consumer.

Products

Variable annuities

Variable annuities are sold to individuals and retirement plans in the United States. Variable annuities allow a policyholder to provide for their financial future on a tax-deferred basis and to participate in equity or bond market performance. Variable annuities allow a policyholder to select payout options designed to help meet the policyholder s need for income upon maturity; this includes lump sum payment, income for life or for a period of time.

Premiums paid on variable annuity contracts are invested in underlying funds chosen by the policyholder, including bond and equity funds as well as various types of asset-allocation funds. A fixed interest account is available on most products and the underlying funds are selected by a policyholder, within certain boundaries, based on the policyholder s preferred level of risk. The assets and liabilities related to this product are legally segregated in separate accounts of the insurance company for the benefit of variable annuity policyholders. These separate accounts are classified as investments for the account of policyholders on Aegon s statement of financial position. Variable annuity contracts contain riders such as guaranteed minimum death, maturity, withdrawal, accumulation or income benefits.

The account value of variable annuities reflects the performance of the underlying funds. Aegon USA earns mortality and expense charges as well as various types of rider fees for providing guarantees and benefits. Surrender charges are generally not a large form of revenue as policyholder surrender rates are typically lower when a surrender charge penalty is still present. Any surrender charges collected are typically used to recoup unamortized deferred acquisition costs. A guaranteed minimum withdrawal benefit is offered on some variable annuity products Aegon USA either issued or assumed from a ceding company. This benefit guarantees a policyholder can withdraw a certain percentage of the account value, starting at a certain age or duration, for either a fixed period or the life of the policyholder.

Certain variable annuity contracts also provide guaranteed minimum death benefits and guaranteed minimum income benefits. Under a guaranteed minimum death benefit, the beneficiaries receive the greater of the account balance or the guaranteed amount upon the death of the insured. The guaranteed minimum income benefit feature (which is no longer offered on new business since 2003) provides for minimum payments if the policyholder elects to convert to an immediate payout annuity. The guaranteed amount is calculated using the total deposits made by the policyholder, less any withdrawals and sometimes includes a roll-up or step-up feature that

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increases the value of the guarantee with interest or with increases in the account value.

These guaranteed benefits subject the company to both interest rate and market risk. Poor market performance may cause the guaranteed benefits to exceed the policyholder account value.

Aegon USA addresses equity market risk through product design, including robust analysis of the underlying funds allowed within a product, and by using hedging strategies. Variable annuity products also contain interest rate risk and policyholder behavior risk, which are handled similarly to those in fixed annuities.

Mutual funds

Aegon s fee business comprises products that generate fee income by providing management, administrative or risk services related to off-balance sheet assets. Fee income is mainly sensitive to withdrawals and equity market movements.

Aegon s operations in the United States provide various investment products and administrative services, individual and group variable annuities, mutual funds, collective investment trusts and asset allocation services.

The operations in the United States provide the fund manager oversight for the Transamerica funds. Aegon USA selects, manages, and retains affiliated and non-affiliated managers from a variety of investment firms based on performance.

In most cases, the manager remains with the investment company and acts as a sub-adviser for Aegon USA s mutual funds. Aegon USA earns investment management fees on these investment products. Aegon USA also earns direct investment management fees through affiliated managers acting as sub-advisers.

Fixed annuities

Fixed annuities include both deferred annuities and immediate annuities. This product line has been de-emphasized due to the low interest rate environment. A fixed deferred annuity exposes Aegon to interest rate risk and lapse risk. The insurer interest rate risk can be mitigated through product design, close asset liability management and hedging, though the effects of policyholder behavior can never be fully mitigated. Surrender charges in early policy years serve as a deterrent to early duration lapses. Fixed annuities sold in the United States contain significant interest rate and longevity risks created by guaranteed annuity options, and most also offer waiver of account value surrender charges upon the death of the insured. Immediate annuities contain interest rate risk and also longevity risk if annuity payments are life contingent.

An immediate annuity is purchased with a single lump sum premium payment, and the benefit payments generally begin within a year after the purchase. The benefit payment period can

be for a fixed period, for as long as the beneficiary is alive, or a combination of the two. Some immediate annuities and payout options under deferred annuities may also offer the owner or beneficiaries the option to surrender the annuity to have access to the account value if needed for unexpected events.

Fixed deferred annuity contracts may be purchased on either a flexible or single premium basis. Deferred annuities are offered on a fixed interest crediting method or indexed basis. The policyholder can surrender the annuity prior to maturity and receive the cash value less surrender charges. Fixed deferred annuities have a specified crediting rate that can be reset periodically at the company s discretion after an initial guarantee period. Fixed deferred annuity contracts in the United States also offer guaranteed minimum surrender values and payout options. Upon maturity of the annuity, the policyholder can select payout options that include a lump sum payment, income for life, or payment for a specified period of time. In the event of the death of the policyholder prior to receiving the benefits of the policy, the beneficiary receives either an accumulated cash value death benefit or an enhanced death benefit in the event there are benefit riders attached to the base contract. Early withdrawal by the policyholder of the cash value of the annuity is subject to surrender charges. These surrender charges are generally not a large form of revenue as policyholder surrender rates are typically lower when a surrender charge penalty is still present. Any surrender charges collected are typically used to recoup unamortized deferred acquisition costs.

Minimum interest rate guarantees exist in all generations of deferred annuity products, as they are required by state non-forfeiture regulations. The average minimum interest rate guarantees of the in-force fixed annuity block is approximately 2.65% . The average current credited rate of the in-force fixed annuity block is approximately 3.40% . Equity indexed annuities offer additional returns that are index-linked to published stock market indices, with a minimum cash value equal to a percentage of the premium increased at a minimum, variable rate. Equity indexed annuities make up a small fraction of the in-force business.

Besides the minimum interest rate guarantee, certain fixed deferred annuity products also offer a bailout provision. Under the bailout provision, if the crediting rate falls below the bailout rate, policyholders can surrender their contracts without incurring any surrender charges.

Sales and distribution

Aegon USA underwrites fixed and variable annuities through its various life insurance companies. Transamerica Capital Inc. (TCI), the underwriting and wholesaling broker-dealer, distributes variable annuities and mutual funds through major wirehouse firms, regional broker-dealers, independent financial planners and a large bank network. TCI serves these distribution channels through company-owned and external wholesalers.

Starting in late 2009, Aegon USA reduced its sales of fixed annuities in response to lower market interest rates and lower investment returns available in that environment. Similar market conditions continued in 2010 and continue to restrict sales of fixed annuities. As a result, Aegon USA decided to de-emphasize the sale of fixed annuities.

TFA provides a range of financial and investment products, operating as a retail broker-dealer registered with FINRA and an investment adviser registered with the SEC. Products offered by TFA include mutual funds, variable life insurance, variable annuities and other securities.

Employer Solutions & Pensions

Aegon USA offers retirement plans, pension plans, pension-related products and services, life and supplemental health insurance products through employers, as well as step-by-step guidance related to five key areas - Lifestyle, Investments, Health Care, Protection and Income - to people who are transitioning to, or living in, retirement.

Aegon USA covers a range of different retirement plans, including:

- 401(k) - a type of deferred compensation plan sponsored by a corporation (including subchapter S), self-employed individual, sole proprietorship, partnership or non-profit organization.
- 403(b) - a type of deferred compensation plan for certain employees of public schools, employees of certain tax-exempt organizations and certain ministers.
- 457(b) - a type of deferred compensation plan sponsored by governmental and certain non-governmental employers in the United States.
- Deferred compensation plan - a plan or agreement that defers the payment of a portion of the employee s compensation to a future date and which may also include a contribution made by the employer for the employee s benefit.
- Money purchase - a type of defined contribution plan where the employer is required to make a contribution, on behalf of the plan participants, to the plan each year.
- Defined benefit - a pension plan in which an employer promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee s earnings history, tenure of service and age.
- Defined contribution - a plan in which the contributions made to the plan by the employee and/or employer are allocated to the employee s individual account under the plan. Examples of defined contribution plans include 401(k) plans, 403(b) plans, money purchase plans and profit-sharing plans.
- Profit-sharing - a type of defined contribution plan in which the employer may make a contribution, on behalf of the plan participants, to the plan each year either out of the company s profits or otherwise.

Products

Retirement plans

Diversified Retirement Corporation (rebranded to Transamerica Retirement Solutions Corporation in January 2013) offers a wide array of investment options designed to create a fully customized investment line-up for clients and a personalized retirement funding strategy for their retirement plan participants.

Transamerica Retirement Solutions open architecture investment platform provides its clients access to a broad investment universe, including institutional and retail mutual funds, registered or non-registered variable annuities, or a collective investment trust. The investment options offered in each plan are selected by the client or the client s financial adviser.

Transamerica Retirement Services offers fully bundled and partially bundled retirement plan solutions to small and mid-sized employers. These plans are predominantly supported by a group variable annuity product, where plan assets are invested primarily in separate account investment choices, including bond and equity investment choices, and cash equivalent choices. A fixed account cash vehicle may also be available on most plans. The investment choices are selected by the client or by the client s financial adviser.

Single premium group annuities

Single premium group annuities (Terminal Funding) is a non-participating group annuity product. This product is usually used for an insurance company takeover of a terminating defined benefit pension plan. The company receives a single deposit from the contract holder and in return guarantees the payment of benefits to participants. Usually these annuity payments are paid monthly for the life of the participant or participant and spouse, commencing immediately for retired participants or at some date in the future for deferred participants.

Life and supplemental health

Transamerica Employee Benefits offers life, supplemental health and stop loss products.

Life products include universal life insurance, whole life insurance and term life insurance. Supplemental health products include dental, accident, critical illness, cancer treatment, hospital indemnity and short-term disability policies. Some of these plans provide lump sum or specified income payments when hospitalized, disabled or diagnosed with a critical illness. Other plans pay scheduled benefits for specific hospital or surgical expenses and cancer treatments, hospice care and cover deductible, as well as co-payment amounts, not covered by other health insurance. Stop loss provides catastrophic coverage to self-insured employer health plans.

Synthetic guaranteed investment contracts

Stable value solutions (SVS) provides synthetic guaranteed investment contracts (GICs) in the United States primarily to tax-qualified institutional entities such as 401(k) plans and other retirement plans. SVS provides a synthetic GIC wrapper around fixed-income invested assets, which are owned by the plan and managed by the plan or a third party money manager hired by the plan. A synthetic GIC is typically issued with an evergreen maturity and can be terminated under certain conditions. Such a contract helps to reduce fluctuations in the value of the wrapped assets for plan participants, and provides book value benefit-responsiveness.

Sales and distribution

Transamerica Retirement Solutions provides a comprehensive and customized approach to retirement plan management, catering to the mid- to large-sized defined contribution, defined benefit and non-qualified deferred compensation retirement plans market. Transamerica Retirement Solutions clients are generally organizations with 250 to 100,000 employees and between USD 15 million and USD 2 billion in retirement assets.

Transamerica Retirement Solutions serves more than 17,000 small- to mid-sized companies across the United States. Transamerica Retirement Solutions offers a number of specialized services, including innovative plan design, a wide array of investment choices, extensive education programs and online investment education.

Transamerica Retirement Solutions also offers single premium group annuities in the United States, which are used by companies to decrease the liability of their defined benefit plans. The market is growing in this segment as more employers look to reduce the cost and complexity of their pension liabilities, often driven by widespread economic and sector restructuring.

Through Transamerica Employee Benefits, Transamerica offers voluntary payroll deduction life and supplemental health to companies ranging in size from just five employees to more than 100,000. Products and services are marketed to employees at their place of work and are designed to supplement employees existing benefit plans. As of January 2013, this division became part of Life & Protection.

Transamerica Retirement Management, Inc. (rebranded January 2013 to Transamerica Retirement Solutions Corporation) works with individual plan participants who are in transition. Whether participants have experienced a lay-off, a job change or a planned retirement, Transamerica Retirement Solutions has a phone-based team of salaried retirement counselors who can help clearly explain the choices available so the participant can confidently take the next step. Employees providing these services are registered representatives and investment adviser representatives of TFA. In addition to serving those in transition, Transamerica Retirement Solutions also provides pre-retirees the guidance and decision support needed to make a successful transition to and through retirement. Transamerica Retirement Solutions offers an array of advisory services, brokerage products, annuities and access to other insurance related products and resources.

Each plan for retirement can be as simple or as detailed as necessary, depending on the goals and needs of the individual.

As of January 2013, the three business units Diversified, Transamerica Retirement Services and Transamerica Retirement Management have been combined to form Transamerica Retirement Solutions Corporation.

Overview business lines

Canada

Life & Protection

Transamerica Life Canada (TLC) is a leading provider of life insurance products to Canadian consumers. By working through a variety of distribution channels, TLC has acquired a national network of thousands of independent advisers. These advisers provide middle market Canadians with the individual life insurance and protection products they need to help them take responsibility for their financial future.

Latin America

Aegon s business in Latin America comprises the 50% interest in Mongeral Aegon S.A. Seguros e Previdência, a Brazilian independent life insurer and the 49% interest in Seguros Argos S.A. de C.V., a Mexican life insurance company. Mongeral s insurance activities include pension product distribution, individual and group life insurance products, and administrative services. Seguros Argos s primary product is a twenty-year term life insurance product. Both insurance companies distribute their products in the worksite market.

Run-off businesses

Institutional spread based business

This business was put into run-off during 2009. The primary products included guaranteed investment contracts (GICs), funding agreements (FAs) and medium term notes (MTNs).

Guaranteed investment contracts and funding agreements

GICs were generally issued to tax qualified plans, while FAs and MTNs were typically issued to non-tax qualified institutional investors.

GICs and FAs are spread-based products and were issued on a fixed-rate or floating-rate basis. They provide the customer a guarantee of principal and a specified rate of return. Some spread products were issued by pledging, selling with the intent to repurchase, or lending investment securities that serve as collateral to these products. Practically all of the liabilities represented by the fixed-rate contracts were effectively converted to floating-rate via swap agreements and contracts issued in foreign currencies were converted at issuance to US dollars via swap agreements to eliminate currency risk. Credited interest on floating-rate contracts predominately resets on a monthly basis to various market indices. The term of the contract can be fixed, generally from six months up to ten years, or it can have an indefinite maturity. Market-indexed contracts provide a return based on the market performance of a published index designated in the contract. Futures or swap contracts are used to hedge the market risk on market-indexed contracts and effectively convert such contracts to a floating-rate.

Medium-term notes

Aegon USA utilized consolidated special purpose entities to issue MTNs that are backed by FAs. The proceeds of each note series were used to purchase a FA from an Aegon insurance company, which was used to secure that particular series of notes. The payment terms of any particular series substantially matched the payment terms of the FA that secured that series.

Payout annuities

Payout annuities are a form of an immediate annuity. Aegon USA no longer issues these contracts, but continues to administer the closed block of business. These contracts were typically purchased as a result of a lawsuit or a claim and the injured party receives special tax treatment. Rather than paying the injured party a lump sum, the payments were structured as a lifetime annuity with mortality risk, a period certain annuity, or a combination of both.

BOLI/COLI

Aegon USA services life insurance products sold to the bank- and corporate-owned life insurance (BOLI/COLI) market in the United States. BOLI/COLI helps institutional customers fund long-term employee benefits such as executive compensation and post-retirement medical plans. The corporation insures key employees and is the owner and beneficiary of the policies. New sales of BOLI/COLI were discontinued in 2010.

Clark Consulting specializes in the servicing and administration of bank-owned life insurance. Clark Consulting s relationships and service model help maintain strong persistency for the block of business.

Life reinsurance

In August 2011, Aegon completed the divestment of its life reinsurance business, Transamerica Reinsurance, to SCOR, a global reinsurance company based in France. Under the agreement, Aegon divested its global life reinsurance activities with the exception of select blocks of business. The retained businesses comprise mainly variable annuity guarantee business.

Competition

Competitors of the Aegon Americas companies include other large and highly-rated insurance carriers, as well as certain banks, securities brokerage firms, investment advisers and other financial intermediaries marketing insurance products, annuities and mutual funds.

In the United States, the Life & Protection division faces competition from a variety of carriers. Top competitors include AIG, Genworth, John Hancock, Hartford, USAA, Lincoln National, American General, and MetLife. In Canada, the primary competitors are Power Corporation (London Life, Canada Life, Great West Life), Sun Life Financial, Manulife Financial, and Industrial-Alliance. The result is a highly competitive marketplace and increasing commoditization in many product categories. Aegon believes the best and most enduring competitive advantages are relationships and service.

Aegon USA

Aegon USA markets variable universal life, mutual funds, and variable annuities to middle-income clients with equity investment objectives. Sales are often driven by the competitiveness of the living benefits offered by competitors, with most product development focusing on guaranteed lifetime withdrawal benefits, which guarantee lifetime withdrawals of a certain amount under certain conditions.

Aegon USA is able to leverage its long-term relationships built with many institutions to offer them such product lines as variable annuities, life insurance, mutual funds, and 401(k) products.

Maintaining an effective wholesaling force, focusing on strategic business relationships and developing products with features, benefits and pricing believed to be attractive in that market place, Aegon USA actively competes in the variable annuity marketplace. The market has shown a continued interest in guaranteed lifetime withdrawal products, and there is strong competition among providers. Aegon USA s primary competitors in the variable annuity market are MetLife, Prudential, Lincoln National, Nationwide and Jackson National.

The top five competitors in the mutual fund market are generally considered to be: American Funds, Fidelity, PIMCO, Franklin Templeton, and T. Rowe Price.

The pension market continues to evolve rapidly and is facing growing regulatory compliance pressures, continuing demand for technological innovation, pricing pressures, and provider consolidation. Aegon USA s ability to achieve greater economies of scale in operations will be assisted if growth in key market segments continues, technology improves, and if process management increases efficiency.

In the defined contribution market, Aegon USA s main competitors are Fidelity, T. Rowe Price, Vanguard, Schwab, Principal Financial, Mass Mutual and New York Life. Aegon USA s main competitors in the defined benefit segment are Mass Mutual, New York Life, Principal Financial, and Prudential.

In the small business retirement plan segment and the multiple employer plan segment, Aegon USA s main competitors are Principal Financial, John Hancock, American Funds, Fidelity, and ING. In the single premium group annuity market, Aegon USA s main competitors are Mass Mutual, Prudential, John Hancock, MetLife and Mutual of Omaha.

Aegon USA has been a leading issuer of synthetic GICs[1].

Regulation and supervision

Aegon USA

The Aegon USA insurance companies are subject to regulation and supervision in the states and jurisdictions in which they transact business, maintain offices or otherwise have a business presence. Supervisory agencies in each of those states and jurisdictions have broad powers to do any of the following: grant or revoke licenses to transact business, regulate trade and marketing practices, license agents, approve policy forms and certain premium rates, set reserve and capital requirements, determine the form and content of required financial reports, examine the insurance companies, prescribe the type and amount of investments permitted, levy fines and seek restitution for failure to comply with applicable regulations. The international businesses of Aegon USA are governed by the laws and regulations of the countries in which they transact business, maintain offices or otherwise have a business presence.

Insurance companies are subject to a mandatory audit every three to five years by their domestic regulatory authorities, and every year by their independent auditors. In addition, examinations by non-domestic state insurance departments are conducted, on a targeted, random or cyclical basis. Some state Attorneys General have also commenced investigations into certain insurers business practices. Within the insurance industry, substantial liability has been incurred by insurance companies based on their past sales, marketing and operational practices. Aegon USA continues its focus on these compliance issues, and costs can increase as a result of these activities.

States have risk-based capital (RBC) standards for life insurance companies, established by the National Association of Insurance Commissioners (NAIC). The RBC Model Act (Model Act) provides for various actions should an insurer s adjusted capital, based on statutory accounting principles, fall below certain prescribed levels (defined in terms of its risk-based capital). The adjusted capital levels of the Aegon USA insurance companies currently exceed all of the regulatory action levels as defined by the Model Act. Any modifications of these adjusted capital levels by the regulators or rating agency capital models may impact Aegon USA. States previously adopted conservative reserving requirements for term and universal life products that continue

to cause capital strain for the life insurance industry. In volatile market conditions, funding for those reserves continues to be challenging.

The NAIC amended its Model Holding Company Act and Regulation to enhance disclosure to regulators about risk exposure to insurers from within their holding company system, for adoption by jurisdictions in 2012 and 2013. Existing insurance holding company statutes and the regulations of each insurer s domiciliary state in the United States already impose various limitations on investments in affiliates, and require prior approval of the payment of dividends above certain threshold levels by the licensed insurer to Aegon or its affiliates. In response to international developments, the NAIC also passed a new Own Risk and Solvency Protection Model Act and Guidance Manual, which may come into effect as early as 2013. The NAIC revised the Model Standard Valuation Law (SVL) and completed a new Valuation Manual, which together established Principles-Based Reserving (PBR) in 2012. A few states are considering passage of the SVL in 2013, but implementation of PBR is not expected until 2016 or later. NAIC will continue to consider changes to corporate governance and insurers use of captives through 2013.

Although the US federal government has not historically regulated the insurance business, many federal laws impact the insurance business in a variety of ways. US federal and state privacy laws and regulations impose restrictions on financial institutions use and disclosure of customer information. Legislation is sometimes introduced - in the US Congress or state governments - that would either impose additional restrictions on the use and disclosure of customer information or would require financial institutions to enhance the security of personal information and impose new obligations in the event of data security breaches.

In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), enacted in 2010, established the Federal Insurance Office (FIO). A FIO director was appointed in June of 2011. While the FIO does not have any direct regulatory authority over US insurers, it does have certain authority to represent the US government in establishing international regulatory standards for insurers, and to represent the US insurance industry in international matters. The Dodd-Frank Act also established the Consumer Financial Protection Bureau, which has the authority to regulate the marketing practices of credit insurance as well as other financial products sold through banks. The Federal Reserve Board has also established certain disclosures relating to credit insurance sold in connection with a bank loan. The activities of the FIO and other federal agencies under the Dodd-Frank Act will likely have

1 Source: Reports from LIMRA International and the Stable Value Investment Association s Stable Value and Funding Agreement Products as of the first three quarters of 2012.

a significant impact on the capital standards and sale of life insurance and annuities in the United States.

Federal laws and the rules of the Federal Trade Commission (FTC) and the Federal Communications Commission (FCC) prohibit telephone solicitations to customers who have placed their telephone numbers on the National Do Not Call Registry. Additionally, proposals to place restrictions on direct mail are considered by the US Congress and states from time to time. These restrictions adversely impact telemarketing efforts of Aegon USA, and new proposals, if enacted, will likely also directly impact direct mail efforts. Finally, proposed Federal Reserve Board disclosures regarding credit insurance provided in connection with a loan, if enacted as proposed, would adversely impact the market for credit insurance.

Many supplemental health insurance products, such as Medigap, offered by the Transamerica companies, are subject to both federal and state regulation as health insurance. The Patient Protection and Affordable Care Act (PPACA), enacted in 2011, significantly changes the regulation of health insurance and delivery of health care in the United States, including in certain respects, the regulation and delivery of supplemental health insurance products. Individual states are required to establish health care exchanges for the purchase of health care insurance by individuals. The extent to which employers may discontinue their provision of supplemental health insurance products to retired employees and the extent to which supplemental health insurance products may be sold through state exchanges may significantly impact Aegon USA s supplemental health products business.

Additionally, certain policies and contracts offered by Aegon USA insurance companies are subject to regulation under the federal securities laws administered by the SEC and under certain state securities laws. The SEC conducts regular examinations of the insurance companies variable life insurance and variable annuity operations, and occasionally makes requests for information from these insurers in connection with examinations of affiliate and third party broker-dealers, investment advisers and investment companies. The SEC and other governmental regulatory authorities, including state securities administrators, may institute administrative or judicial proceedings that may result in censure, fines, issuance of cease-and-desist orders or other sanctions. Sales of variable insurance and annuity products are regulated by the SEC and the FINRA. The SEC, FINRA and other regulators have from time to time investigated certain sales practices involving variable annuities and transactions in which an existing variable annuity is replaced by, or exchanged for, a new variable annuity. Certain separate accounts of Aegon USA insurers are registered as investment companies under the Investment Company Act of 1940, as amended (the Investment Company Act). Separate account interests under certain annuity contracts and insurance policies issued by the insurance

companies are also registered under the Securities Act of 1933, as amended (the Securities Act).

Some of Aegon USA s investment advisory activities are subject to federal and state securities laws and regulations. Mutual funds managed, issued and distributed by Aegon USA companies are registered under the Securities Act, and the Investment Company Act. With the exception of its investment accounts which fund private placement investment options that are exempt from registration, or support fixed rate investment options that are also exempt from registration, all of Aegon USA s separate investment accounts that fund retail variable annuity contracts and retail variable life insurance products issued by Aegon USA companies are registered both under the Securities Act and the Investment Company Act. Institutional products such as group annuity contracts, guaranteed investment contracts, and funding agreements are sold to tax qualified pension plans or to other sophisticated investors and are exempt from registration under both Acts. On July 21, 2010, the SEC proposed a framework to replace the requirements of Rule 12b-1 of the Investment Company Act with respect to how mutual funds and underlying funds of separate accounts collect and pay fees to cover the costs of selling and marketing their shares. The proposed changes are subject to public comment and, following any enactment, would be phased in over several years. The impact of these proposals cannot be predicated at this time.

Some of the Aegon USA companies are registered as broker-dealers with the SEC under the Securities Exchange Act of 1934, as amended (the Securities Exchange Act) and are regulated by the FINRA. A number of Aegon USA companies are also registered as investment advisers under the Investment Advisers Act of 1940. Aegon USA insurance companies and other subsidiaries also own or manage other investment vehicles that are exempt from registration under the Securities Act and the Investment Company Act but may be subject to other requirements of those laws, such as anti-fraud provisions and the terms of applicable exemptions. The Dodd-Frank Act reforms the regulatory structure of the financial services industry in the United States, including providing for additional oversight of systemically significant companies. In accordance with the Dodd-Frank Act requirements, the SEC studied and recommended a harmonized standard of care for broker-dealers, investment advisers and persons associated with these firms who are providing personalized investment advice. The SEC has indicated that it intends to seek comments on the costs and benefits of regulations establishing a harmonized standard of care; however, it has not set a date for enactment of those regulations. Legislation was introduced in the House of Representatives in the 112th congress that would establish a self-regulatory organization for the examination of investment advisers; however, no action was taken on the legislation at the end of that congress. Further proposals could come in this area

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in 2013. The impact of regulations resulting from these studies cannot be predicted at this time.

The financial services industry, which includes businesses engaged in issuing, administering, and selling variable insurance products, mutual funds, and other securities, as well as broker-dealers, continues to be under heightened scrutiny and increased regulation in various jurisdictions. Such scrutiny and regulations have included matters relating to so-called producer compensation arrangements, suitability of sales, selling practices, unclaimed property reporting, revenue sharing, and valuation issues involving mutual funds and life insurance separate accounts and their underlying funds. Aegon USA companies, like other businesses in the financial services industry, have received inquiries, examinations, and requests for information from regulators and others relating to certain Aegon USA companies historical and current practices with respect to these and other matters. Some of those inquiries have led to investigations, which remain open or have resulted in fines, corrective actions or restitution. Aegon USA companies continue to cooperate with these regulatory agencies. In certain instances, Aegon USA companies modified business practices in response to those inquiries or findings. Certain Aegon USA companies have paid or been informed that the regulators may seek restitution, fines or other monetary penalties or changes in the way that business is conducted. The impact of any such fines or other monetary penalties is not expected to have a material impact on Aegon USA s financial position, net income or cash flow. Over the years, there has been an increase in litigation across the industry, new legislation, regulations, and regulatory initiatives aimed at curbing alleged improper annuity sales to seniors. As many of the estimated 77 million baby boomers are reaching the age of 60, the industry will likely see an increase in senior issues presented in various legal arenas. In addition, certain industry practices in respect of market conduct have been the subject of investigations by various state regulators. With the significant decline in financial markets in late 2008 and early 2009, management expects there will be further regulation and litigation which could increase costs and limit Aegon USA s ability to operate.

Some Aegon USA companies offer products and services to individual retirement accounts (IRAs), pension and welfare benefit plans that are subject to the federal Employment Retirement Income Security Act (ERISA). ERISA is administered by the US Department of Labor (DOL) and Internal Revenue Service (IRS). Accordingly, the DOL and IRS have jurisdiction to regulate the products and services sold by these Aegon USA businesses. DOL has issued regulations defining the nature of fees to be paid for investment advice in these plans, as well as requiring increased fee disclosure from defined contribution plan service providers and to plan participants. The DOL has indicated that it will re-propose regulations regarding the scope of an investment advice fiduciary in IRAs and defined contribution plans, as well as further define the nature of a

plan sponsor s obligations regarding certain plan participants investment options selected through a plan s brokerage window. Implementation of these and other regulations in the manner proposed could increase the cost and administrative burdens of the Aegon USA companies.

Finally, both the US Treasury Department has published, and the DOL have or are expected to offer, guidance addressing some of the administrative burdens of offering annuities both as an investment option in a retirement savings plan or as a distribution from that plan. This guidance, the legislative proposals, and additional, anticipated regulatory guidance, are expected to significantly reduce the administrative burden of offering annuities within a retirement savings plan or as a distribution option from the plan.

In an attempt to increase the number of workers covered by a retirement savings plan, California has enacted legislation that would permit non-governmental workers to join the state government workers retirement plan or a similar governmental plan. Certain steps must be taken, however, before the legislation can be implemented. Several other states are considering similar legislation. The opening of State retirement plans to non-governmental workers could impact the products and sevices sold by some Aegon USA companies to private employers in those states.

Although the insurance business is regulated at state level, the US federal tax treatment of life insurance, pension and annuity products are governed by the US federal tax code. Proposals to remove or decrease the value of these tax incentives for these products - both in and of themselves and relative to other investment vehicles - are debated periodically in the US Congress and are also proposed in the Executive Administration s annual budget for the US federal government. Executive Administration budget proposals, to be effective, must be enacted by Congress before they become law. This risk of tax changes is heightened when additional revenue is sought to reduce the federal deficit. In addition, current discussions on major tax reform initiatives further increase the risk of changes to the tax incentives for short- and long-term savings products, as well as to the taxation of life insurers. These changes, if enacted, would directly impact the cost and competitiveness of life insurance, annuity and pension products sold to ensure Americans financial retirement security.

Moreover, legislative proposals which impose restrictions on executive compensation or restrict employment-based savings plans, adversely impact the sale of life insurance products used in funding those plans and their attractiveness relative to other non-insurance products. Finally, regulations announced under the Dodd-Frank Act that limit investment by banks in certain financial services products or increase the cost of issuing certain life insurance products would adversely impact the sale of life insurance products. In particular, the market for stable value products sold to defined contribution plans, as well as other insurance products, would be adversely affected if it was decided that these products should be regulated as derivatives.

There have also been occasional legislative proposals in the US Congress that target foreign owned companies, such as a proposal containing a corporate residency provision that threatens to redefine some historically foreign-based companies as US corporations for US tax purposes.

The economic crisis of 2008 has resulted in proposals for regulatory reform of the financial services industry, both in the United States and around the world. The Dodd-Frank Act generally leaves the state insurance regulatory system in place, but creates a Federal Insurance Office in part to represent the US insurance industry in international matters. Many details of the Dodd-Frank Act are left to study or regulation, and therefore, the impact of the Dodd-Frank Act on Aegon USA or the life insurance market in general, cannot be fully determined until the regulations implementing the Dodd-Frank Act are promulagated and the studies completed. This includes any determination of the likelihood that Aegon USA will be considered systemically significant and subject to heightened prudential standards.

Aegon USA companies administer and provide both asset management services and products used to fund defined contribution plans, individual retirement accounts, 529 plans and other savings vehicles. Changes to defined benefit plans by sponsors in reaction to the financial economic environment and the enactment of funding relief provisions may impact the services Aegon USA companies provide to these plans. In addition, legislative and regulatory proposals are considered from time to time which relate to the disclosure and nature of fees paid by defined contribution plan sponsors and their participants. Other proposals that may be considered relate to the nature of education, advice or other services Aegon USA companies provide to defined contribution plan sponsors and their participants. Finally, as noted above, proposals to change the structure, remove or decrease the US federal tax preferences of pension and annuity products, either as part of tax reform or pursuant to deficit reduction, would directly impact the cost and competitiveness of pension and annuity products and pension services sold to ensure Americans financial retirement security. Aegon USA companies also provide plans used to administer benefits distributed upon termination of defined benefit plans.

Any proposals that seek to either restrict fees and services to, or investment advice in, employer plans or change the manner in which Aegon USA companies may charge for such services inconsistent with business practices, will adversely impact the Aegon USA companies that provide administration and investment services and products to employment based plans.

The Patient Protection and Affordable Care Act does not directly impact the business of life insurance. It is uncertain whether any of the new regulations, anticipated over the next several years, that will implement this law, will impact the nature or distribution of any of Aegon USA s supplemental products.

The American Taxpayer Relief Act (ATRA), enacted in January 2013, made permanent, with some modifications, many of the tax cuts enacted in 2001 and 2003 during the Bush Administration. The ATRA provisions that are most significant for the Aegon USA companies business include those (a) on the estate tax (keeping the unified estate and gift tax exemption threshold of USD 5 million (adjusted for inflation after 2011) and raising the maximum tax rate from 35% to 40%; (b) on Roth conversions (permitting participants in qualified retirement savings plans to convert otherwise non-distributable 401(k) plan balances to a Roth account if the plan so provides; and (c) increasing the top individual income tax rates to 39.6% and capital gains rates to 20%. Other provisions of ATRA, such as the phase-out of personal exemptions and limitations on itemized deductions, as well as the new 3.8% tax on net investment income (enacted by the Patient Protection and Affordable Care Act and first effective in 2013), will further increase the marginal income tax rate of certain high income households. Making the estate tax permanent will facilitate estate planning for Americans. The extent to which the other tax law changes impact the purchase of life insurance and annuity products, as well as the participation of individuals in qualified retirement savings plans, is as yet uncertain. Further tax proposals are likely to deal with the debt situation in the U.S. The impact of such proposals, if they were passed, cannot be predicted at this time.

Aegon Canada

Transamerica Life Canada (TLC) is organized and regulated pursuant to the federal Insurance Companies Act (Canada). The primary regulator is the Office of the Superintendent of Financial Institutions. In addition, TLC is subject to the laws, regulations and insurance commissions of each of Canada s ten provinces and three territories in which it carries on business. The laws of these jurisdictions generally establish supervisory agencies with broad administrative powers that include the following: granting and revoking licenses to conduct business, regulating trade practices, licensing agents, establishing reserve requirements, determining permitted investments and establishing minimum levels of capital. TLC s ability to continue to conduct its insurance business depends upon the maintenance of its licenses at both the federal and provincial/territorial levels. It is also governed by policy statements and guidelines established by the Canadian Life & Health Insurance Association.

The mutual fund and investment management operations of Transamerica Life Canada are governed by the Securities Acts of each province and territory.

Asset liability management

The Aegon USA insurance companies are primarily subject to regulation under the laws of the states in which they are domiciled. Each state s laws prescribe the nature, quality, and percentage of various types of investments that may be made by the companies. Such laws generally permit investments in government bonds, corporate debt, preferred and common stock, real estate, and mortgage loans. Limits are generally placed on other classes of investments.

The key investment strategy for traditional insurance-linked portfolios is asset liability management, whereby predominately high-quality investment assets are matched in an optimal way to the corresponding insurance liability. This strategy takes into account currency, yield and maturity characteristics. Asset diversification and quality considerations are also taken into account, along with considerations of the policyholders guaranteed or reasonably expected excess interest sharing. Investment-grade fixed income securities are the main vehicle for asset liability management, and Aegon USA s investment personnel are highly skilled and experienced in these investments.

The Aegon USA companies manage their asset liability matching through the work of several committees. These committees review strategies, define risk measures, define and review asset liability management studies, examine risk-hedging techniques, including the use of derivatives, and analyze the potential use of new asset classes. Cash flow testing analysis is performed using computer simulations, which model assets and liabilities under projected interest rate scenarios and commonly used stress-test interest rate scenarios. Based on the results of these simulations an investment portfolio is constructed to best match the cash flow and interest sensitivity of the underlying liabilities while trying to maximize the spread between the yield on the portfolio assets and the rate credited on the policy liabilities. Interest rate scenario testing is a continual process and the analysis of the expected values and variability for four critical risk measures (capital charges, cash flows, present value of profits, and interest rate spreads) forms the foundation for modifying investment strategies, adjusting asset duration and mix, and exploring hedging opportunities. On the liability side, Aegon USA has some offsetting risks, some liabilities perform better in rising interest rate environments while others tend to perform well in falling interest rate environments. The amount of offset can vary depending on the absolute level of interest rates and the

magnitude and timing of interest rate changes, but it generally provides some level of diversification. On the asset side, hedging instruments are continuously studied to determine whether their cost is commensurate to the risk reduction they offer.

Reinsurance ceded

Ceding reinsurance does not remove Aegon s liability as the primary insurer. Aegon could incur losses should reinsurance companies not be able to meet their obligations. To minimize its exposure to the risk of such defaults, the creditworthiness of its reinsurers is monitored regularly.

Aegon USA

Aegon USA reinsures part of its life insurance exposure with third-party reinsurers under traditional indemnity, quota share reinsurance treaties, as well as excess-of-loss contracts. Aegon USA s reinsurance strategy is in line with typical industry practice.

These reinsurance contracts are designed to diversify Aegon USA s overall risk and limit the maximum loss on risks that exceed policy retention levels. The maximum retention limits vary by product and class of risk, but generally fluctuate between USD 3,000 and USD 10 million per life insured.

Aegon USA remains contingently liable with respect to the amounts ceded should the reinsurance company not be able to meet its obligations. To minimize its exposure to such defaults, Aegon USA regularly monitors the creditworthiness of its reinsurers, and where appropriate, arranges additional protection through letters of credit or trust agreements. For certain agreements, funds are withheld for investment by the ceding company. Aegon USA has experienced no material reinsurance recoverability problems in recent years.

The Aegon USA insurance companies also enter into contracts with company-affiliated reinsurers, both within the United States and overseas. These contracts have been excluded from the company s consolidated financial statements.

Aegon Canada

In the normal course of business, Transamerica Life Canada reinsures part of its mortality and morbidity risk with third-party reinsurers that are registered with Canada s Office of the Superintendent of Financial Institutions. The maximum life insurance exposure retained is CAD 1.25 million per life insured.

Results 2012 the Netherlands

Amounts in EUR millions	2012	2011	%
Net underlying earnings	**253**	238	6%
Tax on underlying earnings	62	60	3%
Underlying earnings before tax by product segment			
Life & Savings	262	185	42%
Pensions	66	98	(33%)
Non life	(29)	6	-
Distribution	16	8	100%
Share in underlying earnings before tax of associates	-	1	-
Underlying earnings before tax	**315**	**298**	**6%**
Net Fair value items	112	156	(28%)
Gains / (losses) on investments	138	269	(49%)
Impairment charges	(29)	(15)	(93%)
Other income / (charges)	(279)	(164)	(70%)
Income before tax	**257**	**544**	**(53%)**
Income tax	(5)	(125)	96%
Net income	**252**	**419**	**(40%)**
Life insurance gross premiums	3,004	3,213	(7%)
Accident and health insurance premiums	220	216	2%
General insurance premiums	475	452	5%
Total gross premiums	**3,699**	**3,881**	**(5%)**
Investment income	2,212	2,192	1%
Fees and commission income	329	329	-
Total revenues	**6,240**	**6,402**	**(3%)**
Commissions and expenses	1,046	1,122	(7%)
of which operating expenses	756	823	(8%)

New life sales

Amounts in EUR millions	2012	2011	%
Life & Savings	46	81	(43%)
Pensions	200	173	16%
Total recurring plus 1/10 single	**246**	**254**	**(3%)**

Amounts in EUR million	2012	2011	%
New premium production accident and health insurance	21	27	(22%)
New premium production general insurance	30	27	11%

Gross deposits (on and off balance)	**2012**	2011	%
Life & Savings	1,484	1,968	(25%)
Pensions	-	80	-
Total gross deposits	**1,484**	**2,048**	**(28%)**

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Results 2012 the Netherlands[1]

Higher underlying earnings before tax in the Netherlands were driven by improved Life & Savings earnings and lower operating expenses following implemented cost reduction initiatives in 2011. Aegon s business in the Netherlands has already realized EUR 89 million of the targeted EUR 100 million reduction in operating expenses. Net income was impacted by a one-off charge of EUR 265 million related to the acceleration of product improvement for unit-linked insurance products.

Net income

Net income from Aegon s businesses in the Netherlands amounted to EUR 252 million and included a charge of EUR 265 million before tax related to the acceleration of product improvements for unit-linked insurance products. Realized gains on investments totaled EUR 138 million for the year and were mainly the result of asset liability management related trading activity and selective de-risking. Results on fair value items amounted to a gain of EUR 112 million and impairments amounted to EUR 29 million.

Underlying earnings before tax

Underlying earnings before tax from Aegon s operations in the Netherlands increased 6% in 2012 to EUR 315 million as higher earnings in Life & Savings more than offset lower earnings in Pension and Non-life. Recurring charges for Corporate Center expenses amounted to EUR 16 million.

- ¿ Underlying earnings before tax from Aegon s Life & Savings operations in the Netherlands increased to EUR 262 million, up 42% compared to 2011. This increase was driven by cost savings, a higher contribution from Aegon s growing mortgage portfolio on lower funding costs, the non-recurrence of certain expenses and a benefit in the fourth quarter resulting from updated mortality tables of EUR 24 million.
- ¿ Underlying earnings before tax from the Pension business declined to EUR 66 million as the benefit of cost savings and the wind up of several contracts were more than offset by lower interest income, the non-recurrence of a employee benefit release in 2011 and a charge in 2012 of EUR 17 million resulting from updated mortality tables.
- ¿ Non-life recorded an underlying loss before tax of EUR 29 million in 2012 as a result of adverse claim experience on disability and general insurance products. Losses on these products have led to the implementation of actions to improve future results with disability insurance products already showing improvements in 2012.

¿ In 2012, the distribution businesses recorded an underlying earnings before tax of EUR 16 million, an improvement compared to 2011 due to cost savings and lower amortization of value of business acquired following an impairment in 2011.

Commissions and expenses

Commissions and expenses decreased by 7% in 2012 compared to 2011 driven by lower operating expenses. Operating expenses decreased by 8%, to EUR 756 million, as realized cost savings and the non-recurrence of restructuring charges offset investments in new distribution capabilities and recurring charges for Corporate Center expenses.

Aegon is on track to reduce operating expenses by EUR 100 million in comparison to the cost base for 2010, of which the majority has been achieved in 2012. Over the years, Aegon has implemented cost savings of EUR 89 million.

Production

New life sales decreased by 3% in 2012 to EUR 246 million. The decline in Individual life sales to EUR 46 million, primarily driven by a shrinking Dutch life insurance market, more than offset the 16% increase in pension sales. Production of mortgages in 2012 amounted to EUR 2.7 billion down from EUR 3.3 billion in 2011.

Premium production for accident & health amounted to EUR 21 million, down from EUR 27 million in 2011. Sales in income insurance products were negatively impacted by strong competition and price increases to maintain margins. General insurance production amounted to EUR 30 million, up 11% for the year, resulting from successful new distribution initiatives.

Gross deposits declined to EUR 1,484 million, driven by strong competition on the Dutch savings market and a reduction of the rate offered on savings accounts to protect margins.

1 Throughout this report, Aegon the Netherlands refers to all Aegon companies operating in the Netherlands.

Results 2011 the Netherlands

Amounts in EUR millions	2011	2010	%
Net underlying earnings	**238**	**292**	**(18%)**
Tax on underlying earnings	60	93	(35%)
Underlying earnings before tax by product segment			
Life & Savings	185	186	(1%)
Pensions	98	153	(36%)
Non life	6	33	(82%)
Distribution	8	16	(50%)
Share in underlying earnings before tax of associates	1	(3)	-
Underlying earnings before tax	**298**	**385**	**(23%)**
Net Fair value items	156	361	(57%)
Gains / (losses) on investments	269	155	74%
Impairment charges	(15)	(11)	(36%)
Other income / (charges)	(164)	38	-
Income before tax	**544**	**928**	**(41%)**
Income tax	(125)	(217)	42%
Net income	**419**	**711**	**(41%)**
Life insurance gross premiums	3,213	3,185	1%
Accident and health insurance premiums	216	201	7%
General insurance premiums	452	451	-
Total gross premiums	**3,881**	**3,837**	**1%**
Investment income	2,192	2,161	1%
Fees and commission income	329	348	(5%)
Total revenues	**6,402**	**6,346**	**1%**
Commissions and expenses	1,122	1,058	6%
of which operating expenses	823	748	10%

New life sales

Amounts in EUR millions	2011	2010	%
Life & Savings	81	83	(2%)
Pensions	173	165	5%
Total recurring plus 1/10 single	**254**	**248**	**2%**

Amounts in EUR million	2011	2010	%
New premium production accident and health insurance	27	26	4%
New premium production general insurance	27	26	4%
	2011	2010	%

Gross deposits (on and off balance)			
Life & Savings	1,968	2,036	(3%)
Pensions	80	346	(77%)
Total gross deposits	**2,048**	**2,382**	**(14%)**

Results 2011 the Netherlands

Underlying earnings in the Netherlands were impacted by increased provisioning for longevity, while net income was affected by business restructuring. In 2011, Aegon initiated actions to make its business in the Netherlands more agile and better positioned to respond to changing conditions and opportunities in the Dutch market.

Net income

Net income from Aegon s businesses in the Netherlands decreased to EUR 419 million. This decrease was mainly a result of a decline in fair value items, primarily guarantees net of related hedges, to EUR 156 million and other charges of EUR 164 million. These charges related to the restructuring of Aegon s businesses in the Netherlands of EUR 92 million and a write-down of goodwill and VOBA of EUR 75 million related to the distribution businesses. Aegon s distribution businesses in the Netherlands are experiencing pressure on margins and are implementing a new operating model following legislative changes related to commission payments which will result in lower profitability going forward. Realized gains on investments increased to EUR 269 million and were primarily the result of a decision to replace equities by fixed income securities and normal trading activity in the investment portfolio in a low interest rate environment. Impairments amounted to EUR 15 million.

Underlying earnings before tax

Underlying earnings before tax from Aegon s operations in the Netherlands amounted to EUR 298 million, a decrease of 23% compared to 2010.

¿ Earnings from Aegon s Life & Savings operations in the Netherlands remained level at EUR 185 million. Favorable mortality and higher contribution from mortgages was offset by higher expenses related to the execution of a program for product improvements and investments in new propositions.

¿ Earnings from the Pension business declined to EUR 98 million. Additional provisioning for longevity of EUR 82 million was only partly offset by the positive impact of favorable technical results.

¿ Earnings from Non-life declined to EUR 6 million, mainly as the result of a lower release of provisions, adverse claim experience and investments made in the business to increase efficiency.

¿ Income from the distribution businesses amounted to EUR 8 million, a decrease compared with 2010 as a result of investments in business development initiatives. Also fee income remained under pressure as a result of the competitive environment.

Commissions and expenses

Commissions and expenses increased by 6% in 2011. Operating expenses increased 10% to EUR 823 million in 2011, mainly as a result of restructuring charges and investments in the further development of a new online banking proposition. In 2011, Aegon initiated actions to make its business in the Netherlands more agile and better positioned to respond to changing conditions and opportunities in the Dutch market. The reorganization program and other initiatives are aimed at reducing the cost base by approximately 20% or EUR 100 million in comparison to the cost base for 2010.

Production

New life sales increased to EUR 254 million. Pension sales increased 5% compared with 2010, mainly driven by successful institutional sales during the fourth quarter of 2011. Individual life sales declined and amounted to EUR 81 million, primarily driven by lower recurring premiums as mortgage production slowed down.

Premium production for accident & health increased 4% to EUR 27 million and benefited from stronger sales in income insurance products. General insurance production also increased 4% to EUR 27 million driven by increased sales for the motor and fire segments of the market.

Gross deposits decreased 14% to EUR 2.0 billion. The decline is a combination of less competitive interest rates on savings accounts offered and the transfer of third-party pension deposits to Aegon Asset Management as of the second quarter 2011.

Overview the Netherlands

Aegon has a history in the Netherlands that dates back more than 150 years. Today, Aegon the Netherlands is one of the country s leading[1] providers of life insurance and pensions, with millions of customers and approximately 4,500 employees. The fully owned Unirobe Meeùs Group is one of the largest[2] intermediaries in the Netherlands. Aegon the Netherlands has its headquarters in The Hague and offices in Leeuwarden and Groningen.

Organizational structure

Aegon is one of the most widely recognized brand names in the Dutch financial services sector[3]. Additionally Aegon the Netherlands operates through a number of other brands, including TKP Pensioen, OPTAS and Unirobe Meeùs.

Aegon the Netherlands primary subsidiaries are:

- Aegon Bank N.V.
- Aegon Levensverzekering N.V.
- Aegon Schadeverzekering N.V.
- Aegon Spaarkas N.V.
- OPTAS Pensioenen N.V.
- Aegon Hypotheken B.V.
- TKP Pensioen B.V.
- Unirobe Meeùs Groep B.V.
- Aegon PPI B.V.

Aegon the Netherlands has four lines of business:

- Life & Savings
- Pensions
- Non-life
- Distribution

Restructuring

In September 2011, Aegon the Netherlands announced a restructuring that resulted in a loss of 300 positions as part of strategic plans to reduce the size and cost of the Dutch business. This plan was also aimed at increasing the fexibility and strength of the organization. The restructuring was largely finalized in 2012.

Overview sales and distribution channels

Aegon the Netherlands sells its products through several different channels. Corporate & Institutional Clients, part of the Pensions business line, serves large corporations and financial institutions such as company and industry pension funds. The intermediary channel, used by all business lines, focuses on independent agents and retail sales organizations in the

Netherlands. The direct channel is used by Aegon Bank (mainly for savings) and there is a strategic partnership with the Dutch retailer Kruidvat for products sold by Aegon Schadeverzekering. In 2012, Aegon launched online bank Knab, in line with its drive to actively embrace technology and meet the evolving needs of its customers.

Overview business lines

Life & Savings

Aegon the Netherlands provides a variety of individual savings products, mortgage loans and a range of life insurance and personal protection products and services, including traditional, universal and term life. Based on underlying earnings before tax, Life & Savings is the largest line of business in Aegon the Netherlands.

Products

Endowment insurance

This category includes various products that accumulate a cash value. Premiums are paid at inception or over the term of the contract.

The accumulation products pay benefits on the policy maturity date, subject to survival of the insured. In addition, most policies also pay death benefits in the event of the death of the insured during the term of the contract. The death benefits may be stipulated in the policy or depend on the gross premiums paid to date. Premiums and amounts insured are established at inception of the contract. The amount insured can be increased as a result of profit sharing, if provided for under the terms and conditions of the product.

Minimum interest guarantees exist for all generations of accumulation products written, except for universal life type products for which premiums are invested solely in equity funds. Older generations contain a 4% guarantee; in 1999 the guarantee decreased to 3%.

1 Source: Verzekerd van Cijfers 2012, published by the Dutch Association of Insurers.
2 Source: AM 2012 Jaarboek, published by Assurantie magazine.
3 Source: Tracking Report Motivaction.

There are different kinds of profit sharing arrangements. Bonuses are either paid in cash (mainly in the pension business, as described in the following section) or used to increase the sum insured. For one common form of profit sharing, the bonus levels are set by reference to external indices that are based on predefined portfolios of Dutch government bonds. The bonds included in the portfolios have different remaining maturities and interest rates. Together they are considered an approximation of the long-term rate of return on Dutch high quality financial investments.

Term and whole life insurance

Term life insurance pays out death benefits in the event of the death of the insured during the term of the contract. Whole life insurance pays out death benefits in the event of death, regardless of the timing of this event. Premiums and amounts insured are established at inception of the contract and are guaranteed. The amount insured may be adjusted on request of the policyholder. In principle, term life insurance policies will not include profit sharing arrangements. Part of the portfolio of whole life insurance has profit-sharing features, which are based on external indices or return of related assets.

Annuity insurance

Annuity insurance includes products in the accumulation phase and in the payout phase. Payout commences at a date determined in the policy and usually continues until death of the insured or the beneficiary. Premiums are paid at inception of the policy or during the accumulation phase of the policy. The contracts contain minimum guarantees of 3% or 4%. Interest rebates are given on both single and regular premium annuity insurance, and may be based on a portfolio of Dutch government bonds, although other calculation bases are also applied. There are also profit sharing schemes set by reference to external indices that are based on pre-defined portfolios of Dutch government bonds.

Variable unit-linked products

These products have a minimum benefit guarantee, except for premiums invested in equity funds. The initial guarantee period is ten years.

Tontine plans

Tontine plans in the Netherlands are unit-linked contracts with a specific bonus structure. Policyholders can choose from several Aegon funds in which to invest premiums paid. The main characteristic of a tontine system is that at the death of the insured, the balance is not paid out to the policyholder s estate, but is distributed at the end of the year to the surviving policyholders of the specific series to which the deceased policyholder belonged. When the policyholder dies before maturity, Aegon the Netherlands pays a death benefit to the dependants. Tontine plans are in run-off.

Mortgage loans

Different types of residential mortgage loans are offered: interest-only, savings and unit-linked. Customers may also combine the different types in their own mortgage loan.

Savings accounts

Savings accounts are offered which allow customers to retain flexibility to withdraw cash with limited restrictions. In addition deposit accounts are offered with a predetermined maturity.

Investment contracts

Investment contracts are investment products that offer index-linked returns and generate fee income on the performance of the investments.

Banksparen

Banksparen is a saving product for which amounts are deposited on a blocked bank account, exempt from capital gains tax. The amount is only available after a certain time period, for specific purposes.

Sales and distribution

Life and savings products are sold through Aegon s intermediary and direct channel.

Pensions

Pensions provides a variety of full service pension products to pension funds and companies. In 2012, it accounted for approximately 20% of Aegon the Netherlands total underlying earnings before tax.

Products

Aegon the Netherlands provides full service pension solutions and administration-only services to company and industry pension funds and some large companies. The full service pension products for account of policyholders are separate account group contracts with or without guarantees.

Separate account group contracts are large group contracts that have an individually determined asset investment underlying the pension contract. Any applicable guarantee usually consists of profit sharing being the minimum of the actuarial interest of either 3% or 4% or the realized return (on an amortized cost basis). If profit sharing turns into a loss, the minimum guarantee becomes effective, but the loss in any given year is carried forward to be offset against any future surpluses during the contract period. In general, the guarantee is dependent on the life of the insured so that their pension benefit is guaranteed. Large group contracts also share technical results (mortality risk and disability risk). The contract period is typically five years and the premium levels are generally fixed over this period.

Separate account guaranteed group contracts provide a guarantee on the benefits paid. The longevity risk therefore lies with Aegon the Netherlands. Non-guaranteed separate account group contracts provide little guarantee on the benefits. Aegon the Netherlands has the option not to renew a contract at the end of the contract period.

For most large companies and some small and medium-sized enterprises, Aegon the Netherlands provides defined benefit products for which profit sharing is based upon a pre-defined benchmark. Benefits for these products are guaranteed. Premium levels are fixed over the contract period and the longevity risk lies with Aegon the Netherlands. Minimum interest guarantees are given for nominal benefits, based on 3% actuarial interest (4% on policies sold before the end of 1999).

For small and medium-sized enterprises, Aegon the Netherlands provides defined contribution products with single and recurring premiums. Profit sharing is based on investment returns on specified funds. Premium levels are not fixed over the contract period. Minimum interest guarantees are given for nominal benefits, based on 0% (4% on policies sold before the end of 1999 and 3% on policies sold in the period 1999 - 2011).

Sales and distribution

Most of Aegon the Netherlands pensions are sold through Corporate & Institutional Clients and Aegon s intermediary channel. Customers range from individuals to company and industry pension funds and large, medium-sized and small corporations. Aegon the Netherlands is one of the country s leading providers of pensions[1].

For the majority of company and industry customers, Aegon the Netherlands provides a full range of pension products and services. In addition, TKP Pensioen is specialized in pension administration for company and industry pension funds and Aegon PPI offers defined contribution plans for small and medium companies where employees bear the investment risk.

Non-life

Non-life consists of general insurance and accident & health insurance.

Products

General insurance

Aegon the Netherlands offers general insurance products in both the corporate and retail markets. They include house, inventory, car, fire and travel insurance.

Accident and health insurance

Aegon the Netherlands offers disability and sick leave products to employers that cover the sick leave payments to employees that are not covered by social security and where the employers bear the risk.

Sales and distribution

Aegon the Netherlands offers non-life insurance products mostly through the Aegon intermediary channel. Non-life products are also sold via the direct channel Aegon Online and through strategic partnerships (for example white labeling products for sale via Kruidvat). In the corporate sector Aegon also uses the co assurance market. Corporate & Institutional Clients also provide products for larger corporations in the Netherlands.

Knab

Designed in collaboration with customers, experts and critics, online bank Knab was launched in 2012. The platform is set up to be fully aligned with customer needs, offering customers insights into their financial future and empowering informed decision making through a fee based model.

Distribution

Aegon the Netherlands offers financial advice, which includes selling insurance, pensions, mortgage loans, financing, savings and investment products. Unirobe Meeùs Group is the main distribution channel owned by Aegon the Netherlands.

Competition

Aegon the Netherlands faces strong competition in all of its markets from insurers, banks and investment management companies. The main competitors are ING Group, Eureko (Achmea), ASR, SNS Reaal (including Zwitserleven) and Delta Lloyd/OHRA.

Aegon the Netherlands has been a key player in the total life market for many years. The life insurance market in the Netherlands, comprising both pensions and life insurance, is very concentrated. The top six companies account for approximately 90% of premium income in the Netherlands[2]. In the pensions market, Aegon the Netherlands ranks first, based on gross premium income in 2011. In the individual life insurance market Aegon the Netherlands takes sixth place[2], based on gross premium income 2011. Combined, in total life, Aegon the Netherlands ranks second[2] after ING. Aegon the Netherlands is one of the smaller players in the non-life market. The non-life market share of Aegon the Netherlands is around 4%[2], measured in premium income.

1 Source: Verzekerd van Cijfers 2012, published by the Dutch Association of Insurers.
2 Source: DNB Supervision Returns 2011.

In mortgage loans, Aegon the Netherlands[1] holds a market share of approximately 7.3% based on new sales. Rabobank, ING and ABN AMRO are the largest[2] parties in the mortgage loan market. Aegon the Netherlands is currently the largest insurance company in this market.

In the savings segment, Aegon the Netherlands holds approximately 1.7%[3] of the savings of Dutch households and is small compared to banks like Rabobank, ING, ABN AMRO, SNS Bank and ASN Bank.

Several changes in regulations in recent years have limited opportunities in the Dutch insurance market, especially in the life insurance market (for example, company savings plans and premiums of certain products are no longer tax deductible). Furthermore, low economic growth and the volatility of financial markets have created uncertainty among customers and a reluctance to commit to long-term contracts. These changed legal and market conditions have augmented competition. The result is competitive pricing and a focus on service levels, client retention and product innovation.

In the pension segment, opportunities will come from pension funds, who will insure the whole or part of the fund instead of keeping these risks themselves as pension funds face pressure on their coverage ratios as well as increased regulatory and governance requirements.

Regulation and supervision

Two institutions are responsible for the supervision of financial institutions in the Netherlands:

- De Nederlandsche Bank (the Dutch Central Bank) or DNB and
- Autoriteit Financiële Markten (the Dutch Authority for the Financial Markets) or AFM.

DNB is responsible for safeguarding financial stability, supervising financial institutions and the financial sector. Regulations pertaining to the supervision of financial institutions are referred to as Wet op het financieel toezicht (Supervision of the Financial System Act). This law pertains equally to banking and insurance operations and introduced a greater degree of consistency in both requirements and supervision.

The AFM supervises the conduct of, and the provision of information by, all parties on the financial markets in the Netherlands. The objective of the AFM is to promote an orderly and transparent market process within the financial markets, the integrity of relations between market players and the protection of the consumer.

Financial supervision of insurance companies

The various European Union Insurance Directives, collectively referred to as Solvency I , have been incorporated into Dutch law. The Directives are based on the home country control principle. This means that an insurance company that has a license issued by the regulatory authorities in its home country is allowed to conduct business, either directly or through a branch, in any country of the European Union. Separate licenses are required for each of the insurance company s branches in which it conducts business. The regulatory body that issued the license (in this case DNB) is responsible for monitoring the solvency of the insurer.

Under Dutch law a company is not permitted to conduct both life insurance and non-life insurance business within one legal entity, nor is a company allowed to carry out both insurance and banking business within the same legal entity.

Every life and non-life insurance company licensed by, and falling under the supervision of, DNB must file audited regulatory reports on at least an annual basis. These reports, primarily designed to enable DNB to monitor the solvency of the insurance company, include a (consolidated) balance sheet, a (consolidated) income statement, extensive actuarial information, and detailed information on the investments of the insurance company. DNB s regulatory reporting is based on a single entity focus and is designed to highlight risk assessment and risk management.

DNB may request any additional information it considers necessary and may conduct an audit at any time. DNB can also make recommendations for improvements and publish these recommendations if the insurance company does not follow them. Finally, DNB can appoint a trustee for an insurance company or, ultimately, withdraw the insurance company s license.

The following insurance entities of Aegon the Netherlands are subject to the supervision of DNB:

- Aegon Levensverzekering N.V.
- Aegon Schadeverzekering N.V.
- Aegon Spaarkas N.V.
- OPTAS Pensioenen N.V.

Under Solvency I, life insurance companies are required to maintain certain levels of shareholders equity in accordance with EU directives. Currently this level is approximately 4% of their general account technical provision, or, if no interest guarantees are provided, approximately 1% of the technical provisions with investments for the account of policyholders and an additional 0.3% charge for value at risk.

1 Source: Kadaster.
2 Source: DNB Supervision Returns 2011.
3 Source: DNB Statisch Bulletin.

General insurance companies are required to maintain shareholders equity equal to or greater than 18% of gross written premiums per year or 23% of the three-year average of gross claims.

Financial supervision credit institutions

Aegon Bank N.V. falls under the supervision of DNB and must file monthly regulatory reports and an audited Annual Report.

Credit institutions are required to maintain solvency and liquidity ratios in line with the requirements of the Wet op het financieel toezicht. The Wet op het financieel toezicht incorporates the requirements of Directive 2006/48/EC, Directive 2006/49/ EC (together referred to as CRD II) and Directive 2010/76/EU (CRD III). These directives are the European translation of the Basel accord for prudential supervision of credit institutions and investment firms. Based on these rules, credit institutions in the Netherlands are required to maintain a minimum total capital ratio (BIS ratio), currently 8%, pursuant to guidance issued by DNB. The level of capital is subject to certain requirements and is reviewed against its on- and off-balance sheet assets, with these assets being weighted according to their risk level. The Basel III accord, the new regulatory framework for the banking sector, has been finalised and is currently being translated into European legislation through the CRD IV framework. When finalized, the CRD IV framework will be implemented in the Netherlands through the Wet op het financieel toezicht .

Asset liability management

Aegon the Netherlands Risk & Capital Committee, who meet at least on a quarterly basis, determines and monitors the investment strategy. The focus of these meetings is, among other activities, to ensure an optimal strategic asset allocation, to decide on interest rate hedging strategies to reduce interest rate risks, and to decide on the need for securitizations of residential mortgage portfolios to improve the liquidity and funding position of Aegon the Netherlands.

Most (insurance) liabilities of Aegon the Netherlands are nominal and long-term. Based on their characteristics, a long-term liability-driven benchmark is derived. Scenarios and optimization analyses are conducted with respect to the asset classes fixed income, equities and real estate. Various subclasses, such as commodities, hedge funds and private equity, are also included in the analyses. The result is an optimal asset allocation representing different investment risk-return profiles. Constraints such as the minimum return on equity and the maximum solvency risk also determine alternative strategic asset allocations. Most of Aegon the Netherlands investments are managed by Aegon Asset Management. For certain specialized

investments, such as hedge funds and private equity, Aegon the Netherlands hires external managers. Portfolio managers are allowed to deviate from the benchmark based on their short-term and medium-term investment outlook. Risk-based restrictions are in place to monitor and control the actual portfolio allocations compared to their strategic portfolio allocations. An internal framework limits investment exposure to any single counterparty.

In 2012, Aegon the Netherlands partially offset the risk of future longevity increases related to a part of its insurance liabilities by buying a longevity index derivative from Deutsche Bank, which will pay out if in twenty years the mortality rates have decreased more than a predetermined percentage compared to the base scenario at the moment of signing the contract. Both Aegon the Netherlands and Deutsche Bank have the possibility to terminate the contract after ten years (early termination clause). The payout is maximized at another (higher) predetermined percentage compared to the base scenario. This transaction was the first transaction in Continental Europe to be based on population data and it is the first longevity swap to be targeted directly to capital markets.

This longevity derivative accomplishes the objective of retaining some risk around the best estimate of the insurance liabilities of Aegon the Netherlands, while being protected for significant mortality improvements and thus lowering the amount of required capital for solvency purposes.

Reinsurance ceded

Like other Aegon companies around the world, Aegon the Netherlands reinsures part of its insurance exposure with third-party reinsurers under traditional indemnity, and excess of loss contracts. Reinsurance helps Aegon manage, mitigate and diversify its insurance risks and limit the maximum loss it may incur on risks that exceed policy retention limits.

Prior to 2011, Aegon the Netherlands reinsured its life exposure through a profit-sharing contract between its subsidiary Aegon Levensverzekering N.V. and a reinsurer. As of January 1, 2012, Aegon the Netherlands has ended this reinsurance contract and therefore retains the full death and disability risk.

For non-life, Aegon the Netherlands only reinsures its fire and car insurance business. For fire insurance, an excess of loss contract is in place with a retention level of EUR 3 million for each separate risk and EUR 20 million for each event. For car insurance, Aegon the Netherlands has reinsurance in place on a similar basis with a retention level of EUR 2.5 million for each event.

Results 2012 United Kingdom

	Amounts in GBP millions			Amounts in EUR millions		
	2012	2011	%	**2012**	2011	%
Net underlying earnings	**110**	33	-	**135**	38	-
Tax on underlying earnings	(25)	(28)	11%	(30)	(33)	9%
Underlying earnings before tax by product segment						
Life	66	86	(23%)	82	99	(17%)
Pensions	21	(75)	-	26	(86)	-
Distribution	(2)	(6)	67%	(3)	(8)	63%
Underlying earnings before tax	**85**	**5**	**-**	**105**	**5**	**-**
Net Fair value items	(26)	(5)	-	(31)	(6)	-
Gains / (losses) on investments	68	44	55%	84	51	65%
Impairment charges	-	(55)	-	-	(62)	-
Other income / (charges)	28	(49)	-	34	(57)	-
Income before tax (excluding income tax from certain proportionately consolidated associates)	**155**	**(60)**	**-**	**192**	**(69)**	**-**
Income tax attributible to policyholder return	(32)	(37)	14%	(40)	(43)	7%
Income before tax on shareholders return (excluding income tax from certain proportionately consolidated associates)	**123**	**(97)**	**-**	**152**	**(112)**	**-**
Income tax on shareholders return	14	52	(73%)	17	60	(72%)
Net income	**137**	**(45)**	**-**	**169**	**(52)**	**-**
Life insurance gross premiums	4,900	5,611	(13%)	6,047	6,474	(7%)
Total gross premiums	**4,900**	**5,611**	**(13%)**	**6,047**	**6,474**	**(7%)**
Investment income	1,894	1,867	1%	2,337	2,154	8%
Fees and commission income	108	119	(9%)	133	137	(3%)
Total revenues	**6,902**	**7,597**	**(9%)**	**8,517**	**8,765**	**(3%)**
Commissions and expenses	598	732	(18%)	738	844	(13%)
of which operating expenses	273	409	(33%)	337	472	(29%)

	Amounts in GBP millions			Amounts in EUR millions		
New life sales	**2012**	2011	%	**2012**	2011	%
Life	72	66	9%	89	77	16%
Pensions	686	672	2%	847	775	9%
Total recurring plus 1/10 single	**758**	**738**	**3%**	**936**	**852**	**10%**

	Amounts in GBP millions			Amounts in EUR millions		
Gross deposits (on and off balance)	**2012**	2011	%	**2012**	2011	%
Variable annuities	22	49	(55%)	27	56	(52%)
Pensions	8	-	-	10	-	-
Total gross deposits	**30**	**49**	**(39%)**	**37**	**56**	**(34%)**

Exchange rates	Weighted average rate		Closing rate as of	
Per 1 EUR	**2012**	2011	**December 31, 2012**	December 31, 2011
GBP	0.8103	0.8667	0.8111	0.8353

Results 2012 United Kingdom

Underlying earnings before tax from Aegon s operations in the United Kingdom improved to GBP 85 million driven by lower expenses following the implementation of the cost reduction program in 2011 and the absence of charges and expenses related to the customer redress program in 2011. Aegon introduced a new platform to the market in 2012.

Net income

Net income improved to GBP 137 million driven by higher underlying earnings before tax, higher realized gains on investments, and the absence of impairment charges and restructuring charges. Results on fair value items amounted to a loss of GBP 26 million, driven by losses on hedges as a result of higher equity markets. Realized gains on investments amounted to GBP 68 million and were mainly the result of switching from gilts into high quality credits. There were no impairments during the year. A reduction in the corporate tax rate in the United Kingdom had a positive impact on net income.

Underlying earnings before tax

Underlying earnings before tax from Aegon s operations in the United Kingdom increased to GBP 85 million in 2012, driven by a strong improvement in underlying earnings before tax from pensions compared to 2011. Underlying earnings before tax included recurring charges for Corporate Center expenses of GBP 8 million.

- Underlying earnings before tax from Life declined to GBP 66 million driven mostly by the non-recurrence of a GBP 15 million benefit and recurring charges for Corporate Center expenses.
- Underlying earnings before tax from Pensions improved to GBP 21 million, mainly driven by the non-recurrence of charges and execution expenses related to a program to correct historical issues within customer policy records recorded in the previous year and the implementation of the cost reduction program. These positives were partly offset by the effect from adverse persistency, which the UK insurance industry is experiencing as a result of the implementation of the Retail Distribution Review, the sale of Guardian in 2011 and by a benefit as a result of changes to the employee pension plan in 2011.
- Distribution amounted to an underlying loss before tax of GBP 2 million, improving over last year mainly due to cost savings.

Commissions and expenses

Commissions and expenses declined by 18% in 2012 compared to 2011 mainly due to lower operating expenses. Operating expenses declined 33% to GBP 273 million, following the implementation of a cost reduction program in the United Kingdom, the non recurrence of restructuring charges in 2011, partly offset by the benefit from changes to employee pension plans in 2011. This reduction has been achieved while continuing to invest in new propositions in the pension business. Operating expenses included GBP 8 million of recurring charges for Corporate Center expenses.

Production

New life sales increased to GBP 758 million, reflecting growth in both the life and group pension businesses. Platform sales accelerated throughout the year as new advisors joined the Aegon Retirement Choices platform.

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Results 2011 United Kingdom

	Amounts in GBP millions			Amounts in EUR millions		
	2011	2010	%	2011	2010	%
Net underlying earnings	**33**	**103**	**(68%)**	**38**	**120**	**(68%)**
Tax on underlying earnings	(28)	(42)	33%	(33)	(48)	(31%)
Underlying earnings before tax by product segment						
Life	86	60	43%	99	71	39%
Pensions	(75)	6	-	(86)	7	-
Distribution	(6)	(5)	(20%)	(8)	(6)	(33%)
Underlying earnings before tax	**5**	**61**	**(92%)**	**5**	**72**	**(93%)**
Net Fair value items	(5)	(8)	38%	(6)	(9)	33%
Gains / (losses) on investments	44	12	-	51	14	-
Impairment charges	(55)	(30)	(83%)	(62)	(36)	(72%)
Other income / (charges)	(49)	41	-	(57)	48	-
Income before tax	**(60)**	**76**	**-**	**(69)**	**89**	**-**
Income tax attributible to policyholder return	(37)	(57)	35%	(43)	(67)	36%
Income before tax on shareholders return	**(97)**	**19**	**-**	**(112)**	**22**	**-**
Income tax on shareholders return	52	53	(2%)	60	62	(3%)
Net income	**(45)**	**72**	**-**	**(52)**	**84**	**-**
Life insurance gross premiums	5,611	6,344	(12%)	6,474	7,425	(13%)
Total gross premiums	**5,611**	**6,344**	**(12%)**	**6,474**	**7,425**	**(13%)**
Investment income	1,867	1,999	(7%)	2,154	2,340	(8%)
Fees and commission income	119	140	(15%)	137	164	(16%)
Total revenues	**7,597**	**8,483**	**(10%)**	**8,765**	**9,929**	**(12%)**
Commissions and expenses	732	694	5%	844	812	4%
of which operating expenses	409	390	5%	472	456	4%

	Amounts in GBP millions			Amounts in EUR millions		
New life sales	2011	2010	%	2011	2010	%
Life	66	81	(19%)	77	94	(18%)
Pensions	672	826	(19%)	775	967	(20%)
Total recurring plus 1/10 single	**738**	**907**	**(19%)**	**852**	**1,061**	**(20%)**

	Amounts in GBP millions			Amounts in EUR millions		
Gross deposits (on and off balance)	2011	2010	%	2011	2010	%
Variable annuities	49	82	(40%)	56	96	(42%)
Total gross deposits	**49**	**82**	**(40%)**	**56**	**96**	**(42%)**

	Weighted average rate		Closing rate as of	
	2011	2010	December 31, 2011	Dec. 31, 2010
Exchange rates				

Per 1 EUR				
GBP	0.8667	0.8544	0.8353	0.8608

Results 2011 United Kingdom

Earnings from Aegon s operations in the United Kingdom were impacted by charges and expenses related to the customer redress program and restructuring charges related to a program to reduce operating expenses in the company s Life & Pension businesses by 25%.

Net income

Net income amounted to a loss of GBP 45 million, mainly as a result of lower underlying earnings before tax and charges of GBP 75 million relating to the restructuring of Aegon s operations in the United Kingdom. Results on fair value items improved to a small loss of GBP 5 million. Higher impairment charges of GBP 55 million, related primarily to exchange offers on specific holdings of European banks, were partly offset by gains on investments of GBP 44 million as a result of shifts from corporate bonds into gilts in order to de-risk the credit portfolio.

Underlying earnings before tax

In the United Kingdom, underlying earnings before tax of GBP 5 million declined significantly from their 2010 level of GBP 61 million, primarily driven by higher charges and expenses related to the customer redress program.

- Earnings from Life increased to GBP 86 million, mainly as a result of benefits related to the annuities business and a curtailment gain related to changes to the employee pension plan (GBP 8 million). In addition, the effect of cost reductions contributed to the increase.
- Pensions recorded a loss of GBP 75 million, reflecting a charge of GBP 79 million related to the customer redress program. Expenses related to the execution of this program amounted to GBP 36 million during 2011. This was partly offset by a curtailment gain of GBP 38 million as a result of changes to the employee pension plan in the fourth quarter. Investments related to the development of Aegon s new pension proposition amounted to GBP 26 million. Additionally, 2010 included a full year of earnings from Guardian, which was sold in the third quarter of 2011.
- Distribution recorded a loss of GBP 6 million, comparable with the loss in 2010.

Commissions and expenses

Commissions and expenses increased by 5% in 2011. Operating expenses amounted to GBP 409 million, as cost savings were offset by charges related to the restructuring program, as well as investments in the new proposition development and expenses relating to the execution of the customer redress program. Operating expenses included a curtailment gain related to changes to employee pension plans of GBP 46 million.

Production

New life sales decreased 19% to GBP 738 million during the year as a result of an anticipated decrease in sales of individual pensions and new group pension schemes following reductions in the commission levels paid to advisors on these products.

Overview United Kingdom

In the UK, Aegon is a major provider of corporate and individual pensions, protection products and annuities, and in financial advice markets, through its owned adviser companies Origen and Positive Solutions. Aegon UK has some two million customers, approximately 2,800 employees and GBP 54.5 billion in revenue-generating investments. Aegon UK s main offices are in Edinburgh, London and Lytham St. Annes.

Aegon UK is focused on the two core markets in the UK of At-Retirement and Workplace Savings. Both these markets present opportunities for growth and are markets where Aegon has a heritage of expertise. In 2011, Aegon launched a new platform proposition, Aegon Retirement Choices (ARC), which it believes will enable it to achieve growth in the at-retirement market. Following this successful launch, Aegon UK added a workplace solution to its platform proposition in July 2012. The Aegon Retirement Choices proposition is unique in the United Kingdom as it is the only platform to effectively link the accumulation stage of savings through the workplace, with the decumulation stage of securing income in retirement.

ARC is a technology driven delivery system for pensions, individual savings accounts (ISAs), investment bonds and other tax wrappers. It provides access to a wide range of investments and is focused on providing income solutions to customers who are planning their retirement. It allows customers to plan for the future, prepare for retirement, take an income and adapt to changing circumstances while in retirement.

In addition to its Platform capability, Aegon UK continues to offer stand-alone pension, investment and protection products to serve the needs of those advisers who have not yet adopted a platform approach, or who feel that an off-platform solution meets their current and future financial requirements.

As the UK market develops following the regulatory changes brought about by the Retail Distribution Review and by pensions reform, Aegon UK is well placed to provide advisers and customers with appropriate, transparent and affordable retirement solutions that address the needs of a market in which increasing longevity, evolving retirement patterns and investment risk are key challenges.

Organizational structure

Aegon UK plc is Aegon UK s principal holding company. It was registered as a public limited company at the beginning of December 1998.

Aegon UK s leading operating subsidiaries are:

- Scottish Equitable plc. (trading as Aegon)
- Origen Financial Services Ltd.
- Positive Solutions (Financial Services) Ltd.
- Aegon Investment Solutions Ltd.

Overview sales and distribution channels

Aegon UK s principal means of distribution is through the intermediated financial advice channel, which is the main sales route for long-term savings, protection and retirement products in the United Kingdom. These advisers provide their customers with access to various types of products depending on their regulatory status. They also advise them on the best solution to suit their financial needs.

In all, there are an estimated 30,000 registered financial advisers in the United Kingdom. Until December 31, 2012, these advisers could be classified as single-tied , multi-tied , whole of market or independent , depending on whether they were either restricted in the number of providers they dealt with or were free to advise on all available products. The Retail Distribution Review came into effect on January 1, 2013 and financial advisers had been preparing for this over the last few years. From January 1, 2013, financial advisers are either classed as independent or restricted and are remunerated directly by the customer based on the service they receive. Aegon UK continues to maintain strong links with financial advisers in all segments of the market.

Aegon UK is also developing new distribution opportunities, including agreements with banks and affinity partnerships with organizations outside the industry.

Overview business lines

Aegon UK has three business lines:

- Life
- Pensions
- Distribution

Life

The Aegon UK life business comprises primarily individual protection and individual annuities. The protection business provides insurance for individuals against death or serious illness, as well as providing business protection. Annuities are used to convert savings accumulated as part of a pension plan into a regular income throughout retirement.

Products

Individual protection

Aegon UK offers a range of products for individual customers, including life cover, critical illness and income protection. In addition, it also provides products for companies wishing to insure key personnel.

Immediate annuity

In the United Kingdom, funds in pension plans are generally converted into a source of income at retirement, usually through the purchase of an immediate annuity.

Sales and distribution

Individual protection products are distributed through intermediated advice channels. Annuity products comprise internally vested immediate annuities and those through intermediated advice channels.

Pensions

Aegon UK provides a full range of personal and corporate pensions. The company also offers investment products, including onshore and offshore bonds, and trusts.

Products

Individual pensions

Aegon UK provides a wide range of personal pensions as well as associated products and services. These include:

- Flexible personal pensions.
- Self-invested personal pensions (SIPPs), which provide a range of pre- and post-retirement investment options for high-net-worth customers, including insured funds and real estate.
- Transfers from other retirement plans.
- Phased retirement options and income drawdown.
- Stakeholder pensions (a type of personal pension specific to the United Kingdom which has a maximum limit on charges and low minimum contributions).

As an alternative to annuities, Aegon UK also offers Income for life , a retirement solution which bridges the gap between annuities and income drawdown products. It offers customers a guaranteed income for life, plus continued control over their investments up to age 75.

Platform

Aegon Retirement Choices (ARC) was launched in November 2011. AARC helps advisers and their customers with the transition from work to retirement efficiently and effectively through a technology driven platform. The leading edge technology that Aegon UK has employed delivers an intuitive method of saving for retirement through the workplace, taking income in retirement and dealing with changing circumstances. It also provides valuable online reporting and lifestyle tools that enable advisers to demonstrate their professionalism and display their advice charges in a completely transparent way. Professionalism and transparency are key principles of the Retail Distribution Review (RDR) which came into effect on January 1, 2013.

Corporate pensions

One of Aegon UK s largest product lines is providing pension plans for companies. Aegon UK offers group pension solutions on- and off-platform, depending on the needs of the employer and employee. In the UK, pensions reform (automatic-enrollment) is expected to have a dramatic effect on the workplace savings market, increasing the number of employees who will engage with saving through their employers pensions arrangements.

The move away from defined benefit (DB) arrangements, which provide a guaranteed percentage of salary on retirement, toward defined contribution (DC) plans has continued to accelerate in recent years. DC plans are similar to personal pensions with contributions being paid into a plan owned by individual employees and then invested. Generally, at retirement, employees can choose to take a percentage of tax-free cash from their pension plan, using the remainder either to purchase an annuity or to invest it in a separate drawdown policy.

As a result of this trend, the market for new DB plans has shrunk dramatically in recent years, largely because of concerns over long-term liabilities.

Investment products

Aegon UK also offers two types of investment bonds designed for customers residing in the United Kingdom: the onshore bond and offshore contracts[1].

The onshore bond is a type of life contract, aimed primarily at pre- and post-retirement customers looking for either a source of income or a way of growing their savings. The bond offers a wide range of investment options and funds, managed by some of the world s leading asset managers. While the onshore bond is aimed at a mass affluent market, Aegon UK s offshore contracts have traditionally been marketed to high net-worth individuals. Offshore contracts offer considerable tax advantages and a wide choice of investment options.

1 The onshore bond is provided by Scottish Equitable plc. The offshore contracts are offered by Aegon Ireland plc and are reported separately in the New Markets segment, rather than as part of the UK segment.

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Unit-linked guarantees

Aegon offers a range of pension and investment products which provide valuable guarantees for the At-Retirement market. There is an onshore bond which provides a guaranteed income for 20 years, a guaranteed version of the income drawdown pension which provides a guaranteed income for life (the guaranteed element of both of these products is reinsured to Aegon Ireland plc) and an offshore investment plan which also provides a guaranteed income for life (offered by Aegon Ireland plc).

Sales and distribution

Investment products as well as individual and corporate pensions are distributed widely through independent financial advisers, tied distribution and, more recently, through partnerships with banks. In addition, Aegon UK also maintains close relations with a number of specialist advisers in these markets.

ARC is distributed through intermediated advice channels.

Distribution

Through the company s Origen and Positive Solutions businesses, Aegon UK also provides financial advice directly to both individuals and companies.

Origen is a financial adviser firm with strong positions in both the corporate and high-net-worth individual markets. It promotes its services through a variety of different sales channels, including face-to-face, media and worksite marketing, as well as accessing customers through professional contacts with accountants and lawyers.

Positive Solutions, meanwhile, brings together around 900 individual partners in one of the largest adviser networks in the United Kingdom.

Competition

Aegon UK faces competition from two main sources: life and pension companies and financial advice firms.

Over the past few years, the life and pension market has been increasingly concentrated among the largest companies and those perceived to be financially strong. Aegon UK s competitors include Legal and General, Standard Life, Lloyds and Aviva. For certain products competition also comes from asset management companies and platform providers.

The financial adviser market in the United Kingdom is fragmented, with a large number of relatively small firms. The removal of polarization rules in the advice market in 2005 has led to advisers choosing to operate on a multi-tied, single-tied, whole of market, or independent basis. More recently, there has been consolidation in this market due to financial pressures and preparations for the Financial Services Authority Retail

Distribution Review, which will radically change the advisory business models. Even so, fragmentation remains high. There are few firms with a genuine nationwide presence or a well-known brand outside specific local areas.

Regulation and supervision

All relevant Aegon UK companies are regulated by the Financial Services Authority under the United Kingdom s Financial Services and Markets Act 2000.

The Financial Services Authority (FSA) acts both as a prudential and conduct of business supervisor. On December 19, 2012, the Financial Services Act 2012, received royal assent abolishing the FSA with effect on April 1, 2013. Its responsibilities will be split between the Prudential Regulatory Authority and the Financial Conduct Authority.

Currently the FSA sets minimum standards for capital adequacy and solvency, and regulates the sales and marketing activities of regulated companies.

All directors and some senior managers of Aegon UK undertaking particular roles (for example finance/actuarial, fund managers, dealers, and salesmen) have responsibilities to the Financial Services Authority as Approved Persons . As such, they are subject to rigorous pre-appointment checks on their integrity and competence, and are subject to ongoing supervision throughout their mandate as Approved Persons and for a limited period afterwards.

Asset liability management

Asset liability management (ALM) is overseen by the Aegon UK Management Investment Committee (MIC), which meets each month to monitor capital requirements and ensure appropriate matching of assets and liabilities.

In addition to monitoring risk exposures in compliance with Aegon N.V. s worldwide risk management strategies, investment exposure to any single counterparty is limited by an internal framework that reflects the limits set by the appropriate regulatory regime. This applies both within asset classes (equities, bonds and cash) and across all investments.

For its with-profit business, Aegon UK s general philosophy is to match guarantees with appropriate investments. However, the nature of with-profit businesses typically prevents perfect matching, and the role of the MIC is therefore to monitor the capital implications of any mismatching. On an annual basis, detailed reports are produced covering the impact of a range of possible investment scenarios on the solvency of each of the funds. These reports allow the central investment strategy for the with-profit funds to be discussed and are summarized for the With-Profits Forum, a sub committee of the Board of Aegon UK.

In respect of non-profit business, interest rate risk arises substantially on Aegon UK s large book of annuities in payment. Assets are purchased to provide a close expected match to liability outflows, with regular reporting to the MIC on the capital implications of any mismatching.

For unit-linked business, the matching philosophy results in close matching of the unit liabilities with units in the relevant underlying funds. A proportion of the unit-linked assets is invested in funds managed by external investment managers. The MIC monitors the performance of the investment managers against fund benchmarks.

With-profit fund

The invested assets, insurance and investment contract liabilities of Aegon UK s with-profit fund are included in for account of policyholder assets and liabilities . Assets and liabilities are always equal as any excess of assets over liabilities in respect of guaranteed benefits and constructive obligations are classified as an insurance or investment contract liability. The Scottish Equitable with-profit fund is a 100:0 fund, where all benefits are held for participating policyholders.

The operation of the Scottish Equitable with-profit fund is complex. Below is a summary of Aegon UK s overall approach.

Guarantees

With the exception of Aegon Secure Lifetime Income and 5 for Life (which are written by Aegon Ireland plc), and the product guarantees within Investment Control and Income for Life (which are reinsured to Aegon Ireland plc), all Aegon UK contracts with investment guarantees have been written in policyholder-owned funds (otherwise called with-profit funds). These funds contain free assets , which, as yet, have not been fully distributed to individual policyholders. Free assets help meet the cost of guarantees and provide a buffer to protect the fund from the impact of adverse events. Aegon UK has an exposure only once these assets have been exhausted. As outlined below, Aegon UK believes this exposure to be low.

In previous years, Scottish Equitable sold guaranteed annuity products in the United Kingdom. Certain policies also have a guaranteed minimum rate of return or guaranteed death or other benefits. Any guaranteed rates of return only apply if the policy is kept in force to the dates specified, or on the events described in the policy conditions. The costs of all guarantees are borne by the with-profit funds and therefore impact the payouts to with-profit policyholders.

As part of its demutualization process before being acquired by Aegon N.V., on December 31, 1993, the business and assets of Scottish Equitable Life Assurance Society were transferred to Scottish Equitable plc. Aegon UK has no financial interest

in Scottish Equitable plc. s with-profit fund, apart from routine yearly fund management charges, as well as costs and expenses that the company agreed to accept at the time of demutualization.

Guaranteed rates of return on with-profit policies are typically in the range of 0% to 5.5% a year, with the highest rates closed to all premiums in 1999 and all funds closed to new business with investment guarantees from October 2002, except for a low level of increments. Under a number of contracts written mainly in the 1970s and 1980s, Scottish Equitable also offered minimum pension guarantees (including guaranteed annuity options). As life expectancy rates have improved and interest rates have fallen over time, these minimum guarantees are now often valuable.

Management of the with-profit fund

It has been Aegon UK s practice to have an investment strategy of its with-profit fund that reflects the nature of the underlying guarantees. The fund can invest in a variety of different asset types. The main categories are United Kingdom and overseas equities, United Kingdom fixed interest securities and cash. The with-profit fund has a target range for the percentage of its assets that are invested in equities. These ranges may be varied. Within the target ranges, there is a policy of holding an appropriate mix of asset classes to reduce risk.

The results of the with-profit fund s investment performance is distributed to policyholders through a system of bonuses which depend on:

¿ The guarantees under the policy, including previous annual bonus additions.
¿ The investment returns on the underlying assets, with an allowance for smoothing to reduce volatility. Although smoothing means that investment profits are spread from one year to the next, the aim is to pay out all of the investment profits earned by the fund over the long term. On early withdrawals there are other measures to ensure that a fair share of total fund growth has been received. Indeed, a market value reduction may be applied under certain funds when, for cohorts of similar contracts, the face value of the benefits is greater than the value of the underlying assets. Policy conditions may state specific points at which a market value reduction will not apply.

As mentioned above, the free assets (that is assets which, as yet, have not been distributed to policyholders) help meet the cost of guarantees and provide a buffer to deal with adverse events. Aegon UK has an exposure only once these free assets have been exhausted. This has been assessed by Aegon UK to be remote based on applying the risk-based capital approach now required for solvency reporting in the United Kingdom.

As the Scottish Equitable with-profit fund is now closed to new business with investment guarantees, the process has begun of gradually distributing free assets to with-profit policyholders through the bonus system outlined above. Part of the management of this process involves ensuring that any surpluses in the with-profit fund from other (historic) business lines can be distributed to existing with-profit policyholders at a suitable rate. This helps avoid a tontine effect building up in the fund, as the number of with-profit policyholders declines.

Reinsurance ceded

Aegon UK s reinsurance strategy is aimed at limiting the overall volatility of mortality and morbidity when managing risk and maximizing the financial benefits that reinsurance can bring. The actual percentage of business reinsured varies, depending largely on the appropriateness and value of reinsurance available in the market.

Aegon UK prefers to work only with reinsurance companies that have a strong credit rating subject to an economic assessment of the terms on offer. Using a reinsurer with a credit rating below AA requires approval under Aegon UK s governance process as well as approval by Aegon s Group Reinsurance Use Committee in The Hague. A range of reinsurers is used across the reinsurance market.

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Results 2012 New Markets

Amounts in EUR millions	2012	2011	%
Net underlying earnings	**185**	**184**	**1%**
Tax on underlying earnings	89	65	37%
Underlying earnings before tax by product segment			
Central & Eastern Europe	85	96	(11%)
Asia	19	(4)	-
Spain & France	69	88	(22%)
Variable Annuities Europe	-	9	-
Aegon Asset Management	101	60	68%
Underlying earnings before tax	**274**	**249**	**10%**
Net Fair value items	(1)	(30)	97%
Gains / (losses) on investments	10	7	43%
Impairment charges	(26)	(61)	57%
Other income / (charges)	113	7	-
Income before tax (excluding income tax from certain proportionately consolidated associates)	**370**	**172**	**115%**
Income tax from certain proportionately consolidated associates included in income before tax	3	8	(63%)
Income tax	(121)	(61)	(98%)
Of which Income tax from certain proportionately consolidated associates included in income before tax	(3)	(8)	63%
Net income	**249**	**111**	**124%**
Life insurance gross premiums	1,374	1,600	(14%)
Accident and health insurance premiums	188	179	