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

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(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

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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

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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**

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.

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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.

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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%.

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%**

	Weighted average rate		Closing rate as of	
Exchange rates				
			December 31,	December 31,
Per 1 EUR	**2012**	2011	**2012**	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%)

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

Gross deposits (on and off balance)	Amounts in USD millions 2011	2010	%	Amounts in EUR millions 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.

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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 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%)**

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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.

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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.

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.

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.

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	5%
General insurance premiums	144	149	(3%)
Total gross premiums	**1,706**	**1,928**	**(12%)**
Investment income	319	320	-
Fees and commission income	524	469	12%
Other revenues	3	1	-
Total revenues	**2,552**	**2,718**	**(6%)**
Commissions and expenses	870	826	5%
of which operating expenses	613	577	6%

New life sales

Amounts in EUR millions	2012	2011	%
Central Eastern Europe	114	110	4%
Asia	53	58	(9%)
Spain and France	86	143	(40%)
Total recurring plus 1/10 single	**253**	**311**	**(19%)**

Amounts in EUR million	2012	2011	%
New premium production accident and health insurance	42	34	24%
New premium production general insurance	25	25	-

Gross deposits (on and off balance)	2012	2011	%
Central & Eastern Europe	316	662	(52%)
Asia	169	59	186%
Spain & France	45	61	(26%)
Variable Annuities Europe	463	530	(13%)
Aegon Asset Management	9,916	5,244	89%
Total gross deposits	**10,909**	**6,556**	**66%**

Exchange rates	Weighted average rate	
Per 1 EUR	2012	2011
US Dollar	1.2849	1.3909
Canadian dollar	1.2839	1.3744
Pound sterling	0.8103	0.8667
Czech koruna	25.1140	24.5636
Hungarian florint	288.8606	278.9417
Polish zloty	4.1809	4.1154
Romanian leu	4.4548	4.2353
Turkish Lira	2.3132	2.3333
Chinese rin bin bi yuan	8.1377	9.0576

Results 2012 New Markets

Aegon s operations in New Markets reported higher underlying earnings before tax in 2012 as growth in Asset Management and Asia offset declines in Central & Eastern Europe and Spain due to new pension legislation in Poland and changes to Aegon s joint venture partnerships in Spain.

Net income

Net income from Aegon s operations in New Markets increased to EUR 249 million, driven by strong underlying earnings, the gains on the divestments of the Banca Cívica joint venture (EUR 35 million) and Prisma (EUR 100 million). Impairment charges were lower during the year, due to lower mortgage related impairments in Hungary.

Underlying earnings before tax

In New Markets, Aegon s underlying earnings before tax increased 10% to EUR 274 million in 2012. Higher underlying earnings before tax from Aegon Asset Management and Asia offset lower earnings from Spain, Central & Eastern Europe and Variable Annuities Europe.

- Underlying earnings before tax from **Central & Eastern Europe** were lower than in 2011 at EUR 85 million in 2012, driven mainly by the negative impact of the pension legislation changes in Poland and lower mortgage margins in Hungary.
- Underlying earnings before tax from Aegon s operations in **Asia** improved to EUR 19 million in 2012 compared to an underlying loss before tax of EUR 4 million in 2011 as higher investment income during 2012 and a EUR 15 million higher gain related to updated mortality assumptions more than offset the negative impact of several small charges and higher expenses related to business development.
- Underlying earnings before tax from **Spain & France** decreased 22% to EUR 69 million in 2012 due to the divestment of the joint venture with Banca Cívica in the fourth quarter of 2012 and as underlying earnings before tax from Aegon s partnership with CAM were, beginning in the second quarter of 2012, no longer included pending the exit from this joint venture. Contributions by these partnerships in comparable periods in 2011 amounted to EUR 25 million. The earnings contribution from partner La Mondiale in France remained stable compared to 2011 and amounted to EUR 21 million.
- Underlying earnings before tax from **Variable Annuities Europe** amounted to nil which was mainly the result of project spending to position the company for future growth.
- Underlying earnings before tax from **Aegon Asset Management** increased to EUR 101 million, as a result of asset growth and higher performance fees, partly offset by the divestment of Prisma as of the fourth quarter of 2012.

Commissions and expenses

Commission and expenses increased 5% to EUR 870 million in 2012. Operating expenses increased 6% to EUR 613 million in 2012. This was the result of higher costs in Asia and Variable Annuities Europe driven by investments to support future growth, the inclusion of the company s Canadian investment management activities within Aegon Asset Management and recurring charges for Corporate Center expenses, partly offset by the divestment of the Banca Cívica joint venture and the exclusion of CAM.

Production

New life sales declined 19% to EUR 253 million in 2012.

- In Central & Eastern Europe, new life sales increased 4% to EUR 114 million in 2012. Increased production in Poland, Turkey, Slovakia and the Czech Republic due to distribution improvements and product innovation offset lower production in Hungary due to difficult market circumstances.
- In Asia, new life sales declined to EUR 53 million in 2012. Production in China was higher due to strong performance of new distribution partners. This was more than offset by lower sales in Hong Kong and Singapore following the withdrawal of a universal life product with secondary guarantees in July 2012.
-

In 2012, new life sales in Spain declined to EUR 86 million as the inclusion of Caixa Sabadell Vida was more than offset by lower production at other joint venture partners in Spain, the exclusion of new life sales from CAM and the divestment of Banca Cívica.

New premium production from Aegon s general insurance business in Central & Eastern Europe was stable compared to 2011 and amounted to EUR 25 million in 2012. New premium production from Aegon s accident & health insurance business increased 24% to EUR 42 million in 2012, mainly driven by Aegon s direct marketing unit in Asia.

In 2012, gross deposits in New Markets amounted to EUR 10.9 billion, increasing substantially compared to 2011. Gross deposits in Aegon Asset Management increased to EUR 9.9 billion in 2012 as a result of strong institutional sales in the United States and the Netherlands, and retail sales in the United Kingdom. In 2012, in Central & Eastern Europe gross deposits declined following pension legislation changes in Hungary and Poland. Higher gross deposits in Asia, on the other hand, were driven by variable annuity sales in Japan in 2012.

Results 2011 New Markets

Amounts in EUR millions	2011	2010	%
Net underlying earnings	**184**	**180**	**2%**
Tax on underlying earnings	65	65	-
Underlying earnings before tax by product segment			
Central & Eastern Europe	96	95	1%
Asia	(4)	6	-
Spain & France	88	87	1%
Variable Annuities Europe	9	11	(18%)
Aegon Asset Management	60	46	30%
Underlying earnings before tax	**249**	**245**	**2%**
Net Fair value items	(30)	(10)	(200%)
Gains / (losses) on investments	7	17	(59%)
Impairment charges	(61)	(22)	(177%)
Other income / (charges)	7	(58)	-
Income before tax (excluding income tax from certain proportionately consolidated associates)	**172**	**172**	**-**
Income tax from certain proportionately consolidated associates included in income before tax	8	10	(20%)
Income tax	(61)	(53)	(15%)
Of which Income tax from certain proportionately consolidated associates included in income before tax	(8)	(10)	20%
Net income	**111**	**119**	**(7%)**
Life insurance gross premiums	1,600	1,731	(8%)
Accident and health insurance premiums	179	174	3%
General insurance premiums	149	159	(6%)
Total gross premiums	**1,928**	**2,064**	**(7%)**
Investment income	320	308	4%
Fees and commission income	469	486	(3%)
Other revenues	1	4	(75%)
Total revenues	**2,718**	**2,862**	**(5%)**
Commissions and expenses	826	831	(1%)
of which operating expenses	577	591	(2%)

New life sales

Amounts in EUR millions	2011	2010	%
Central Eastern Europe	110	96	15%
Asia	58	75	(23%)
Spain and France	143	142	1%
Total recurring plus 1/10 single	**311**	**313**	**(1%)**

Amounts in EUR million	2011	2010	%
New premium production accident and health insurance	34	41	(17%)
New premium production general insurance	25	32	(22%)

Gross deposits (on and off balance)	2011	2010	%
Central & Eastern Europe	662	948	(30%)
Asia	59	53	11%
Spain & France	61	89	(31%)

Variable Annuities Europe	530	663	(20%)
Aegon Asset Management	5,244	7,329	(28%)
Total gross deposits	**6,556**	**9,082**	**(28%)**

	Weighted average rate	
Exchange rates		
Per 1 EUR	2011	2010
US Dollar	1.3909	1.3210
Canadian dollar	1.3599	1.3599
Pound sterling	0.8667	0.8666
Czech koruna	24.5636	25.1205
Hungarian florint	278.9417	273.9494
Polish zloty	4.1154	3.9771
Romanian leu	4.2353	4.1917
Turkish Lira	2.3333	1.9874
Chinese rin bin bi yuan	9.0576	8.9699

Results 2011 New Markets

Aegon s operations in New Markets reported higher underlying earnings before tax in 2011, driven primarily by growth of Aegon Asset Management. In Central & Eastern Europe, the company s shift in focus from pensions to life insurance was successful, both in terms of new life sales and underlying earnings before tax. Underlying earnings before tax from operations in Asia were negative as the company continued to invest in growth in these emerging markets. The contribution from Spain and France remained level compared with 2010.

Net income

Net income from Aegon s operations in New Markets declined 6% to EUR 111 million as higher underlying earnings before tax and lower other charges were more than offset by lower results on fair value items and higher impairment charges. Results on fair value items amounted to EUR (30) million, mainly as a result of hedge ineffectiveness in Variable Annuities (VA) Europe. Impairment charges increased to EUR (61) million and were mainly driven by increased mortgage impairments in Central & Eastern Europe. Following new legislation in Hungary, customers are allowed to repay their Swiss franc denominated mortgages at pre-set foreign currency rate between the Swiss franc and the Hungarian forint. Other charges of EUR 58 million in 2010 included restructuring charges related to the restructuring in Aegon Asset Management and charges related to legislation changes in Central & Eastern Europe, which did not recur in 2011. In addition, 2011 included a favorable EUR 37 million following a settlement of a legal case in Aegon Asset Management.

Underlying earnings before tax

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

¿ Earnings from Central & Eastern Europe remained level at EUR 96 million as the negative impact from changes in pension legislation in Hungary and Poland was offset by growth of the life business and improved claim experience.

¿ Results from Aegon s operations in Asia declined to EUR (4) million, as the positive impact from growth of the business and cost reductions have been offset by the inclusion of the expenses related to the Asian regional office. The results for the regional office in Asia have been included since the first quarter of 2011, following the implementation of the new operational structure for the Asian operations.

¿ Earnings from Spain & France amounted to EUR 88 million and remained level compared to 2010. Earnings from Spain increased to EUR 66 million as a result of business growth in Spain and the inclusion of earnings from Caixa Sabadell Vida.

Earnings contributions from partner La Mondiale in France declined to EUR 22 million.

¿ Earnings from Variable Annuities Europe declined to EUR 9 million as growth of the business was offset by a true-up of deferred policy acquisition cost and unfavorable currency movements. In addition, earnings in 2010 included a benefit of EUR 5 million.

¿ Earnings from Aegon Asset Management increased 30% to EUR 60 million for the year as a result of higher performance fees and cost savings.

Commissions and expenses

Commissions and expenses declined by 1% in 2011. Operating expenses declined 2% to EUR 577 million in 2011, as a result of lower operating expenses in Aegon Asset Management and incurred cost savings in Central & Eastern Europe.

Production

New life sales decreased 1% to EUR 311 million.

¿ In Central & Eastern Europe, new life sales increased 15% to EUR 110 million as a result of strong recurring premium production in Hungary as the focus of the tied distribution network shifted from pensions to life insurance.

- New life sales in Spain & France remained level at EUR 143 million, as the inclusion of Caixa Sabadell Vida offset lower production at one of Aegon s distribution partners in Spain.
- New life sales in Asia decreased 23% to EUR 58 million, as a result of lower life single premium production.

New premium production from Aegon s general insurance and accident & health businesses in Central & Eastern Europe decreased to EUR 25 million, as strong household insurance sales in Hungary were offset by lower motor production due to increased price competition.

Gross deposits in New Markets amounted to EUR 6.6 billion, a decline of 28% compared to 2010. The decline was mainly driven by lower gross deposits in Aegon Asset Management.

Overview Central & Eastern Europe

Aegon has operations in six Central & Eastern European countries: the Czech Republic, Hungary, Poland, Romania, Slovakia and Turkey. Aegon first entered the Central & Eastern European market in 1992 when the Group bought a majority stake in Hungary s former state-owned insurance company, Állami Biztosító. Hungary is Aegon s leading business in the region and a springboard for further expansion. The expansion in the region continued in 2012. At the end of the year the acquisition of Fidem Life, Ukraine s fifth largest life insurance company was in progress.

Organizational structure

Aegon s main subsidiaries and affiliates in Central & Eastern Europe are:

- Aegon Hungary Composite Insurance Company
- Aegon Hungary Investment Fund Management Company
- Aegon Hungary Pension Fund Management Company
- Aegon Poland Life Insurance Company
- Aegon Pension Fund Management Company (Poland)

Overview sales and distribution channels

Aegon s activities in Central & Eastern Europe (CEE) operate through a number of different sales channels. These include tied agents, insurance brokers, call centers, online channels and, particularly in Hungary, Poland, Romania and Turkey, retail banks. Through tied agents, brokers and call centers, Aegon sells primarily life and non-life insurance. Through online channels, Aegon sells mainly household and car insurance. Banks and loan centers are used to sell predominantly life insurance, mortgages, mutual funds and household insurance.

Overview business lines

Life

Aegon companies in CEE offer a range of life insurance and personal protection products. This range includes traditional life, as well as unit-linked products. Unit-linked products cover all types of life insurance, including pension, endowment and savings. In Poland, Aegon is one of the leading[1] providers of unit-linked products, offering around 243 different investment funds. In Hungary, Aegon s unit-linked market position is similar[2]. Over the course of 2012, the number of investment funds offered reached 149.

Traditional general account life insurance is a marginal product for most of the region s businesses, except for Hungary, Poland and Turkey. It includes mainly index life products that are not unit-linked but have guaranteed interest rates. Group life and preferred life are also part of traditional life insurance.

1 Source: www.knf.gov.pl.
2 Source: www.mabisz.hu.

Preferred life is an individual life term insurance product which offers insurance protection. The product distinguishes between smoker and non-smoker status and uses standard and preferred pricing dependent on the health status of the client. Group life contracts are renewable each year. They also carry optional accident and health cover.

The main guarantee in Hungary is variable crediting rates with minimum interest guarantees between 0% and 4% for universal life type products, plus 100% participation in actual interest earned. Traditional non-profit-share products have 5.5% technical interest rates, but this is an insignificant block of business. Profit-share products have a 2-4% technical interest rate and 85% participation in excess interest. The average minimum interest guarantee is about 3%. In Hungary, a small part of the current new business provides a minimum interest guarantee of 2%.

In Poland, an insurance fund with guaranteed rate reset on a quarterly and annual basis, is offered on unit-linked products. Similar products are sold in the Czech Republic and Slovakia with a declared interest guarantee of 2% and 2.5% respectively, that is further increased provided certain conditions are fulfilled by the clients. In Slovakia, the minimum interest rate on universal life products was 3% up to the end of 2006 and since then it has been 2.5%. The universal life products in the Czech Republic have a guaranteed interest rate of 2.4%.

The profit-share product portfolio in Turkey has a guaranteed interest rate of 9% for Turkish lira products that are closed to new business and 2% for those introduced since 2010. For USD and EUR denominated products, the guaranteed interest rate is 2.5% for the old portfolio and varies between 2% and 3.75% in case of new products introduced after the acquisition of the company in 2008. A minimum of 85% of the interest income in excess of guaranteed return is credited to policyholders funds in Turkey.

In 2008, Aegon established Aegon Life Insurance Company in Romania. In 2009, Aegon Life Insurance Company began selling unit-linked, term life and endowment insurance policies in Romania.

The life insurance company in Romania merged with Aegon Poland Life Insurance Company on October 31, 2012. At that point, the Romanian life insurance portfolio was taken over by Aegon Poland Life Insurance Company s branch operating in Romania.

Based on gross written premium, Hungary has a share of around 60%, Poland has a share of around 30%, while Turkey has a share of around 10% in the traditional general account life insurance portfolio of the Central & Eastern Europe (CEE) region. The majority of the unit-linked portfolio (around 70%) was written in Poland, around 20% of the portfolio was written in Hungary and there are also some smaller unit-linked portfolios in the Czech Republic, Slovakia and Romania.

Mortgage loans

Since 2006, Aegon Hungary has been offering mortgage loans to retail customers. Home mortgage loans provided in the past were mainly Swiss franc denominated and provided by Aegon Hungary Mortgage Finance Co., a subsidiary of Aegon Hungary Composite Insurance Company. In the last three years, the mortgage lending shifted toward lending in Hungarian forint.

Since 2010, the mortgage loans business has been affected by some legislative changes enacted by the Hungarian Parliament. One of the most significant changes was enacted in September 2011. It opened up the possibility for debtors, with mortgage loans denominated in foreign currencies, to redeem the outstanding loan amount at a fixed, below market exchange rate. Through 2012 the program, aimed at alleviating the financial burden of debtors having mortgage loans denominated in foreign currency, continued. The most significant measure was to allow debtors to fix the exchange rate to be applied for their monthly installments at a below market exchange rate for a maximum period of five years. The financial loss resulting from this program (that is the difference between the fixed and the current market exchange rates) is partially borne by the Hungarian State and partially by the financial institutions, whereas the loss from the initial change, in September 2011, was fully borne by the financial institutions.

Pensions

In the past, Aegon s pension business in CEE experienced considerable growth. This was mainly due to the region s strong economic growth experienced before the financial turmoil, and to the widespread reform of the pension system in many countries.

In four of the six CEE countries in which Aegon has businesses, Aegon entered the mandatory private pension plans market: Hungary, Slovakia, Poland and Romania in the past. Additionally, Aegon has voluntary pension plans in three countries: Hungary, the Czech Republic and Turkey.

Aegon s mandatory private pension funds in Poland and Slovakia, as well as the voluntary pension fund in Hungary, are among the largest in their countries in terms of both membership and assets under management. As of December 2012, Aegon had a total of 1.7 million pension fund members in the CEE region.

Since 2009, a series of legislative changes, slowing business growth, have been implemented in the region s country units. The most significant impact has been in Hungary, but changes have also slowed down business growth in the other CEE country units where Aegon has a presence.

The Hungarian pension legislation changes enacted at the end of 2010 had a significant impact on the private (formerly mandatory) pension system. One of the most important measures was that private pension members were required to choose whether to stay with their private pension funds (on condition that they would lose entitlement to the state pension related to employment years following the end of 2011) or to opt out of the private pension funds, transferring their accumulated savings to the state held pension system. As a result, approximately 3% of members decided to remain enrolled in the private pension system and the rest (97%) moved to the state pension system.

Further legislative changes, enacted in Hungary at the end of 2011, require that all contributions deducted from the monthly wages of members are transferred to the state driven pension system (Pillar I). Members can transfer contributions to the private (formerly mandatory) pension funds only on a voluntary basis. Additionally, members had the option of returning to the state driven pension system until the end of March 2012.

On May 31, 2012, the delegate general meeting agreed to terminate the private pension fund without any legal successor in Hungary. The liquidation process started on July 1, 2012.

In accordance with the legislative changes enacted in 2011 in Poland, the contribution level payable into the private pension fund was significantly cut back. Also, according to the law, as of 2012 new members can no longer be actively recruited into private pension funds by the management companies.

Aegon announced its withdrawal from the voluntary pension business in Slovakia in 2011, and expects to exit the market in 2013.

1 Sources: Polish Financial Supervision Authority, www.knf.gov.pl; the Association of Pension Fund Management Companies, Slovakia, www.adss.sk; Hungarian Financial Supervision Authority, www.pszaf.hu.

As of September 2012, there has been a significant reduction in the contribution rate payable in Slovakia. Additionally, from 2013, new laws come into force which mean it will no longer be mandatory to join a private pension fund (Pillar II).

In accordance with legislative changes that took place in Turkey during 2012, the maximum chargeable level of entrance fees, administration fees and asset management fees reduces as of 2013. Also, as of 2013, the pension contribution will not be subject to tax incentives any more, but members will have 25% of their contributions paid as direct support from the state.

In 2012, the pension reform preparatory activities continued in the Czech Republic. Accordingly, as of January 2013 the existing pension companies will transform into a management company managing newly launched Pillar II and Pillar III pension funds alongside the so called transformation fund in which savings, accumulating up to the end of 2012, will be placed. Aegon decided not to enter into Pillar II in the Czech market.

Non-life

In addition to life insurance and pensions, Aegon Hungary offers non-life cover (household, car insurance and some wealth industrial risk). Aegon is the leading[2] insurance company in the household market.

In recent years, margins on non-life insurance in Hungary have been attractive. Moreover, household insurance provides considerable opportunities for cross-selling life insurance.

As part of Aegon s regional expansion, Aegon Hungary opened branch offices in 2010 in Slovakia, and then in 2011 in Poland, selling household insurance policies in these markets.

Competition

Aegon is among the biggest players in the life insurance market in Hungary. In 2012, based on the first nine months total premium income, it is the fourth largest[1] in Hungary. In terms of regular life premium income Aegon is the second largest[1] in the same period. Also based on the first nine months premium income, Aegon is the fourth largest[1] on the Hungarian non-life insurance market. Aegon is also a significant market player in the Polish market, ranked fifth for unit-linked products[2] in September 2012 based on gross written premiums. As Aegon Slovakia was incorporated in 2003, Aegon Czech Republic in 2004 and Aegon Romania in 2008 only, Aegon is not a significant player in these countries, just like Aegon s business in Turkey that was acquired in 2008.

1 Source: www.mabisz.hu.
2 Source: www.knf.gov.pl.
3 Source: www.pszaf.hu.
4 Source: Association of Pension Fund Management Companies.
5 Source: www.knf.gov.pl.
6 Source: www.csspp.ro.

In Hungary s voluntary pension fund market, Aegon was ranked third both in terms of the number of members and in terms of its managed assets in September 2012[3]. In terms of managed assets Aegon was ranked fifth in the Slovakian private pension market and fourth in terms of number of members in 2012[4]. In Poland, Aegon is ranked seventh in terms of the number of members and eighth in terms of its managed assets in December 2012[5]. As of December 31, 2012, in the Romanian mandatory private pension market, Aegon was ranked eighth, both in terms of net assets under management and number of members[6].

Regulation and supervision

In Central & Eastern Europe, insurance companies can be licensed only for separate businesses; that is, a single company can conduct either life insurance or non-life insurance but not both together. However, in Hungary, insurance companies established before 1995, including Aegon Hungary, are exempt from this rule.

State supervision and oversight of the insurance industry is conducted by the following bodies and institutions:

¿ Hungarian Financial Supervisory Authority (HFSA)
¿ National Bank of Slovakia

- Czech National Bank
- Polish Financial Supervisory Authority (KNF)
- Insurance Supervisory Commission (CSA) (Romania)
- Undersecretariat of Treasury (Turkey)

The above-mentioned authorities promote consumer protection and have the right to investigate prudential activities and conduct, financial position and solvency, and compliance with all relevant laws.

In addition to legal regulation, insurance companies are subject to a number of self-regulatory groups in their respective countries. These self-regulatory groups are the main forums for discussion among insurance companies. Their specialized departments (e.g., actuarial, financial, and legal departments) meet periodically. They also engage in lobbying activities.

In Hungary, the foundation and operations of voluntary pension funds are regulated by the country s Act on Voluntary Mutual Pension Funds (XCVI. 1993). Although, for Aegon, these activities are outsourced to Aegon Hungary Pension Fund Management Company, its operations must still comply with this legislation. This activity is also supervised by the HFSA. Slovakia s mandatory pension market is regulated by Act 43/2004 on pension asset management companies and respective notices. The mandatory pension business falls under the supervision of the National Bank of Slovakia (NBS).

In Romania, the private pension system is regulated and supervised by the Private Pension System Supervisory Commission (CSSPP) and the mandatory pension system is subject to Act 411/2004 on Privately Administered Pension Funds, as primary legislation, complemented by individual regulations, as secondary legislation. In Poland, this activity is supervised by the KNF and is governed by the Organization and Operation of Pension Funds Act as of August 28 1997. In the Czech Republic, the voluntary pension funds fall under the supervision of the Czech National Bank and are regulated by Act 42/1994 on State-Contributory Supplementary Pension Insurance. In Turkey, the voluntary pension funds fall under the supervision of the Undersecretariat of Treasury and the companies are subject to Individual Retirement Saving and Investment System Law No. 4632.

In Hungary, the Act on Credit Institutions and Financial Enterprises (CXII. 1996) regulates the foundation, operation and reporting obligations of all the country s financial institutions (including Aegon Hungary Mortgage Finance Company). In addition, Aegon Hungary Mortgage Finance Company falls under the supervision of the HFSA.

Asset liability management

The investment strategy and the asset liability management of the CEE region is overseen within Aegon by the Regional Risk and Capital Committee that meets on a quarterly basis. Aegon CEE s asset liability management focuses on asset liability duration and liquidity. The performance of portfolios against benchmarks is also evaluated during these meetings.

Reinsurance ceded

Aegon takes out reinsurance for both its life and its non-life businesses in Central & Eastern Europe. This strategy is aimed at mitigating insurance risk. Aegon s companies in the region work only through large multinational reinsurers, which have well-established operations in the region in accordance with the Aegon Reinsurance Use Policy. For short-tail business CEE accepts a minimum rating of A- by S&P and for long-tail business CEE accepts a minimum of AA- rated (S&P) reinsurance companies. The credit standing of the reinsurance partners is held under strict monitoring, being assessed by the Risk & Capital Committee on a quarterly basis.

The three most important reinsurance programs currently in force are (with retention levels for each event indicated in parentheses):

¿ Property catastrophe excess of loss treaty (EUR 5.5 million, for the Slovakian and Polish accounts EUR 0.2 million).
¿ Motor third party liability excess of loss treaty (EUR 0.4 million).
¿ Property per risk excess of loss treaty (EUR 1 million).

The majority of treaties in force for Aegon s operations in CEE are non-proportional excess of loss programs, except for the life reinsurance treaties, which are done on surplus and quota-share basis (including various riders).

Overview Asia

Aegon Asia operates throughout the Asia region via three major joint ventures, in China, India and Japan, and its network of wholly owned subsidiaries.

Joint ventures

In 2002, Aegon signed a joint venture agreement with China National Offshore Oil Corporation (CNOOC), China s leading offshore oil and gas producer. Aegon-CNOOC Life Insurance Co. Ltd (Aegon-CNOOC) began operations in 2003. The joint venture is licensed to sell both life insurance and accident and health products in the provinces of mainland China. Since 2003 Aegon-CNOOC has been steadily extending its network of offices and business in China. Its spread of locations give the joint venture access to a potential market of more than 555 million people, most of them in the booming coastal provinces of eastern China.

Aegon is also present in India through its agreement in 2006 to form a new life insurance partnership with Religare Enterprises Limited and Bennett, Coleman & Company Limited. This partnership began operations as Aegon Religare Life Insurance Co. Ltd (Aegon Religare) in 2008. By December 31, 2012, Aegon Religare had a pan-India distribution network with 70 branches, across 57 cities and 23 states and had issued more than 287,000 policies.

Aegon signed a joint venture agreement with Sony Life, one of Japan s leading insurance companies, in early 2007. Operations were launched in 2009 and the joint venture has signed up with one mega bank and six regional banks as distribution partners as well as Sony Life s Life Planner channel consisting of over 4,000 professionals as of the end of December 2012. The initial focus of Sony Life Insurance Co. Ltd (Aegon Sony Life) is variable annuities sales in Japan, but the agreement also provides a platform for additional co-operation between the two companies.

The shareholders in the joint venture also agreed to jointly establish a reinsurance company, SA Reinsurance Ltd (SARe), to allow Aegon and Sony Life greater flexibility in the pricing and product design of its variable annuity products. SARe launched in 2010 and is based in Bermuda with the purpose of hedging the guarantees of Aegon Sony Life s annuities.

Wholly-owned subsidiaries

A new organizational structure was adopted for Aegon s operations in Asia from 2011, with all Asian based insurance businesses being managed as one regional division headquartered in Hong Kong. From 2012, Aegon Direct and Affinity Marketing Services (ADAMS) and Transamerica Life Bermuda (TLB), which were previously reported under the Americas operating unit, are included within the Asia section of the New Markets unit. The aim is to leverage product and distribution expertise, capture efficiencies, and pursue organic

growth of Aegon s franchise in Asia. The integration was completed in 2012.

TLB has served the high-net-worth market in Asia in an off-shore and on-shore capacity since the early 1990 s.

ADAMS is an independent direct marketing (DM) company with operations in six Asia countries. It was established in Australia in 1998 and since then set up operations in Japan, Hong Kong, Thailand, India and more recently Indonesia.

Organizational structure

- Aegon-CNOOC Life Insurance Co. Ltd. (50%)
- Aegon Religare Life Insurance Co. Ltd. (26%)
- Aegon Sony Life Insurance Co. Ltd (50%)
- SA Reinsurance Ltd (50%)
- Transamerica Life Bermuda
- Aegon Asia B.V.

Overview sales and distribution

Banks are becoming increasingly important in Asia as a way to distribute pensions, life insurance and other long-term savings and investment products. For this reason, Aegon has been striving in recent years to extend its bank distribution agreements in the region.

In China, Aegon sells its products through multiple distribution channel such as agents, independent brokers, banks, DM and the group channel. As of December 2012, Aegon s bancassurance network in China totals 736 outlets.

By 2010, Aegon Religare had built a widespread agency network however there has been some consolidation during 2012, as of December 2012 there were in excess of 5,900 agents. In addition to agency distribution there has also been an increase in Direct to Customer (DTC) distribution such as digital sales platforms and the use of the direct sales force channel. There was a significant increase in the number of sales generated online in 2012 compared with the previous year and Aegon Religare continues to be a pioneer in the online protection space. Aegon Religare distributes products via: Religare Group, a strategic partner; other partnerships with companies that offer financial services to their clients; brokers, and, to some extent, co-operative banks.

Aegon Sony Life in Japan has two primary channels of distribution, the Life Planner channel of Sony Life, Aegon s joint venture partner, and the bank distribution channel. Life Planner began operations in 2009 and six regional banks now sell Aegon Sony Life s products. Aegon Sony Life launched a partnership with one of the largest national mega banks (SMBC) in 2010 and intends to add further bank partners in the future. Bancassuarance is expected to become an increasingly important channel in Japan as banks are growing more accustomed to selling insurance. Furthermore, banks are eager to expand into fee income based activities since their mainstay business margins have been reduced because of the financial crisis and related low interest rates.

ADAMS is one of the largest DM services companies in Asia by both geographic footprint and premium. ADAMS is a specialist in direct and affinity marketing, offering services to business partners across the DM value chain. In particular they have developed significant capabilities in customer analytics and data management, integrated marketing and operational execution.

ADAMS has made a major strategic change to reduce their reliance on customer base owners through the development of a DTC business model enabling closer ties with customers. Building direct relationships with the customer and developing a clear understanding of customer needs allows ADAMS to maximize the effectiveness of marketing campaigns, deciding what to offer each customer through the most appropriate channel and at a time when the customer will be most receptive. During 2012, DTC initiatives were launched in Hong Kong under the banner of Aegon Direct Club, these initiatives will launch in Australia and Indonesia in 2013.

The focus of TLB is on building direct relationships with private banks where appropriate and targeting and nurturing new brokers and intermediaries who have been identified as future leading advisers, while maintaining strong ties with established international brokers.

Overview business lines

Life and savings

Aegon provides a broad range of life insurance products through its businesses in China and India. These include unit-linked and traditional life products, as well as endowment, term life, health, group life, accident and annuities.

In China, Aegon-CNOOC s agency channel mainly sells regular premium participating endowment and critical illness products. The regular premium participating endowment product and the single-pay universal life product are key products for the bancassurance channel. Telemarketers mainly sell return of premium products and the popular products in the brokerage channel are return of premium, participating endowment and critical illness products.

At the end of 2012, Aegon Religare had several term plans, traditional individual participating products, traditional pension participating products, unit-linked plans and health products.

Universal life and term products

TLB maintained its focus on USD Guaranteed Universal Life (GUL) with and without the no lapse guarantee feature and USD term plans in 2012. However, there is a renewed drive to create innovative products due to more providers entering the high-net-worth market, and a new range of products is due for launch in 2013. With increased local IT capability to design and manufacture product and customer interaction interfaces in mind, the new product suite will benefit both customers and the company in the current challenging economic environment.

Individual savings and retirement

Aegon Sony Life sells variable annuities. It provides a guaranteed life time withdrawal benefit (GLWB) with rollup function during deferral period by 3% per annum and a guaranteed minimum accumulation benefit (GMAB). In August 2012, the GLWB product with guaranteed death benefit more than single premium was launched.

Since 2010, SARe has reinsured all minimum guarantees offered on the variable annuity products from Aegon Sony Life.

Non-life

Aegon-CNOOC offers non-life products (mainly short-term accidental and short-term health products) to all channels but sales are currently concentrated in the group channel for which the main products are group medical policies.

Aegon Religare is currently selling a health product with the same features as a defined benefit product (which pays the benefits specified for the respective category of hospitalization, surgery or critical illness irrespective of the actual expense incurred by the policyholder). In May 2012, Aegon Religare launched Health Plan in line with the company s focus on digital channels, and it is currently sold by all channels of the joint venture including agency, direct and business alliances.

ADAMS has numerous international business partners across Asia including banks and non-financial institutions. ADAMS focuses on protection products (for example term life insurance, personal accident insurance and supplemental health insurance) which generate profitable risk premiums.

Competition

China - Aegon-CNOOC

As of December 31, 2012, there were 68 life insurance companies in the market, including 42 domestic life companies and 26 foreign life insurers.

As of December 31, 2012, Aegon-CNOOC ranked 38, in terms of total premium income, among all life insurance companies and 13th[1] among foreign life companies. The company s market share among foreign-invested companies was 2.9%. Channel contributions for Aegon-CNOOC ranked in the following order: brokerage, bancassurance, DM, agency and group in terms of annual premium equivalent production and bancassurance, brokerage, group, DM and agency in terms of first year premium production.

A number of new life insurance companies were established in 2012, including five regional life insurance companies (Qian Hai Life based in Shenzhen, Guangdong Province; Soochow Life based in Suzhou, Jiangsu Province; Zhu Jiang Life based in Guangzhou, Guangdong Province, Hong Kang Life based in Beijing, Ji Xiang life based in Changsha, Hunan Province) and one foreign life company (Pramerica Fosun Life based in Shanghai).

Many competitors in China are actively developing new distribution channels or new tools for insurance sales in line with the regulatory call to promote multiple distribution channels in China, for example, Li An Life started Tele-marketing Channel in March 2012. More and more companies kicked off e-business (for example AVIVA-COFCO Life started its e-sales Channel in August 2012) and are exploring successful models in this field (for example Guo Hua Life partnered with www.taobao.com and generated more than RMB 100 million in premiums by selling single-pay Universal Life products over a 4-day campaign in December 2012, which received encouragement from CIRC. In addition, Guo Hua Life entered into a strategic co-operation agreement with China Telecom s E-business Company to leverage China Telecom s technology and channel advantages to reach a vast number of potential customers); China Pacific Insurance (Group) Corporation (CPIC) partnered with Lenovo Group to launch the Smart Mobile Terminal for insurance distribution. AIA China cooperated with Easy Life (a multimedia terminal provider in China) to use the insurance distribution self-service machine along Shanghai s Metro Network to sell insurance products.

India - Aegon Religare

The first year premium which is a measure of new business secured by the life insurers during January to December 2012 was INR 1,115 billion as compared to INR 1,111 billion in the corresponding period in 2011 registering a marginal increase of 0.3%. In terms of individual and group business during January to December 2012, 59.3% of first year premiums were underwritten in the individual segment while 40.7% of the business was in the group business segment (57% and 43% respectively in the corresponding period in 2011)[2].

For the latest information available on a fiscal year basis (April - March), linked new business saw a significant drop of 67% to INR 174 billion in 2011-12 from INR 536 billion in 2010-11. The decline in linked business contributions has been offset by the growth in non linked business collections by 33% to INR 966 billion in 2011-12 from INR 728 billion in 2010-2011. The total premium underwritten by the life insurance sector in 2011-2012 was INR 2,870 billion as against INR 2,916 billion in 2010-2011 exhibiting a decline of 1.57%. While renewal premiums accounted for 60.31% (56.66% in 2010-11) of the total premiums received by life insurers, first year premiums contributed 39.69% (43.34% in 2010-2011)[3]. The agency force continues to be an important distribution channel. Life insurers with banking partners are able to scale up distribution platforms which are gradually picking up volumes.

There were 24 life insurers licensed in India as of the end of December 2012. The Life Insurance Company of India remains the dominant player in the market and has a 73% share of new business premiums while the balance is dispersed among private sector companies.

During the period from January to December 2012, the total premium collected by Aegon Religare decreased by 2.16% to around INR 4.52 billion as against INR 4.62 billion in 2011. The fall can be attributed to the drop in new business premium collection by nearly 35.5% on a year over year basis from INR 2.59 billion to INR 1.67 billion which has been offset by the growth in renewal premium collection by 40.2% to around INR 2.85 billion, compared to INR 2.03 billion for the corresponding period in 2011.

Aegon Religare has been making steady progress in the vastly competitive Indian insurance market by striving to drive growth through launching innovative products and building upon the proprietary channels (for example Agency and DTC) and strategic tie-ups with third party distributors. Being a pioneer in the country for online protection products, Aegon is focusing on this model to offer competitively priced products with better and more innovative features.

Japan - Aegon Sony Life

The bancassurance channel is the key area of growth within the Japanese insurance market. The largest share of market growth comes from single premium whole life products. Its surrender payment rate is higher than the savings account interest and its commission rate serves as the incentive for strong sales by bancassurance representatives.

1 Source: China Insurance Regulatory Commission (CIRC).

2 Source: Monthly New Business Report from the Insurance Regulatory and Development Authority (IRDA) website.
3 Source: IRDA Annual Report 2011-2012.

Due to the difficulty in maintaining the public pension scheme, driven by falling birth rates and an aging population, there is a strong need in Japan for individual annuity products as a means for self-support after retirement. GMAB remains the main product in the variable annuities market. The players in the variable annuities market have been reduced to six companies since Tokyo Marine Financial suspended its Variable Annuities sales in July 2012 following Allianz last year. Up to December 2012, Aegon Sony Life has achieved cumulative annual variable annuities sales of JPY 34.3 billion (2011: JPY 12.9 billion).

Asia - ADAMS

Economic pressures on traditional distribution channels and changes in customer purchasing behavior are driving an overall market change toward the recognition that DM is a growing opportunity requiring further proposition development. Multinational insurers are trying to grow capability across the region.

In the DTC space market participants serve customers through their preferred channels, for insurers this has mostly manifested itself in the tactical deployment of different media such as Direct Response TV, product micro-sites, health portals, social media platforms and mobile applications.

Hong Kong and Singapore - TLB

One of the key challenges affecting the Hong Kong and Singapore regions is the number of new providers entering the high-net-worth and affluent market, notably HSBC Life, AIA, Manulife Bermuda and Sun Life Bermuda.

As of December 31, 2012, TLB recorded total production of approximately USD 26.7 million (2011: USD 32.4 million).

Regulation and supervision

China - Aegon-CNOOC

The insurance industry in China is regulated by the China Insurance Regulatory Commission (CIRC). In 2012, according to the guidelines of enhancing services, reinforcing regulation, preventing risks and promoting development , and insisting in safeguarding the legitimate rights and interests of policyholders, the CIRC required all the insurance companies to strengthen the risk prevention, bring anti-fraud work into a comprehensive risk management system and enhance accountability mechanisms.

In addition, to tighten insurance companies internal controls and improve the ability to perform their duties, the CIRC has formulated the Insurance Inspection and Audit Guidelines , which enabled inspection and audit to play an active role in risk prevention.

The CIRC sought to guard against the risk of policy surrender and to rectify illegal activity such as embezzlement of insurance funds, false business and financial data and misleading sales. With regard to life insurance, CIRC has written The Guidelines on Identifying Misleading Sales Behaviors for Life Insurance

Companies and The Guidelines on Misleading Sales Accountability for Life Insurance Companies .

With regard to financial risk, CIRC issued a series of regulations to guard against the risk of inadequate capital and solvency. In order to ease solvency pressure, CIRC enhanced the supervision on risk capital and encouraged insurance companies to supplement capital funds through a variety of channels. Insurance funds investing in securitized financial products was permitted, in which subordinated convertible bonds, hybrid capital bonds and subordinated term bonds were their key investment channels. It broadened the scope of insurance companies overseas investments and optimized capital structure of the insurance industry.

For asset management risk, CIRC strictly prohibits insurance funds borrowing or lending. CIRC paid particular attention to non-compliant acts concerning deposits and securities, interest transfer and insider trading.

India - Aegon Religare

The Indian life insurance companies are regulated by the IRDA. The IRDA regulates, promotes and encourages orderly growth of insurance and reinsurance business in India. Established by the Government of India, it safeguards the interests of the insurance policy holders of the country.

During 2012, the IRDA updated existing and released new regulatory guidelines. Among these changes, the significant ones are: the guidelines on pension products pertaining to the guaranteed amount on maturity resulting in a non-zero return, guidelines with respect to disclosure requirements for issuance of capital, guidelines on data to be submitted for bancassurance channels, declaration of bonus for the participating business, up to 12 years since commencement of operations, even if the life fund is in deficit, draft guidelines on traditional and linked products, draft guidelines on licensing of bancassurance entities and draft amendments to investment regulations.

Japan - Aegon Sony Life

The Financial Services Agency (FSA) in Japan is the government agency supervising all insurance companies in the country. All new products or major amendments require a filing with, and approval from, the FSA. General policy provisions, statements of business procedure, pricing and valuation all require approval from the FSA. The FSA also has the right to do on and off site inspections. Relevant regulations for insurance operation include, among others, the Insurance Business Law and related enforcement/notice, the Insurance Act and the Financial Instruments and Exchange Act.

Asia - ADAMS

In the DM landscape, there is an evolving regulatory environment especially in the area relating to the use of personal data for marketing purposes. ADAMS ensures that it is constantly abreast of any changes or proposed changes to regulations governing personal data in all of its markets. Where appropriate, ADAMS implements industry standard compliance programs, such as PCI Compliance in Australia and P-Mark in Japan.

Hong Kong and Singapore - TLB

Due to Transamerica Life Insurance Company being the parent of TLB and both Asia branches, TLB falls under US regulatory structures and is classified as a US Controlled Foreign Corporation. For this reason, TLB is subject to US statutory capital regulations and is also subject to US tax rates.

Asset liability management

China - Aegon-CNOOC

A monthly asset liability management meeting is held to monitor duration and liquidity management. The duration of liabilities and assets are calculated separately by block and the duration gap is analyzed. Considering the payment structure and term of insurance liabilities, Aegon-CNOOC usually purchases corporate bonds, government bonds, bank deposits or other fixed income assets to match this liability while operating funds are invested in the short-term bond, money-market fund and bond repurchase markets in order to achieve higher investment returns.

The respective Risk & Capital Committees of Aegon-CNOOC meet every quarter to manage and monitor asset and liability matching using the result of stress-test scenarios based on the Economic Capital Model, liquidity tests and duration mismatch tests.

India - Aegon Religare

Aegon Religare has a Board level Investment Committee and Risk Management & Capital Committee. Additionally, there is a management level Risk & Capital Committee (RCC). A regular review of risk and capital requirement is conducted across the committees. As the business mix changed during the year, with traditional products increasingly being sold, asset liability management (ALM) became critical to the business. Monthly reviews are performed to ensure appropriate ALM for the closed block of business under the traditional products and at the end of each quarter the ALM report is tabled in the RCC meeting.

Japan - Aegon Sony Life and SARe

Aegon Sony Life reinsures (cedes) 100% of its guarantees on the variable annuities to SARe. SARe has a comprehensive hedging program in place that covers all the major risk dimensions. Execution of this program is outsourced to Aegon USA Investment Management LLC. Comprehensive risk management procedures have been defined to ensure implementation of appropriate risk management activities in accordance with Aegon s Risk Management Policy.

In reinsuring various minimum variable annuity guarantees, SARe accepts certain market and policyholder behavior risks. SARe will cover payments under the guarantees to the extent that benefits to the policyholder exceed the variable annuity account value. The market risks are managed through the use of capital markets hedging techniques.

The hedging program includes combinations of futures contracts, forwards and options on market indices such as, but not limited to, the NIKKEI, TOPIX, the S&P 500, FTSE 100, and the EuroStoxx 50. Not all of the equity indices are traded in Japanese Yen (SARe s functional currency), therefore the resulting currency exposure is hedged with foreign currency forwards. The hedging program requires a daily determination of risk exposures and regular monitoring of and trading on the markets when open. The program requires substantial amounts of cash, to cover potential losses on hedging instruments, transaction costs and other charges which will be supported by the shareholders as necessary. The hedge strategy is not expected to completely eliminate the volatility due to guarantee value changes. The hedge objective is to minimize income volatility, and it is expected that income volatility will be reduced by approximately 70%-80%. In addition, the hedge will not fund all changes in capital, as the minimization of income volatility leads to a strategy different from that required to minimize capital volatility.

Policyholder behavior risks are managed through a combination of product design, pricing techniques, and through hedge construction and rebalancing to reflect emerging experience, and are reflected in the reinsurance premium that is charged by SARe to Aegon Sony Life. In addition to these pricing and hedging risk mitigation techniques, for certain products capital will contain a provision for adverse deviation. As such, increases in capital due to unexpected deviations in policyholder behavior or an unfavorable basis error are cushioned by applying an assumption for hedge effectiveness in capital (and reflected in pricing) that is lower than is expected to be realized based on results from a ten year back test of Aegon Sony Life s hedge strategy (the back test spans the period June 1999 to June 2009). SARe s Risk & Capital Committee meets on a quarterly basis.

Asia - ADAMS

The ADAMS assets are managed by Aegon USA Investment Management in the United States.

Hong Kong and Singapore - TLB

The assets are currently managed by Aegon USA Investment Management in the United States.

Reinsurance ceded

China - Aegon-CNOOC

Aegon-CNOOC shares its morbidity and mortality risk with both international and national reinsurers. The mortality risk of individual products is shared through a surplus reinsurance structure. Most of the individual morbidity risks are taken by General Re and Munich Re in quota share. The group products are mainly reinsured by Hannover Re. Aegon-CNOOC reviews the reinsurance structure regularly and adjusts it based on the claim experience and its risk acceptance capability.

India - Aegon Religare

Reinsurance arrangements are regulated through IRDA s regulations. Aegon Religare has reinsurance treaties with Munich Re, Swiss Re and RGA Re sharing mortality and morbidity risks through surplus and quota share arrangements on a risk premium basis.

Japan - Aegon Sony Life and SARe

Aegon Sony Life reinsures 100% of its guarantees on the variable annuities to SARe. Aegon Sony Life may utilize third party reinsurance for a minor portion, considering transfer pricing issues.

Asia - ADAMS

Under the ADAMS business model, value is largely created by offshore reinsurance through an Aegon reinsurer, whereby risk based premium is acquired for the group. As ADAMS position themselves as an independent marketing services provider, fronting partnerships with a local insurer are also a possibility for consideration especially where Aegon does not have a local presence.

Hong Kong and Singapore - TLB

TLB has a third party mortality reinsurance in place for its universal life and traditional policies. The mortality reinsurance takes the form of yearly renewable term excess-of-retention or quota-share arrangements, and is typically arranged through a pool of reinsurers, which generally are the leading providers in the reinsurance industry.

There is also a coinsurance arrangement with the affiliate company TLIC for some universal life business. For this business, the mortality risk on these products is first ceded to third party reinsurers, and the retained risks are 100% or 80% coinsured with TLIC.

Overview Spain

Aegon first entered the Spanish market in 1980 when it bought local insurer Seguros Galicia. In recent years, Aegon s activities in Spain further developed through distribution partnerships with some Spanish banks.

Until 2010, Aegon Spain operated through two subsidiaries (Aegon Seguros Salud and Aegon Seguros de Vida), which merged to form Aegon España S.A. de Seguros y Reaseguros as of January 1, 2011. Administration and operational services to all Aegon companies in Spain, including joint ventures with third parties, are provided by Aegon Administracion y Servicos A.I.E., a separate legal entity. In addition, Aegon operates through partnerships with the financial entities Caja Mediterraneo (CAM), Cajatres, Liberbank and Unnim. On October 10, 2012, Aegon sold its stake in its joint venture with Banca Civica.

On December 19, 2012, Aegon reached an agreement to enter into a strategic partnership with Banco Santander, Spain s largest financial group, to distribute both protection and general insurance products through the group s network of over 4,600 bank branches. Subject to regulatory approval, the transaction is expected to close during the first half of 2013. Under the terms of the agreement, Aegon will acquire a 51% stake in both a life insurance company as well as in a non-life insurance company.

On February 4, 2013, Aegon reached an agreement to exit its partnership with Unnim. Subject to regulatory approval the transaction is expected to close during the second quarter of 2013.

Organizational structure

Aegon Spain s main subsidiaries and affiliates are:

- Aegon España S.A. de Seguros y Reaseguros.
- Aegon Administracion y Servicos A.I.E.
- CAM/Aegon Holding Financiero, SL, a partnership with Caja de Ahorros del Mediterráneo.
- Caja Badajoz Vida y Pensiones, 50%, a partnership with Cajatres.
- Cantabria Vida y Pensiones, 50%, a partnership with Liberbank.
- Liberbank Vida, 50%, a partnership with Liberbank.

Overview sales and distribution channels

The difficult economic situation in Spain continued throughout 2012 and Aegon expect this to continue during 2013. A structural reform program has been implemented in Spain and this included reform of the financial sector. This reform resulted in the restructuring of the banking sector and triggered a wave of mergers and acquisitions aimed at consolidation.

The main distribution channel in the Spanish market has been bancassurance, 71% in life, compared with 27% of brokers and a negligible share for direct customers.

Aegon Spain distributes its products across the country through the branches of its partners: Caja de Ahorros del Mediterráneo, Cajatres and Liberbank. Each of these entities has been subject to the restructuring process in Spain s financial sector.

CAM/Aegon Holding Financiero

Aegon s partnership with Caja de Ahorros del Mediterráneo (CAM) goes back to 2004. CAM has a network of more than 843 branches across Spain. Aegon and CAM, respectively, have a 49.99% and 50.01% interest in CAM/Aegon Holding Financiero, SL, which is the sole shareholder in Mediterráneo Vida, the life insurance and pensions company that has exclusive access to CAM s branch network.

Currently Aegon is in an arbitration with CAM to exit the partnership. Aegon is of the opinion that, in 2010, a change in control occurred in CAM, Aegon s partner in Caja Mediterráneo Vida (MedVida). Subsequently, Aegon decided to exercise its put option pursuant to the shareholder s agreement between CAM and Aegon, to exit the partnership. The arbitration process aims to determine the occurrence of a change in control and the corresponding date, which will determine the exit price. Aegon expects to recover at least the book value as at December 31 2012. The exact figure will depend on the outcome of the arbitration process. A final verdict from the arbitrators is expected to be released in the first half of 2013. Refer also to note 25 Investments in associates.

Caja Badajoz Vida y Pensiones

Under Aegon s partnership with Caja Badajoz, agreed in 2005, Aegon and Caja Badajoz set up a 50/50 joint company to sell life insurance and pensions. Caja Badajoz has a network of 200 branches, primarily in the western region of Extremadura, which adjoins Spain s border with Portugal. In 2011, Caja Badajoz Vida entered into a SIP (Institutional System of Protection) named Grupo Cajatres, currently integrating Caja Inmaculada, Caja Círculo de Burgos and Caja Badajoz.

Cantabria Vida y Pensiones and Liberbank Vida

Caja Cantabria is one of the largest savings banks in northern Spain, located primarily in its home province of Cantabria. In 2011, Caja Cantabria Vida y Pensiones entered into a SIP named Liberbank, currently integrating Cajastur (317 branches), Caja Extremadura (225 branches) and Caja Cantabria (159 branches). On October 9, 2012, Aegon closed an agreement with Liberbank, to extend the partnership with Caja Cantabria to their network.

Unnim Vida

Aegon entered into an agreement with the newly formed company Unnim when it was created in 2010 following the merger of three Spanish savings banks. This merger included Caixa Terrassa with which Aegon had an existing joint venture. Unnim is one of the largest savings banks in Catalonia, one of the wealthiest areas of Spain.

In 2011, Unnim was capitalized by a 100% state-owned fund (FROB) and following regulatory approval, the BBVA Group acquired Unnim in July 2012. On February 4, 2013, Aegon reached an agreement with BBVA to exit its partnership with Unnim. Subject to regulatory approval, the transaction is expected to close during the second quarter of 2013.

Distribution

Aegon s current partnerships distribute a combination of life insurance, health and pension products. Aegon also uses brokers to distribute its products, particularly individual life insurance, throughout both urban and rural areas.

Overview business lines

Aegon Spain focuses primarily on retail customers. It offers both life insurance and accident and health cover. In particular, Aegon Spain offers pensions as well as both traditional life and unit-linked variable life products, a market traditionally dominated by the country s retail banks.

Competition

There is considerable competition in the Spanish market. Major competitors are the bank-owned insurance companies for life and pension products plus foreign and local companies for health insurance products.

Regulation and supervision

The Dirección General de Seguros (DGS) is the regulatory authority for the Spanish insurance industry. Insurance companies are required to report to the DGS on a quarterly

basis. Spanish regulations incorporate all the requirements of the relevant EU Directives. In terms of solvency margin, local regulations are based on a percentage of the reserves for the life insurance business and on a percentage of premiums for the health insurance business. In terms of investments, the regulations require the appropriate matching of investments and technical provisions, and also establishes different levels of restrictions on the type of assets that the insurance company can invest in.

Asset liability management

Aegon Spain s approach to asset liability management is to make projections of asset and liability cash flows, to calculate their present values using a market yield curve, and to compute the main parameters affecting these cash flows (for example duration and convexity). The goal is to lock-in the spread by matching the duration of assets to the duration of liabilities.

Reinsurance ceded

Aegon Spain has a one Aegon reinsurance management policy , meaning that its joint ventures and its own business are treated as a whole, with the same economic conditions, same reinsurers panel but individual profit shares without losses carried forward by each entity belonging to Aegon Spain. The main contract for mortality and morbidity provides proportional reinsurance protection both for its individual risk policies and for its group risk policies. With this approach, Aegon Spain is seeking to optimize the cost of the reinsurance coverage, sharing the profits and not the losses, while it is achieving a prudential diversification of its insurance risk by limiting the maximum possible losses on risks that exceed retention levels. Maximum retention levels vary by product and by nature of the risk being reinsured. Generally, however, the retention limit is between EUR 30,000 and EUR 60,000 per life insured. Aegon Spain remains contingently liable with respect to the amount ceded should the reinsurance company fail to meet its obligations.

Aegon Spain, generally, only uses reinsurance companies that have a credit rating from S&P s of at least A . Aegon s Group Reinsurance Use Committee are involved in pre-approving reinsurers and selecting reinsurers where a reinsurer has a rating below A . In addition, to lessen its exposure to defaults, Aegon Spain has several reinsurers on its panel and regularly monitors the creditworthiness of each of its reinsurers. Further protection is taken out through funds that are withheld for investment by the ceding company where appropriate.

Overview France

Aegon is present in the French insurance market, the second largest in Europe, through its partnership agreement with AG2R La Mondiale.

History

In 2002, Aegon started a partnership with mutual insurer La Mondiale via the acquisition of a 20% interest in La Mondiale Participations, La Mondiale s subsidiary company. La Mondiale Participations offers a wide range of life insurance, pension, savings, investment and asset management services to both corporations and individual retail customers via its three subsidiaries: Arial Assurance, La Mondiale Partenaire and La Mondiale Europartenaire. In 2004, Aegon increased its stake in La Mondiale Participations from 20% to 35%. In 2005, the Aegon Pension Network was launched in collaboration with La Mondiale. In July 2007, La Mondiale and fellow insurer AG2R announced a merger. The merger, which has not affected Aegon s partnership with La Mondiale, created a significant insurer in France serving some 8 million customers (including retirees). The new group became operational at the start of 2008. In 2009, La Mondiale Partenaire started to distribute Terre d Avenir , Aegon s variable annuities products.

Overview sales and distribution channels

Arial Assurance is specialized in collective pensions for large corporates, La Mondiale Partenaire is focused on high-net-worth individuals in France and La Mondiale Europartenaire is focused on high-net-worth individuals in Luxembourg. Arial Assurance distributes its corporate solutions via agents and brokers, while La Mondiale Partenaire and La Mondiale Europartenaire distribute its individual solutions predominantly through banks and independent financial advisers.

Competition

In 2011, The French Association of Insurers (FFSA) ranked AG2R La Mondiale tenth in the life insurance sector (by premiums), with a market share of 3.3%. The FFSA also ranked Arial Assurance first in corporate pensions (by premiums) with a 16% market share while the Association of Insurers of Luxembourg ranked La Mondiale Europartenaire fifth by premiums in 2011 with a 7.7% market share.

Overview Variable Annuities Europe

Aegon Ireland plc (Variable Annuities Europe) has two business lines, firstly variable annuities for Europe (active in the United Kingdom, France and the Netherlands), and secondly international bonds for the UK market.

Overview sales and distribution channels

Aegon Ireland does not employ a (direct) sales force, but works with the sales forces of Aegon companies in the United Kingdom and the Netherlands. Sales in France are through AG2R La Mondiale. Aegon N.V. has a 35% stake in La Mondiale Participations, which includes the insurance entity that Aegon Ireland cooperates with.

Variable annuities

Variable annuities are advised products and are primarily distributed through independent financial advisers (IFAs) and banks.

In the United Kingdom, the distribution channels are Aegon s ARC platform (an online service that allows financial advisers to manage their clients investment portfolios), banks, IFAs and partnerships with major third parties such as HSBC, National Australia Bank and Openwork.

In France, one product, Terre d Avenir, is sold by AG2R La Mondiale. The guaranteed lifetime income option in this product is reinsured to Aegon Ireland. The product is sold via AG2R La Mondiale s own internal networks as well as via platforms to financial advisers and banks.

In the Netherland s, distribution of Aegon Variabele Lijfrente is through Aegon s local banking and IFA channels.

International bonds

In the United Kingdom, the distribution channels are Aegon s ARC platform, banks and IFAs.

Overview business lines

Variable annuities

Variable annuity products are essentially unit-linked life insurance products with guarantees. They typically offer a range of investment fund options linked in various proportions - at the choice of the policyholder - to equities and fixed interest investments. The guarantees may take several different forms, from guarantees of a minimum level of future income for life (immediate or deferred) or for a given term to capital guarantees over a defined period and death benefits. Charges for the guarantees are applied to the policyholder s account value and typically vary according to the proportion of equity investment.

Variable annuities allow a customer to participate in equity or bond market performance with the assurance of a minimum level

of future benefit, regardless of the performance of their account. Variable annuities allow a customer to select payout options designed to help meet their need for income upon maturity, including lump sum payment or income for life or for a period of time.

Premiums paid on variable annuity contracts are invested in underlying funds, including bond and equity funds and (usually) a cash fund. In most products, the investment options are selected by a client based on the client s preferred level of risk. The assets and liabilities related to this product are legally segregated for the benefit of policyholders in a separate account of the insurance company.

The account value of variable annuities reflects the performance of the funds. The insurance provider earns administration and expense charges as well as guarantee charges for the guaranteed 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 applied to recoup deferred acquisition costs.

International bonds

Offshore Wealth Management products are open-ended, unit-linked, life insurance products. They offer a wide range of investment choices, allowing investment into an almost unlimited range of external assets, such as collective investment schemes, unit trusts and open-ended investment companies (OEICs), together with internal unit-linked funds managed by Variable Annuities Europe and cash deposits.

The premiums paid are invested in the underlying funds as selected by the client based on their preferred level of risk. Alternatively, clients can request the appointment of a specialist fund manager to select the underlying funds on an advisory or discretionary basis.

The assets and liabilities related to this product are legally segregated for the benefit of particular policyholders in separate accounts of the insurance company. These separate accounts are classified as investments for the account of policyholders.

Offshore Wealth Management products allow a customer to make regular withdrawals from their policy as long as there is sufficient value in the underlying fund. The death benefit is typically 100.1% of the surrender value of the policy on the death of the last life assured. Offshore Wealth Management products do not have any explicit guarantees. Their surrender value reflects the performance of the funds selected by the client. Therefore, the final surrender value of the policy may be less than the original investment.

The account value of Offshore Wealth Management products reflects the performance of the funds. The insurance provider earns ongoing administration and expense charges on the policy. Any surrender charges collected are typically applied to recoup deferred acquisition costs.

Competition

Variable annuities

There has been no significant change from 2011 to 2012 in the competitive environment for variable annuities across Europe. Continued difficult economic and financial conditions meant that new product launches were limited. Aegon s main competitors in Europe are AXA, MetLife, Allianz, Canada Life, ING, Generali and SwissLife.

In the United Kingdom, MetLife is the market leader where it is the favored provider due to its total variable annuity market solution covering also pensions and onshore bonds. In France, AXA and Allianz are the only other providers offering variable annuities, with AXA leading the market. In other European markets competitors such as Canada Life, ING, Generali and Swiss Life also offer variable annuity products.

International bonds

The UK offshore bond market remains highly competitive. Aegon has a 6% market share[1] placing it in sixth place. The top three providers by market share are Standard Life, AXA Wealth and Canada Life respectively. Aegon s current ranking reflects the difficulties experienced in 2011 and 2012 as a result of fierce price competition in the retail IFA market and the banking channel along with conflicting priorities for the UK sales force. Key channels going forward will be Aegon s ARC platform, banks and IFAs (non-platform).

Regulation and supervision

Aegon Ireland is registered as a life insurance company in Ireland under the European Communities (Life Assurance) Framework Regulations 1994 (the 1994 Regulations) which implements the Consolidated Life Directive in Ireland. Aegon Ireland is regulated by the Central Bank of Ireland. As an Irish authorized life insurance company, Aegon Ireland may undertake life insurance business in any member state of the European Economic Area on either a freedom of services (FOS) or freedom of establishment (FOE) basis, subject to the notification requirements set out in the 1994 Regulations.

Aegon Ireland currently operates on a FOS basis in the United Kingdom and the Netherlands selling life insurance products in Class III (contracts linked to investment funds) and Class I (life insurance and contracts to pay annuities on human life, excluding contracts written in Classes II (contracts of insurance to provide a sum on marriage or on the birth of a child). Aegon Ireland must ensure it complies with the general good provisions that apply to insurers selling such policies in these jurisdictions.

The Central Bank of Ireland has sole responsibility for the prudential supervision and regulation of Aegon Ireland. As a consequence Aegon Ireland s entire business, its state of solvency, the establishment and maintenance of technical reserves, the quality of its corporate governance, risk management and internal control systems are all subject to monitoring and supervision by the Central Bank of Ireland. Aegon is required to submit annual returns to the Central Bank and is subject to annual review meetings and themed visits. The Central Bank has wide powers of intervention in all areas of Aegon Ireland s business.

1 Source: Association of British Insurers and Aegon

Overview Aegon Asset Management

Aegon Asset Management was launched at the beginning of October 2009 and brings together asset management businesses from around the world. As of January 1, 2010, Aegon reports results from Aegon Asset Management separately within the New Markets segment.

Organizational structure

Aegon Asset Management is situated within the Netherlands, the United Kingdom, the United States, Canada, Central & Eastern Europe, Hong Kong and China. In 2012, Aegon India Holding B.V. and Religare Trust Company, units based in India, were dissolved and the asset management unit based in Canada transferred into Aegon Asset Management.

The asset management entities are organized on a matrix basis according to investment platform line of business, managed by a global board. The main operating entities are:

- Aegon USA Investment Management LLC
- Aegon USA Realty Advisors LLC
- Aegon Asset Management (the Netherlands)
- TKP Investments (the Netherlands)
- Kames Capital (UK)
- AIFMC (China, 49%)

Sales and distribution

Aegon Asset Management s primary customers are affiliated Aegon insurance units. In Europe and the United States, Aegon Asset Management entities have close links with local insurance companies. Inflows to funds under management are derived through the sales efforts of these insurance companies who subsequently invest the proceeds into general account or unit-linked funds depending on the nature of the product sold. In some cases, Aegon Asset Management holds a control over this relationship in a closed architecture while in others Aegon Asset Management competes with external asset managers in an open architecture structure.

Aegon Asset Management also interacts directly with third party customers. Third party customers are split into two categories - Retail (primarily investing via collective investment schemes) and Institutional (primarily companies and pension funds with separate requirements). These are serviced by a dedicated sales/ marketing force using a variety of distribution channels.

Overview business lines

Aegon Asset Management operates three business lines: general account, unit-linked and third party corresponding to the client groups listed above. In the United States, most of its business is general account, although there is some unit-linked and third party business. In Europe, Aegon manages a combination of general account, unit-linked and third party business.

- General account business consists of funds which are held on the balance sheet of Aegon insurance affiliates for the purposes of meeting liabilities to policyholders, typically where the insurer has given the policyholder a guarantee. These assets are carefully managed in order to match the insurers liabilities to policyholders obligations. As a rule, general account assets are managed in a closed architecture structure. The main asset class is fixed income and various derivative instruments are also used.
- Unit-linked business generally consists of funds on the insurers balance sheet where the policyholder return is determined by the investment return of the fund (hence this business is for the risk of policyholders rather than Aegon). These funds are normally managed with an objective to beat a target (typically a benchmark or peer group). The main asset classes include fixed income, equities, real estate, mortgage loans and alternatives. In the United States and the United Kingdom, a significant element of unit-linked business is conducted on an open architecture basis.
- Third party business is not normally on the Aegon balance sheet and typically product design and distribution are controlled by Aegon Asset Management rather than the affiliated insurance companies, although some third party business is sourced through co-operation arrangements with the insurance affiliates. The retail businesses typically sell collective investment vehicles (mutual funds) to the public via intermediaries. The main asset

classes are fixed income and equities and the funds are normally managed against a peer group target. The institutional businesses typically sell tailored services to large corporations or pension funds. They employ a full range of asset classes and manage the funds against objectives, targets and risk profiles agreed with the clients. Both absolute and relative return products are offered. Aegon Asset Management distributes these services internationally.

Competition

Aegon Asset Management competes with other asset management companies for open architecture unit-linked business and third party business. Aegon Asset Management s competitors include global asset managers and local specialists in the countries where it is active. Generally, there are different competitors for different types of asset class or different styles of management. In 2012, the twin concerns of weak global growth and the debt crisis crippling many developed economies continued to dominate asset management activity. The allocation to fixed income remained strong throughout the year, although there was a significant move back towards equities in the third quarter. This move was witnessed both in the retail and institutional marketplace. The continued policy support provided by central banks around the world has certainly helped risk assets, and particularly the efforts of the European Central Bank through its long-term refinancing and unlimited bond buying programmes. Analysis of the inflows into the equity sector shows that absolute return vehicles have benefited from strong demand, with global equity income products also popular.

Regulation and supervision

Aegon Asset Management has a global holding company, Aegon Asset Management Holding B.V., which is regulated by the DNB (Dutch Central Bank) under the European consolidated supervision rules. In Europe, regulation for asset management companies is different from that for insurers as it is based on separate European Directives. However, in most jurisdictions the same regulators oversee insurance and asset management. Aegon Asset Management s underlying operating entities are regulated by their local regulators, including the AFM and DNB (for Dutch entities), the FSA (for UK based entities), the SEC (for US based entities) and the CSRS (for Chinese based entities).

Risk management

General

As an insurance company, Aegon manages risk on behalf of its customers and other stakeholders. As a result, the company is exposed to a variety of underwriting, operational and financial risks. Aegon s risk management and control systems are designed to ensure that these risks are managed effectively and efficiently.

Definition and tolerances

For Aegon, risk management involves:

- Understanding which risks the company is able to underwrite.
- Establishing a company-wide framework through which the risk-return trade-off associated with these risks can be assessed.
- Establishing risk tolerances and supporting policies to limit exposure to a particular risk or combination of risks.
- Measuring and monitoring risk exposures and actively maintaining oversight of the company s overall risk and solvency positions.

By setting certain predefined tolerances and adhering to policies that limit the overall risk the company is exposed to, Aegon is able to accept risk with the knowledge of potential returns and losses.

Objectives of risk management

Aegon must, at all times, maintain a solvency and liquidity position such that no plausible scenario would cause the company to default on its obligations to policyholders. To accomplish this, Aegon has established a number of basic objectives for its risk management strategy:

- Financial strength: Ensure Aegon meets long-term obligations to policyholders. Aegon uses two measures to determine its approach to financial strength:
  - Regulatory requirements
  - Any additional, self-imposed internal requirements
- Continuity: Ensure a high likelihood that Aegon will meet policyholder obligations, even under extreme events.
- Culture: Encourage a strong risk culture by stressing the company s low tolerance for operational risk. This will help improve operational excellence and ensure the company treats its customers and other stakeholders fairly.
- Risk balance: Manage the concentration of risk and encourage risk diversification within Aegon.

Aegon s risk governance framework

Aegon has a strong culture of risk management, based on a clear, well-defined governance framework. The goals of this framework are:

- To minimize ambiguity by clearly defining responsibilities and reporting procedures for decision makers.
- To institute a proper system of checks and balances and ensuring that senior management is aware at all times of material risk exposure.
- To manage risk, including by avoiding an over-concentration of risk in particular areas.
- To facilitate diversification by enabling management to identify diversification benefits from apparent risk-return trade-offs.
- To reassure external stakeholders that Aegon has appropriate risk management structures and controls in place.

Governance structure

Aegon s risk management framework is represented across all levels of the organization. This ensures a coherent and integrated approach to risk management throughout the company. Similarly, Aegon has a comprehensive suite of company-wide risk policies, which detail specific operating guidelines and limits. These policies are designed to keep overall risk- specific exposures to a manageable level. Any breach of policy limits or warning levels triggers immediate remedial action or heightened monitoring. Further risk policies may be developed at a local level to cover situations specific to particular regions or business units. Aegon s risk management governance structure has three basic layers:

- The Supervisory Board (SB) and the Supervisory Board Risk Committee (SBRC).

- ¿ The Executive Board (EB) and the Executive Board Risk Committee (EBRC) and the Management Board (MB).
- ¿ The Enterprise Risk Management Committee (ERMC) and the Group Risk & Capital Committee (GRCC).

Additionally, there are sub-committees and regional committees, who support the ERMC and GRCC.

Aegon s EB has an overall responsibility for risk management. The EB adopts the risk governance framework and determines Aegon s overall risk tolerance and group risk policies. The EBRC is the body appointed by the EB for overseeing proper execution of the risk governance framework, as well as monitoring compliance with the risk tolerance and Group Risk policies. The EBRC regularly reports significant risks to, and discusses Aegon s risk strategy with, the SBRC. The Group Chief Risk Officer (CRO) also has an individual responsibility in this regard and a direct reporting line to the Chairman of the SBRC.

The MB oversees a broad range of strategic and operational issues. While the EB remains Aegon s sole statutory executive body, the MB provides vital support and expertise in safeguarding Aegon s strategic goals. The MB discusses and sponsors enterprise risk management in particular risk governance, risk tolerance, and material changes in risk methodology and risk policies.

The SBRC is responsible for overseeing Aegon s enterprise risk management framework, including risk governance and measures taken to ensure risk management is integrated properly into the company s broader strategy. The SBRC reviews the company s risk exposure as it relates to capital, earnings and compliance with Group Risk policies. It is the responsibility of the EB and the Group CRO to inform the SB should any risks directly threaten the solvency, liquidity or operations of the company. Details of members of the SBRC can be found on pages 111 and 112 of this Annual Report.

The EBRC is supported by two committees:

- The Enterprise Risk Management Committee (ERMC) supporting ERM framework development and maintenance, including risk governance and risk policies.
- The Group Risk & Capital Committee (GRCC) supporting risk oversight, as the primary balance sheet management committee of Aegon.

The ERMC is advised by three sub-committees: the Risk Governance & Policies Committee (RGPC), the Methodology & Assumptions Review Committee (MARC), and the Operational Risk Management Committee (ORMC). The Model Validation Committee (MVC) is the advisory committee reporting to the Group CRO on risk model validation issues. The MVC assists the ERMC in the monitoring of compliance with the internal and external model development and validation standards and relevant regulatory standards.

The GRCC focuses on managing Aegon s overall solvency position, while ensuring that risk-taking is within the risk tolerance statements and Group Risk policies. The GRCC informs the MB about any identified or near breaches of overall tolerance levels, as well as any potential threats to the company s solvency, liquidity or operations. Risk & Capital Committees (RCCs) have been established at each of Aegon s regions.

The responsibilities and prerogatives of the RCCs are set out in their respective charters and are similar in content to those of the GRCC, but are tailored to local circumstances. Aegon s regional and business unit CROs have the additional authority to defer decisions that can have a significant impact on the region s or business unit s solvency, liquidity or operations to the Board of the region or business unit and the Group CRO.

Group Risk is responsible for development and oversight of compliance with the risk governance framework, risk methodology, risk tolerances and risk policies. This involves

identifying risk, particularly operational and emerging risk, as well as reviewing risk assessments carried out by business units. Group Risk also identifies best risk management practices, facilitates implementation thereof and helps ensure there is consistency in the application of these practices across the company. In addition, Group Risk performs risk and scenario analyses, either at its own initiative or at the request of management.

Aegon s risk management staff structure is fully integrated. Business unit CROs have a direct reporting line into the Group CRO or one of the regional CROs that report directly into the Group CRO. Regions include Americas, the Netherlands, United Kingdom, Central & Eastern Europe, Asia, Spain, Variable Annuities Europe, Aegon Asset Management, and the holding.

Lines of defense

Aegon s risk management structure is organized into three lines of defense to ensure conscious risk-return decisions and limit the magnitude of potential losses within defined levels of certainty. The objective of this structure is to avoid surprises due to unidentified risks materializing or losses that exceed predefined risk tolerance levels and related limit structures.

The company s first line of defense has direct responsibility for managing and taking risk in accordance with defined risk tolerances and risk policies, that is business and support functions. The second line of defense facilitates and oversees the effectiveness and integrity of enterprise risk management across the company, the risk functions and SBRC, EBRC, ERMC. The third line of defense provides independent assurance and challenge regarding the effectiveness and integrity of enterprise risk management across the company, the audit functions.

Risk management in 2012[1]

The effects of the global crisis that began in 2008 continued to be felt throughout 2012 and were exacerbated by the European debt crisis. Equity markets increased but remained volatile. Interest rates, already at historic lows, declined during the year. General economic and business conditions remained difficult.

During the year, Aegon carried out regular sensitivity analyses to verify that the impact of different economic and business scenarios would not overwhelm the company s earnings and capital position. These plans also cover extreme event scenarios, such as a depression precipitated by a Spanish exit from the eurozone.

1 Please note that the information here is intended as an overview only. A more detailed explanation of credit risk, equity and other investment risk, interest rate risk, currency exchange rate risk, liquidity risk, underwriting risk and operational risk, as well as other company-wide risk management policies may be found in note 4 of the consolidated financial statements. Further information on sensitivity analyses may also be found on these pages.

Risk overview 2012

Credit risk

Credit spreads have narrowed over 2012. During the year, Aegon took a number of specific steps to reduce its exposure to credit risk:

- Further restructuring of Aegon USA s investment portfolio increasing the allocation to US Treasury bonds and entering fixed annuity coinsurance deals.
- In the United Kingdom, optimizing credit risk exposure (traded gilts for high quality agencies).
- Continuing to minimize exposure to peripheral European countries in Aegon s general account investment portfolio.

Equity market risk and other investment risks

Equity markets were volatile throughout the year. During 2012, Aegon continued to progress its program of hedging equity risk at its UK pension business, Variable Annuities Europe, US and Dutch operations to protect the company against a possible deterioration in equity markets.

Interest rate risk

Similar to 2011, interest rates continued to decline especially in the second half of 2012 from already low levels. Falling rates particularly impacted investment income and value of financial guarantees included in certain policies. Aegon took several de-risking initiatives to reduce exposure to movements in interest rates. For example, Aegon USA implemented a hedge to protect against low interest rates and rapidly rising interest rates. A number of interest rate sensitive products were repriced and product features adjusted to decrease interest rate risk. New sales of fixed annuities in the United States, meanwhile, were discontinued. Furthermore, the United Kingdom put on hedges for the pension scheme.

Currency exchange rate risk

As an international company, Aegon is exposed to movements in currency rates. However, Aegon does not consider this exposure to be material. The company holds its capital base in various currencies in amounts that correspond to the book value of individual business units, thus mitigating currency risk. Aegon does hedge cash flows from operating subsidiaries as part of its broader capital and liquidity management.

Liquidity risk

Aegon has a strong liquidity management strategy in place. Aegon considers extreme liquidity stress scenarios, including the possibility of prolonged frozen capital markets, an immediate and permanent rise in interest rates, and policyholders withdrawing liabilities at the earliest conceivable date. In addition, the company has highly developed liquidity stress planning in place. In 2012, Aegon retained its significant holdings of cash and highly liquid assets as a precaution against potential adverse market developments.

Aegon s liquidity management strategy ensures the company will not be a forced seller of assets even in a severe stress scenario. Stress tests show that available liquidity would more than match the company s liquidity requirements, even if market conditions were to significantly deteriorate.

Underwriting risk

Aegon s earnings depend, to a significant degree, on the extent to which claims experience is consistent with assumptions used to price products and establish technical liabilities. Changes in, among other things, morbidity, mortality, longevity trends and policyholder behavior could have a considerable impact on Aegon s income. While Aegon believes it has the capacity to take on more underwriting risk to capitalize on growth opportunities in its main life insurance and pension markets, Aegon continues to reduce concentration exposure to underwriting risks. For example, Aegon the Netherlands reduced longevity risk via a longevity swap transaction.

Operational risk

Like other companies, Aegon faces risks resulting from operational failures or external events, such as changes in regulations, acts from personnel and natural or man-made disasters. Aegon s systems and processes are designed to support complex products and transactions and to avoid such issues as system failures, financial crime and breaches of security. Aegon is constantly working on analyses studying such operational risks and regularly develops contingency plans to deal with them.

Risk factors

Aegon faces a number of risks, some of which may arise from internal factors, such as inadequate compliance systems. Others, such as movements in interest rates or unexpected changes in longevity or mortality trends, are external in nature. Aegon s most significant risk is to changes in financial markets, related particularly to movements in interest rates, equity and credit markets. These risks, whether internal or external, may affect the company s operations, its earnings, its share price, the value of its investments, or the sale of certain products and services. The next two sections describe risks relating to Aegon s businesses and risks relating to Aegon s common shares.

I - Risks relating to Aegon s businesses

The following discusses some of the key risk factors that could affect Aegon s businesses and operations, as well as other risk factors that are particularly relevant to Aegon in the current period of significant economic and market disruption. Additional risks to which Aegon is subject to includes, but is not limited to, the factors mentioned under Forward-looking statements (refer to pages 334-335) and the risks of Aegon s businesses described elsewhere in this Annual Report.

Other factors besides those discussed below or elsewhere in this Annual Report could also adversely affect Aegon s businesses and operations, and the following risk factors should not be considered a complete list of potential risks that may affect Aegon and its subsidiaries.

Risks related to the global financial markets and general economic conditions

Disruptions in the global financial markets and general economic conditions have affected, continue to affect and could have a materially adverse effect on Aegon s businesses, results of operations, cash flows and financial condition.

Aegon s results of operations and financial condition may be materially affected from time to time by general economic conditions, such as levels of employment, consumer lending or inflation in the countries in which we operate. Global financial markets experienced extreme and unprecedented volatility and disruption in recent years and significant uncertainty remains today - particularly in Europe. These developments have created an unfavorable environment for banking activity generally. Bank lending has been reduced below the levels seen before the financial crisis for some time and the housing markets in Europe and North America remain depressed.

In addition to the other risks described in this section, these conditions may result in reduced demand for Aegon s products as well as impairments and reductions in the value of the assets in Aegon s general account, separate account, and company pension schemes, among other assets. Aegon may also experience a higher incidence of claims and lapses or surrenders of policies. Aegon s policyholders may choose to defer or stop paying insurance premiums. Aegon cannot predict definitively whether or when such actions, which could impact Aegon s businesses, results of operations, cash flows and financial condition, may occur.

In Europe, countries such as Greece, Ireland, Italy, Portugal, Spain and Cyprus have been particularly affected by the recent financial and economic conditions, creating a heightened perceived risk of default on the sovereign debt of those countries, with the possibility of a Greek default and rising concerns about the contagion effect it would have on other European Union economies and the ongoing viability of the euro currency and the European Monetary Union (refer to note 2 to the consolidated financial statements for details about Aegon s exposure to European peripheral countries). Yields on the sovereign debt of most European Union member states are volatile. The European Union, the European Central Bank (ECB) and the International Monetary Fund have prepared rescue packages for some of the affected countries. Furthermore, the European Union is in the process of establishing a European Banking Supervision body which would allow for direct intervention by the ECB. Aegon

cannot predict with any certainty whether these packages or other rescue plans will be successful or the effect that they may have on the future viability of the euro currency or the European Monetary Union nor the impact on Aegon s businesses, results of operations, cash flows and financial condition if such rescue packages are not successful. Aegon also cannot predict with certainty the effect a sovereign default may have on Aegon s businesses, results of operations, cash flows and financial condition, although the effect of such events may be material and adverse. (Refer to note 4 Financial and insurance risks for a summary of Aegon s sovereign exposure.)

Governmental action in the Netherlands, the United States, the European Union and elsewhere to address any of the foregoing could impact Aegon s businesses. Aegon cannot predict with certainty the effect that these or other government actions and actions by the ECB or the Federal Reserve may have on the financial markets or on Aegon s businesses, results of operations, cash flows and financial condition.

Disruptions in the overall economy due to failure to avoid the Fiscal Cliff may adversely impact Aegon s businesses.

In the United States, the uncertainty regarding significant mandated tax increases and government spending cuts beginning in January 2013, (the Fiscal Cliff) poses a serious risk for the US economy and consumer confidence. In the event that the US federal government is unable to achieve a resolution that would mitigate the impact of the Fiscal Cliff to a meaningful degree, there could be an adverse impact on the US economy with a decrease in consumer spending, which could negatively impact Aegon s results of operations.

Credit risk

Defaults in Aegon s debt securities, private placements and mortgage loan portfolios held in Aegon s general account or failure of certain counterparties may adversely affect profitability and shareholders equity.

Credit risk is the risk of loss resulting from the default by, or failure to meet contractual obligations of issuers and counterparties. For general account products, Aegon typically bears the risk for investment performance equaling the return of principal and interest. Aegon is exposed to credit risk on its general account fixed-income portfolio (debt securities, mortgages and private placements), over-the-counter (OTC) derivatives and reinsurance contracts. In addition, financial institutions acting as a counterparty on derivatives may not perform their obligations. Default by issuers and counterparties on their financial obligations may be due to, among other things, bankruptcy, lack of liquidity, market downturns or operational failures, and the collateral or security they provide may prove inadequate to cover their obligations at the time of the default.

Aegon s investment portfolio among other investments contains Dutch government bonds, US Treasury, agency and state bonds, as well as other government issued securities. There continues to be uncertainty regarding the ability of certain European nations (in particular Greece, Ireland, Italy, Portugal and Spain) to satisfy their financial obligations. Due to the weak economic environment, Aegon incurred significant investment impairments due to defaults and overall declines in the capital markets. Further excessive defaults or other reductions in the value of these securities and loans could have a materially adverse effect on Aegon s businesses, results of operations, cash flows and financial condition.

Equity market risk

A decline in equity markets may adversely affect Aegon s profitability and shareholders equity, sales of savings and investment products and the amount of assets under management.

Exposure to equity markets exists in both assets and liabilities. Asset exposure exists through direct equity investment where Aegon bears all or most of the volatility in returns and investment performance risk. Equity market exposure is also present in insurance and investment contracts for account of policyholders where funds are invested in equities (such as variable annuities, unit-linked products and mutual funds). Although most of the risk remains with the policyholder, lower investment returns can reduce the asset management fee that Aegon earns on the asset balance in these products and prolonged investment under-performance may cause existing customers to withdraw funds and potential customers not to grant investment mandates.

Some of Aegon s insurance and investment contract businesses have minimum return or accumulation guarantees, which requires Aegon to establish reserves to fund these future guaranteed benefits when equity market returns do not meet or exceed these guarantee levels. Aegon s reported results under International Financial Reporting Standards, as issued by the International Accounting Standards Board (IFRS), are also at risk if returns are not sufficient to allow amortization of deferred policyholder acquisition costs (DPAC), which could impact the reported net income as well as shareholders equity. Volatile or poor market conditions may also significantly reduce the demand for some of Aegon s savings and investment products, which could lead to lower sales and net income. Deteriorating general economic conditions may again result in significant decreases in the value of Aegon s equity investments. The equity market conditions experienced through 2012 led to a recognized impairment loss on equity securities held in general account of EUR 15 million (2011: EUR 10 million, 2010: EUR 7 million).

Interest rate risk

Interest rate volatility or sustained low interest rate levels may adversely affect Aegon s profitability and shareholders equity.

In periods of rapidly increasing interest rates, policy loans, surrenders and withdrawals may and usually do increase. Premiums in flexible premium policies may decrease as policyholders seek investments with higher perceived returns. This activity may result in cash payments by Aegon requiring the sale of invested assets at a time when the prices of those assets are affected adversely by the increase in market interest rates. This may result in realized investment losses. These cash payments to policyholders also result in a decrease in total invested assets and net income. Early withdrawals may also require accelerated amortization of DPAC, which in turn reduces net income.

During periods of sustained low interest rates, such as Aegon has been facing in recent years, Aegon may not be able to preserve margins as a result of minimum interest rate guarantees and minimum guaranteed crediting rates provided in policies. Also, investment earnings may be lower because the interest earnings on new fixed-income investments are likely to have declined with the market interest rates. Life insurance and annuity products may be relatively more attractive to consumers, resulting in increased premium payments on products with flexible premium features and a higher percentage of insurance policies remaining in force year-to-year. Mortgages and redeemable bonds in the investment portfolio are more likely to be repaid as borrowers seek to refinance at lower interest rates and Aegon may be required to reinvest the proceeds in securities bearing lower interest rates. Risk is heightened in the current market and economic environment in which certain securities may be unavailable. Accordingly, net income may decline as a result of a decrease in the spread between returns on the investment portfolio and the interest rates either credited to policyholders or assumed in reserves.

In general, if interest rates rise, there will be unrealized losses on assets carried at fair value that will be recorded in other comprehensive income (available-for-sale investments) or as negative income (investments at fair value through profit or loss) under IFRS. This is inconsistent with the IFRS accounting on much of Aegon s liabilities, where corresponding economic gains from higher interest rates do not affect shareholders equity or income in the shorter term. Over time, the short-term reduction in shareholder equity and income due to rising interest rates would be offset in later years, all else being equal.

Base interest rates set by central banks and government treasuries remained at the historically low levels initiated in response to the worldwide recession and attempts to stimulate growth.

The profitability of Aegon s spread-based businesses depends in large part upon the ability to manage interest rate spreads, credit spread risk and other risks inherent in the investment portfolio. Aegon may not be able to successfully manage interest rate spreads, credit spread risk and other risks in the investment portfolio or the potential negative impact of those risks. Investment income from general account fixed income investments for the years 2010, 2011 and 2012 was EUR 6.0 billion, EUR 5.6 billion and EUR 5.8 billion, respectively. The value of the related general account fixed income investment portfolio at the end of the years 2010, 2011 and 2012 was EUR 138 billion, EUR 139 billion and EUR 142 billion, respectively.

Currency exchange rate risk

Fluctuations in currency exchange rates may affect Aegon s reported results of operations.

As an international group, Aegon is subject to foreign currency translation risk. Foreign currency exposure also exists when policies are denominated in currencies other than Aegon s functional currency. Currency risk in the investment portfolios backing insurance and investment liabilities are managed using asset liability matching principles. Assets allocated to equity are kept in local currencies to the extent shareholders equity is required to satisfy regulatory and Aegon s self-imposed capital requirements. Therefore, currency exchange rate fluctuations may affect the level of Aegon s consolidated shareholders equity as a result of translation of the equity of Aegon s subsidiaries into euro, Aegon s reporting currency. Aegon holds the remainder of its capital base (capital securities, subordinated and senior debt) in various currencies in amounts that are targeted to correspond to the book value of Aegon s business units. This balancing is intended to mitigate currency translation impacts on equity and leverage ratios. Aegon may also hedge the expected dividends from its principal business units that maintain their equity in currencies other than the euro.

To the extent these expected dividends are not hedged or actual dividends vary from expected, Aegon s net income and shareholders equity may fluctuate. As Aegon has significant business segments in the Americas and in the United Kingdom, the principal sources of exposure from currency fluctuations are from the differences between the US dollar and the euro and between the UK pound and the euro. Aegon may experience significant changes in net income and shareholders equity because of these fluctuations.

The exchange rates between Aegon s primary operating currencies (US dollar, euro and UK pound) continued to fluctuate during 2012. In 2012, the US dollar ranged by as much as 18% against the euro, finishing around 7% up on 2011. The UK pound fluctuated by around 12% against the euro ending the year with a 3% gain.

For the Americas segment, which primarily conducts its business in US dollars, total revenues and net income in 2012 amounted to EUR 13.2 billion and EUR 1,025 million, respectively. For the UK segment, which primarily conducts its business in UK pounds, total revenues and net income in 2012 amounted to EUR 8.5 billion and EUR 169 million, respectively. On a consolidated basis, these two segments represented 73% of the total revenues and 78% of the net income for the year 2012. Additionally, Aegon borrows in various currencies to hedge the currency exposure arising from its operations. As of December 31, 2012, Aegon has borrowed or swapped amounts in proportion to the currency mix of capital in units, which was denominated approximately 53% in US dollars, 29% in euro, 11% in UK pounds and 6% in Canadian dollars.

The possible abandonment of the euro currency by one or more members of the European Monetary Union may affect Aegon s results of operations in the future.

It is possible that the euro could be abandoned as a currency in the future by countries that have already adopted its use. This could lead to the re-introduction of individual currencies in one or more European Monetary Union member states, or in more extreme circumstances, the dissolution of the European Monetary Union. The effects on the European and global economy of a potential dissolution of the European Monetary Union or the exit of one or more European Union member states from the European Monetary Union, are impossible to predict with certainty, and any such events could have a materially adverse effect on Aegon s financial condition and results of operations in the future.

Liquidity risk

Illiquidity of certain investment assets may prevent Aegon from selling investments at fair prices in a timely manner.

Liquidity risk is inherent in much of Aegon s businesses. Each asset purchased and liability sold has liquidity characteristics that are unique. Some liabilities can be surrendered while some assets, such as privately placed loans, mortgage loans, real estate and limited partnership interests, are to some degree illiquid. Aegon continued to maintain its reserves of cash and liquid assets in 2012. In depressed markets Aegon may be unable to sell or buy significant volumes of assets at quoted prices.

Any security Aegon issues in significant volume may be issued at higher financing costs if funding conditions are impaired as they have been from time to time in recent years. The requirement to issue securities can be driven by a variety of factors, for instance Aegon may need liquidity for operating expenses, debt servicing and the maintenance of capital levels of insurance subsidiaries. Although Aegon manages its liquidity position for extreme events, including greatly reduced liquidity in capital markets, if these conditions were to persist for an extended period of

time, Aegon may need to sell assets substantially below prices at which they are currently recorded to meet its insurance obligations.

In 2012, approximately 40% of Aegon s general account investments were not highly liquid.

Underwriting risk

Differences between actual claims experience and underwriting and reserve assumptions may require liabilities to be increased.

Aegon s earnings depend significantly upon the extent to which actual claims experience is consistent with the assumptions used in setting the prices for Aegon s products and establishing the technical liabilities for expected claims. If actual claims experience is less favorable than the underlying assumptions used in establishing such liabilities, Aegon s income would be reduced. Furthermore, if the less favorable claims experience were expected to be a sustained trend, Aegon may be required to increase liabilities for other related products, which could reduce Aegon s income. In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force have been recorded as assets on the balance sheet and are being amortized into income over time. If the assumptions relating to the future profitability of these policies (such as future claims, investment income and expenses) are not realized, the amortization of these costs could be accelerated and may even require write-offs due to an expectation of unrecoverability. This could have a materially adverse effect on Aegon s results of operations and financial condition.

Sources of underwriting risk include policy lapses, policy claims (such as mortality and morbidity) and expenses. In general, Aegon is at risk if policy lapses increase as sometimes Aegon is unable to fully recover up front expenses in selling a product despite the presence of commission recoveries or surrender charges and fees. In addition, some policies have embedded options which at times are more valuable to the client if they stay (lower lapses) or leave (higher lapses) which can result in losses to Aegon s businesses. Aegon sells certain types of policies that are at risk if mortality or morbidity increases, such as term life insurance and accident insurance. Aegon also sells certain other types of policies such as annuity products that are at risk if mortality decreases (longevity risk). For example, certain current products as well as products sold in previous years based on standard longevity assumptions have become less profitable or unprofitable as longevity assumptions increase, which may result in Aegon incurring losses. If the trend towards increased longevity persists, Aegon s annuity products may continue to experience adverse effects because the period of time over which benefit payments are made becomes longer as life expectancies increase. Aegon is also at risk if expenses are higher than assumed.

Other risks

Valuation of Aegon s investments, allowances and impairments is subjective, and discrepant valuations may adversely affect Aegon s results of operations and financial condition.

The valuation of many of Aegon s financial instruments is based on methodologies, estimations and assumptions that are subject to different interpretations and could result in changes to investment valuations that may have a materially adverse effect on Aegon s results of operations and financial condition. In addition, the determination of the amount of allowances and impairments taken on Aegon s investments is subjective and could materially impact Aegon s results of operations or financial position.

Aegon may be required to increase its statutory reserves and/or hold higher amounts of statutory capital for some of its products which will decrease Aegon s returns on these products unless Aegon increases its prices.

The European Commission s Solvency II directive, effective date pending, is expected to impose, among other things, substantially greater quantitative and qualitative capital requirements on some of Aegon s businesses and at Group level as well as supervisory and disclosure requirements and may impact the structure, business strategies, and profitability of Aegon s insurance subsidiaries and of the Group. Some of Aegon s competitors who are headquartered outside the European Economic Area may not be subject to Solvency II requirements and may thereby be better able to compete against Aegon, particularly in Aegon s businesses in the United States and Asia.

The National Association of Insurance Commissioners (NAIC) Model Regulation entitled Valuation of Life Insurance Policies, commonly known as Regulation XXX, requires insurers in the United States to establish additional statutory reserves for term life insurance policies with long-term premium guarantees. In addition, Actuarial Guideline 38, The Application of the Valuation of Life Insurance Policies Regulation, commonly known as Regulation AXXX, or AG38, requires insurers to establish additional statutory reserves for certain universal life insurance policies with secondary guarantees. Virtually all of Aegon s newly issued term and universal life insurance products in the United States are now affected by Regulations XXX and AXXX, respectively.

In response to the NAIC regulations, Aegon has implemented reinsurance and capital management actions to mitigate their impact. However, for a variety of reasons, Aegon may not be able to implement actions to mitigate the impact of Regulation XXX and AXXX on future sales of term or universal life insurance products, potentially resulting in an adverse impact on these products and Aegon s market position in the life insurance

market. In addition, the NAIC is reviewing internal captive reinsurance, the vehicle used in many capital management actions.

For some of Aegon s products, market performance impacts the level of statutory reserves and statutory capital Aegon is required to hold, which may have an adverse effect on returns on capital associated with these products. Capacity for reserve funding available in the marketplace is currently limited as a result of market conditions generally. Aegon s ability to efficiently manage capital and economic reserve levels may be impacted, thereby affecting profitability and return on capital.

Aegon may not be able to comply fully with, or obtain appropriate exemptions from, the wide variety of laws and regulations applicable to insurance companies and insurance holding companies. Failure to comply with or to obtain appropriate exemptions under any applicable laws could result in restrictions on Aegon s ability to do business in one or more of the jurisdictions in which Aegon operates and could result in fines and other sanctions, which may have a materially adverse effect on Aegon s businesses, financial position or results of operations.

There may be heightened oversight of insurers by regulatory authorities in the jurisdictions in which Aegon s subsidiaries are domiciled and operate. Aegon cannot predict specific proposals that might be adopted, or what impact, if any, such proposals or, if enacted, such laws, could have on its businesses, results of operations, or financial condition. The European Union is adopting Solvency II as discussed above, the NAIC or state regulators may adopt revisions to applicable risk based capital formulas, local regulators in other jurisdictions in which Aegon s subsidiaries operate may increase their capital requirements, or rating agencies may incorporate higher capital thresholds into their quantitative analyses, thus requiring additional capital for Aegon s insurance subsidiaries.

Certain jurisdictions are questioning the use of gender-based distinctions in the insurance industry. This will likely limit or impede Aegon s ability to continue to make certain gender-based distinctions in the pricing of financial products such as life insurance, annuities and certain other types of products Aegon sells. On March 1, 2011, the European Court of Justice (ECJ) delivered a judgment in the Test Achats case which relates to the ability of an insurance company to use gender as a rating factor when pricing risk. The ECJ has ruled that using gender as a rating factor when pricing risk is invalid. However, the ECJ has granted a transitional period for relief for implementation. The effect of this is that, as from December 21, 2012, it is unlawful to use gender-related factors for determining premiums and benefits under insurance policies. This decision may have a materially adverse effect on Aegon s businesses, financial position and results of operations.

A downgrade in Aegon s ratings may increase policy surrenders and withdrawals, adversely affect relationships with distributors and negatively affect Aegon s results.

Claims paying ability and financial strength ratings are factors in establishing the competitive position of insurers. A rating downgrade (or the potential for such a downgrade) of Aegon or any of its rated insurance subsidiaries may, among other things, materially increase the number of policy surrenders and withdrawals by policyholders of cash values from their policies. These withdrawals may require the sale of invested assets, including illiquid assets, at a price that may result in realized investment losses. These cash payments to policyholders would result in a decrease in total invested assets and a decrease in net income. Among other things, early withdrawals may also cause Aegon to accelerate amortization of DPAC, reducing net income.

Aegon has experienced downgrades and negative changes to its outlook in the past and, may experience downgrades and negative changes in the future. For example during 2012, Fitch put a negative outlook on its long term issuer default rating for Aegon N.V. and its insurer financial strength ratings for Aegon USA. Also, in 2012, Standard and Poor s put a negative outlook on its insurer financial strength rating for Scottish Equitable (Aegon UK). A downgrade or potential downgrade, including changes in outlook, could result in higher funding costs and/ or affect the availability of funding in the capital markets. In addition, a downgrade may adversely affect relationships with broker-dealers, banks, agents, wholesalers and other distributors of Aegon s products and services, which may negatively impact new sales and adversely affect Aegon s ability to compete. This would have a materially adverse effect on Aegon s businesses, results of operations and financial condition.

Aegon cannot predict what actions rating agencies may take, or what actions Aegon may take in response to the actions of rating agencies, which could adversely affect Aegon s businesses. As with other companies in the financial services industry, Aegon s ratings could be downgraded at any time and without notice by any rating agency.

Changes in government regulations in the countries in which Aegon operates may affect profitability.

Aegon s regulated businesses, such as insurance, banking and asset management, are subject to comprehensive regulation and supervision. The primary purpose of such regulation is to protect clients (i.e. policyholders), not holders of securities. Changes in existing insurance laws and regulations may affect the way in which Aegon conducts business and the products offered. Additionally, the laws or regulations adopted or amended from time to time may be more restrictive or may result in higher costs than current requirements. The recent financial markets dislocation has resulted in, and may continue to result in further, extensive changes to existing laws, regulations and regulatory

frameworks applicable to Aegon s businesses in the countries in which it operates.

For example, in July 2010, the US Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which provides for comprehensive changes to the regulation of financial services in the United States by granting existing government agencies and newly created government agencies and bodies (for example., the Financial Stability Oversight, Commodity Futures Trading Commission and the Securities and Exchange Commission) authority to promulgate new financial regulations applicable to systemically important non-bank financial institutions. The primary impact to Aegon USA will be the Derivatives Reform part of the Dodd-Frank Act, which aims to increase transparency of derivatives and reduce systemic risk. Aegon USA entities will be considered Category 2 under the regulations and will be required to begin clearing derivative transactions as they are phased in over time, beginning with the four categories of interest rate swaps and two categories of indexed credit default swaps on June 10, 2013. In addition, Aegon USA will have new reporting, initial margins and variation margins obligations under the Dodd-Frank Act and its regulations. However, Aegon cannot predict how the regulations will affect the financial markets generally or how the regulations will affect Aegon s operations or financial condition.

In the United States, the Patient Protection and Affordable Care Act (PPACA) was enacted in 2011 and upheld by the US Supreme Court in 2012. PPACA significantly changes the regulation of health insurance in the United States, including in certain respects the regulation of supplemental health insurance products. The extent to which employers or individuals may discontinue their purchase of supplemental health insurance products as a result of these changes may significantly impact Aegon USA s supplemental health insurance products business.

For information relating to the European Commission s Solvency II directive, see page 11, Aegon may be required to increase its statutory reserves and/or hold higher amounts of statutory capital for some of its products, which will decrease Aegon s returns on these products unless Aegon increases its prices.

Changes in pension and employee benefit regulation, social security regulation, financial services regulation, taxation and the regulation of securities products and transactions may adversely affect Aegon s ability to sell new policies or claims exposure on existing policies. For example, in Hungary, the mandatory pension business has been nationalized and therefore Aegon in Hungary has liquidated its mandatory pension business.

In general, changes in laws and regulations may materially increase Aegon s direct and indirect compliance and other expenses of doing business and have a materially adverse effect on Aegon s businesses, results of operations or financial condition.

Legal and arbitration proceedings and regulatory investigations and actions may adversely affect Aegon s businesses, results of operations and financial position.

Aegon faces significant risks of litigation and regulatory investigations and actions in connection with Aegon s activities as an insurer, securities issuer, employer, investment adviser, investor and taxpayer among others.

Insurance companies are increasingly and routinely the subject of litigation, investigation and regulatory activity by various governmental and enforcement authorities, individual claimants and policyholder advocate groups, involving wide-ranging subjects such as transparency issues and the charges included in products, employment or third party relationships, adequacy of operational processes, environmental matters, anti-competition and intellectual property infringement. For example, unclaimed property administrators and state insurance regulators are performing unclaimed property examinations of the life insurance industry in the U.S., including certain of our subsidiaries. These are in some cases multi-state examinations that include the collective action of many of the states. Additionally, some states are conducting separate examinations or instituting separate enforcement actions in regard to unclaimed property laws and related claims practices. As other insurers in the United States have recently done, Aegon Americas identified certain additional internal processes that it has implemented or is in the process of implementing. Aegon Americas increased certain reserves related to this matter by approximately EUR 37 million during the fourth quarter of 2011. No additional reserve increase was recorded in 2012. As the methodology to identify deceased policyholders becomes more refined, it is possible Aegon will add to this reserve. Also, various major insurers in the U.S. have entered into settlements with insurance regulators recently regarding claims settlement practices. Aegon expects that regulators will be trying to reach settlements with other US insurers. While Aegon believes that Aegon s processes to manage unclaimed property are generally adequate, with industry practices changing and regulatory interpretations evolving, it is uncertain what the further impact of any such inquiry could be for Aegon and other market participants. Aegon estimates that the adverse financial impact may range from EUR 0 to EUR 150 million before tax.

In addition, insurance companies are generally the subject of litigation, investigations and regulatory activity concerning common industry practices such as the disclosure of contingent costs, commissions and premiums and other issues relating to the transparency relating to certain products and services. Adequate transparency of product features and cost levels is important for customer satisfaction, especially when they apply for, or take effect over, a longer duration, as is the case for many of Aegon s products. In addition, many of Aegon s products offer returns that are affected by, among other things, fluctuations in equity markets as well as interest rate movements. As a result, such returns may prove to be volatile and occasionally disappointing. This from time to time results in disputes that lead to litigation and complaints to regulatory bodies. Complaints like these may then lead to inquiries or investigations, regardless of their merit.

Aegon cannot predict at this time the effect litigation, investigations, and actions will have on the insurance industry or Aegon s business. Lawsuits, including class actions and regulatory actions, may be difficult to assess or quantify, may seek recovery of very large and/or indeterminable amounts, including bad faith, punitive and treble damages, and their existence and magnitude may remain unknown for substantial periods of time. Claimants may allege damages that are not quantifiable or supportable and may bear little relationship to their actual economic losses, or amounts they ultimately receive, if any.

Aegon and other US industry participants have been named in lawsuits alleging, among other things, that asset-based fees charged for investment products offered on 401(k) platforms were higher than those generally available in the market. In the Netherlands, certain current and former customers, and groups representing customers have initiated litigation, and certain groups are encouraging others to bring lawsuits against Aegon and other insurers, in respect of certain products including securities leasing products and unit-linked products (so called beleggingsverzekeringen , including the Koersplan product).

Aegon has defended and Aegon intends to continue defending itself vigorously when we believe claims are without merit. Aegon has also sought and will continue to seek to settle certain claims including via policy modifications in appropriate circumstances such as the settlement we reached in July 2009 with Stichting Verliespolis and Stichting Woekerpolis Claim in the Netherlands, two major customer interest groups. In May 2012, Aegon announced that it would accelerate certain product improvements that reduce future costs and that increase policy value for its customers with unit-linked insurance policies consistent with the agreements Aegon announced in July 2009. With these measures, Aegon committed to an appeal by the Dutch Ministry of Finance to apply best of class principles to certain existing unit-linked products. As a result of this acceleration, in the second quarter of 2012 Aegon took a one-off charge of EUR 265 million before tax. In addition, Aegon will reduce future policy costs from 2013 onward for the large majority of its unit-linked portfolio. This will impact underlying earnings before tax over the remaining duration of the policies by approximately EUR 125 million in the aggregate including approximately EUR 7 million per quarter during 2013. While parties such as Ombudsman Financiële Dienstverlening (the Netherlands financial services industry ombudsman) support the arrangement, the public debate on the adequacy generally of the arrangements reached with customer interest groups, as well as the discussions in the Dutch Parliament, continue and may lead to re-examination

and further adjustment of the settlements made. It is not yet possible to determine the direction or outcome of any further debate, including what actions, if any, we may take in response thereto, or the impact that any such actions may have on Aegon s business, results of operations and financial position. Any such actions, whether triggered by legal requirements or commercial necessity, any substantial legal liability or a significant regulatory action could have a materially adverse effect on Aegon s business, results of operations and financial condition.

For example, in July 2011, the Amsterdam Court of Appeal, an intermediate appeals court, ruled with respect to the Koersplan-product that customers are required to pay a reasonable premium. However, the Court went on to define what it considers to be a reasonable premium at a level below that charged by Aegon. Aegon believes that the Court s ruling, which was based on a single industry example that Aegon believes is not representative, was wrongly decided and, in October 2011, appealed the decision to the Supreme Court in the Netherlands. The Attorney General (Procureur Generaal) in March 2013 advised the Supreme Court to annul the decision of the Amsterdam Court of Appeal. However, for reasons that are limited to this specific case, the Attorney General s advice to annul did not include the Amsterdam Court s decision to apply a single industry example to define a reasonable premium. The Supreme Court is not obliged to follow the advice of the Attorney General, although it will consider it. The Supreme Court could elect to follow the advice of the Attorney General or to refer the case back to another court for reassessment on different or additional grounds. If instead the decision of the Amsterdam Court of Appeal is ultimately upheld by the Dutch Supreme Court, it could result in a legal liability of approximately EUR 150 million after tax.

Certain of the products Aegon sells are complex and involve significant investment risks that may be assumed by Aegon s customers. Aegon has received claims from certain current and former customers, and groups representing customers, in respect of certain products. Certain claims remain under review and may lead to disputes in the future. Aegon has in the past agreed to make payments, in some cases substantial, or adjustments to policy terms to settle those claims or disputes if Aegon believed it was appropriate to do so. In 2010, Aegon Americas had a one-time provision of EUR 95 million for settlement of a dispute with a bank related to an employer owned life insurance policy. While Aegon intends to defend itself vigorously against any claims that Aegon does not believe have merit, there can be no assurance that any claims brought against Aegon by its customers will not have a materially adverse effect on Aegon s business, results of operations and financial position.

As a result of the European Commission s approval of the core capital Aegon received from the Dutch State in 2008, Aegon was subject to certain requirements which may continue to have a materially adverse effect on Aegon s business, results of operations and financial condition. These requirements included behavioral constraints of the core capital securities and repayment of the Dutch State on June 15, 2011.

Structural measures that remained in force throughout 2012:

¿ Reduction of the total US general account assets of the consolidated Aegon USA balance sheet on a constant currency and amortized cost basis by USD 25 billion from

2007 (USD 130 billion) to the end of 2012 (USD 105 billion); as at December 31, 2012, this figure was USD 102 billion.
- ¿ Full delta hedging of the US variable annuity guaranteed minimum income benefit back book.
- ¿ Improvement, by December 2012, of the ratio of consolidated shareholders equity (excluding revaluation reserve) to total equity base (including equity, hybrids and net senior debt) from 70% to at least 75%; as at December 31, 2012, this ratio was 76.7%.
- ¿ Acceleration of the run-off of the Institutional Markets Division (IMD); the following two portfolios have been put into run-off:
- ¿ Americas spread-based business, with a total account balance of EUR 5,618 million as at December 31, 2012;
- ¿ Americas payout annuities, with a total account balance of EUR 5,966 million as at December 31, 2012.
- ¿ The bulk annuity business in the United Kingdom has been put into run-off.

The execution of these structural measures may have a material adverse effect on Aegon s businesses, results of operations and financial condition.

Aegon may be unable to manage Aegon s risks successfully through derivatives.

Aegon is exposed to currency fluctuations, changes in the fair value of Aegon s investments, the impact of interest rate, equity markets and credit spread changes and changes in mortality and longevity. Aegon uses common financial derivative instruments, such as swaps, options, futures and forward contracts to hedge some of the exposures related to both investments backing insurance products and company borrowings. This is a more pronounced risk to Aegon in view of the stresses suffered by financial institutions and the volatility of credit and equity markets. Aegon may not be able to manage the risks associated with these activities successfully through the use of derivatives. In addition, a counterparty may fail to honor the terms of its derivatives contracts with Aegon. Aegon s inability to manage risks successfully through derivatives, a counterparty s failure to honor Aegon s obligations or the systemic risk that failure is transmitted from counterparty to counterparty could each have a material adverse effect on Aegon s businesses, results of operations and financial condition.

Aegon s ability to manage risks through derivatives may be negatively affected by the Dodd-Frank Act and legislative initiatives of the European Commission, which provide for a new framework of regulation of OTC derivatives markets. These new regulations, including the proposed regulation of OTC transactions, central counterparties and trade repositories (EMIR) by the European Commission on September 15, 2010, as well as the new regulation on markets in financial instruments (MIFIR) proposed by the European Commission on October 20, 2011, if adopted, may require Aegon to mandatorily trade certain types

of OTC derivative transactions on regulated trading venues and clear certain types of transactions currently traded in the OTC derivative markets through a central clearing organization. This may limit Aegon s ability to customize derivative transactions for its needs. As a result, Aegon may experience additional collateral requirements and costs associated with derivative transactions.

State statutes and regulators may limit or prohibit the aggregate amount of dividends payable by Aegon s subsidiaries and Aegon N.V., thereby limiting Aegon s ability to make payments on debt obligations.

Aegon s ability to make payments on debt obligations and pay some operating expenses is dependent upon the receipt of dividends from subsidiaries. Some of these subsidiaries have regulatory restrictions that can limit the payment of dividends. In addition, local regulators, acting to represent the interests of local policyholders, are taking an increasingly restrictive stance with respect to permitting dividend payments, which may affect Aegon s ability to satisfy its debt obligations or pay its operating expenses.

Changes in accounting policies may affect Aegon s reported results and shareholders equity.

Since 2005, Aegon s financial statements have been prepared and presented in accordance with IFRS. Certain recent changes and any future changes in these accounting principles may have a significant impact on Aegon s reported results, financial condition and shareholders equity. This includes the level and volatility of reported results and shareholders equity. One of the standards that has been revised is IAS 19 Employee Benefits. The amended standard applies to financial years beginning on or after January 1, 2013. The amendments eliminate the option to defer the recognition of gains and losses, known as the corridor method . The amendments streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income. As per December 31, 2012, Aegon estimates the adverse impact on equity of removing the corridor to be approximately EUR 1.1 billion (post tax), consisting of the unrecognized actuarial gains and losses as per that date.

One of the standards that will be revised is IFRS 10 Consolidated Financial Statements, which replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12 Consolidation-Special Purpose Entities. IFRS 10 establishes a single control model that applies to all group entities, including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore are required to be consolidated, as compared with the requirements of IAS 27. The amended IFRS 10 standard is effective for annual periods beginning on or after

January 1, 2013. As per December 31, 2012, Aegon estimates the adverse impact on equity of consolidating securitization contracts that currently have off balance sheet treatment to amount EUR 155 million.

Tax law changes may adversely affect Aegon s profitability, as well as the sale and ownership of Aegon s products.

Aegon is subject to the substance and interpretation of tax laws in all countries in which Aegon operates or invests. Tax risk is the risk associated with changes in tax laws, or the interpretation of tax laws, later jurisprudence or case law, or the introduction of new taxes or tax laws. This tax risk also includes the risk of changes in tax rates and the risk of consequences arising from failure to comply with procedures required by tax authorities. Failure to manage tax risks could lead to increased tax charges, including financial or operating penalties. This tax risk could have a direct materially adverse effect on Aegon s profits and financial condition.

Further, insurance products enjoy certain tax advantages, particularly in the United States and the Netherlands, which permit the tax deferred accumulation of earnings on the premiums paid by the holders of annuities and life insurance products under certain conditions and within certain limits. Taxes on this inside build-up of earnings may not be payable at all and, if payable, generally are due only when the earnings are actually paid.

The US Congress has, from time to time, considered possible legislation that could make Aegon s products less attractive to consumers, including legislation that would reduce or eliminate the deferral of taxation on the accretion of value within certain annuities and life insurance products. This could have an impact on insurance products and sales in the United States.

The US Government, as well as state and local governments, also considers from time to time tax law changes that could increase the amount of taxes that Aegon pays. For example, the US Treasury Department and the Internal Revenue Service may propose new regulations regarding the methodology to determine the dividends received deduction (DRD) related to variable life insurance and variable annuity contracts. The DRD reduces the amount of dividend income subject to tax and is a significant component of the difference between Aegon s effective tax rate and the federal statutory tax rate of 35%. A change in the DRD, including the possible elimination of this deduction, could reduce Aegon s consolidated net income.

Any changes in tax laws, interpretation of tax laws, later jurisprudence or case law, or the introduction of new taxes or tax laws in all countries in which Aegon operates or invests,

affecting Aegon s products could have a materially adverse effect on Aegon s businesses, results of operations and financial condition.

Competitive factors may adversely affect Aegon s market share.

Competition in Aegon s business segments is based on service, product features, price, commission structure, financial strength, claims paying ability, ratings and name recognition. Aegon faces intense competition from a large number of other insurers, as well as non-insurance financial services companies such as banks, broker-dealers and asset managers, for individual customers, employers, other group customers, agents and other distributors of insurance and investment products. Consolidation in the global financial services industry can enhance the competitive position of some of Aegon s competitors by broadening the range of their products and services, increasing their distribution channels and their access to capital. In addition, development of alternative distribution channels for certain types of insurance and securities products, including through the internet, may result in increasing competition as well as pressure on margins for certain types of products. Traditional distribution channels are also challenged by the ban on sales based commissions in some countries. These competitive pressures could result in increased pricing pressures on a number of products and services, particularly as competitors seek to win market share. This may harm Aegon s ability to maintain or increase profitability.

The adverse market and economic conditions that began in the second half of 2007 and significantly worsened in 2008 and into 2009, with recovery beginning in late 2009 and in 2010, followed in 2011 and 2012 by further periods of volatility and weakness, particularly in the eurozone, can be expected to result in changes in the competitive landscape. For example, the financial distress experienced by some financial services industry participants as a result of weak economic conditions and newly imposed regulation may lead to acquisition opportunities. Aegon s ability or that of Aegon s competitors to pursue such opportunities may be limited due to lower earnings, reserve increases, capital requirements or a lack of access to debt capital markets and other sources of financing. Such conditions may also lead to changes by Aegon or Aegon s competitors in product offerings and product pricing that could affect Aegon and Aegon s relative sales volumes, market shares and profitability. Additionally, the competitive landscape in which Aegon operates may be further affected by government-sponsored programs or actions taken in response to the severe dislocations in financial markets which occurred in 2008 and 2009, as well as the European sovereign debt crisis.

In Spain, Aegon currently has partnerships with a number of Spanish banks to distribute a combination of life insurance and pension products. Savings banks in Spain are currently undergoing a period of consolidation as a result of ongoing economic uncertainty. As banks with which Aegon has partnerships consolidate with other banks or otherwise alter their operations, Aegon may experience significant adverse effects on its partnerships with those banks as well as its competitive position in the Spanish life insurance and pensions market. Currently, one of Aegon s partnerships has been dissolved as a result of these consolidations and more partnerships may dissolve in the future.

The default of a major market participant could disrupt the markets.

The failure of a sufficiently large and influential financial institution could disrupt securities markets or clearance and settlement systems in Aegon s markets. This could cause market declines or volatility. Such a failure could lead to a chain of defaults that could adversely affect Aegon and Aegon s contract counterparties. In addition, such a failure could impact future product sales as a potential result of reduced confidence in the insurance industry.

Aegon may be unable to attract and retain personnel who are key to the business.

As a global financial services enterprise with a decentralized management structure, Aegon relies, to a considerable extent, on the quality of local management in the various countries in which Aegon operates. The success of Aegon s operations is dependent, among other things, on Aegon s ability to attract and retain highly qualified professional personnel. Competition for key personnel in most countries in which Aegon operates is intense. Aegon s ability to attract and retain key personnel, in particular senior officers, experienced portfolio managers, mutual fund managers and sales executives, is very much dependent on the competitiveness of the compensation package in the market in which it competes for employees. As a part of the governmental response in Europe and to a certain extent the United States to the financial crisis in 2008, there have been various legislative initiatives that have sought to give guidance or regulate the structure of remuneration for personnel, in particular senior management, with a focus on performance-related remuneration and limiting severance payments. With differences in interpretation of these regulations by local regulators on how the guidelines need to be applied as well as to the question of whether they apply to insurance industries at all, these restrictions create an uncertain playing field and could adversely affect Aegon s ability to compete for qualified employees as well as Aegon s ability to exchange employees between regions.

Reinsurers to whom Aegon has ceded risk may fail to meet their obligations.

Aegon s insurance subsidiaries cede premiums to other insurers under various agreements that cover individual risks, group risks or defined blocks of business, on a co-insurance, yearly renewable term, excess or catastrophe excess basis. The purpose of these reinsurance agreements is to spread the risk and minimize the effect of losses. The amount of each risk retained depends on an evaluation of the specific risk, which is subject, in certain circumstances, to maximum limits based on the characteristics of coverage. Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse for the ceded amount in the event the claim is paid. However, Aegon s insurance subsidiaries remain liable to their policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations assumed by it. A bankruptcy or insolvency or inability of Aegon s reinsurance counterparties to satisfy its obligations could have a materially adverse effect on Aegon s financial position and results of operations. Refer to Schedule IV of this Annual Report for a table showing life insurance in force amounts on a direct, assumed and ceded basis for 2010, 2011 and 2012.

In accordance with industry practices, Aegon reinsures a portion of its life insurance exposure with unaffiliated insurance companies under traditional indemnity reinsurance arrangements. In 2012, approximately 66% of Aegon s total direct and assumed (for which Aegon acts as a reinsurer for others) life insurance in force was ceded to other insurers. The major reinsurers of Aegon USA and Aegon Canada are SCOR SE (SCOR), Munich Re, RGA and Swiss Re. The major reinsurers of Aegon UK are Swiss Re, Munich Re, Pacific Re and XL Re. The major reinsurer for life insurance for Aegon The Netherlands is Swiss Re, while the non-life reinsurance is diversified across several providers including Lloyds market syndicates. The major reinsurers of Aegon Hungary for non- life are Swiss Re, Munich Re and Hannover Re and for life insurance Munich Re and RGA. Aegon Spain s major reinsurers are General Re, RGA, National Re and SCOR. Aegon China s major reinsurers are Hannover Re, Munich Re and China Re.

Aegon s divestiture of Transamerica Reinsurance may expose Aegon to additional risks.

Aegon divested Transamerica Reinsurance to SCOR in August 2011, as a result Aegon is exposed to certain risks including enhanced counterparty exposure risk to SCOR.

Because the divestiture of Transamerica Reinsurance is structured principally as a series of reinsurance transactions, SCOR has become one of Aegon s largest reinsurers and Aegon is at risk if SCOR defaults on its obligations under the policies Aegon retroceded to them. A bankruptcy or insolvency or inability of SCOR to satisfy its obligations could have a material adverse effect on Aegon s financial position and results of operations. In addition, Aegon agreed to satisfy significant collateral funding obligations of SCOR in connection with the policies Aegon retroceded to it. Satisfying such funding obligations could limit Aegon s ability to upstream cash to the Group level, pay dividends or make acquisitions.

Reinsurance may not be available, affordable or adequate to protect Aegon against losses.

As part of Aegon s overall risk and capacity management strategy, Aegon purchases reinsurance for certain risks underwritten by Aegon s various business segments. Market conditions beyond Aegon s control determine the availability and cost of the reinsurance protection Aegon purchases. Accordingly, Aegon may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect Aegon s ability to write future business.

Aegon may have difficulty managing its expanding operations and Aegon may not be successful in acquiring new businesses or divesting existing operations.

In recent years, Aegon has made a number of acquisitions and divestitures around the world and it is possible that Aegon may make further acquisitions and divestitures in the future. Growth by acquisition involves risks that could adversely affect Aegon s operating results and financial condition. These include: the potential diversion of financial and management resources from existing operations; difficulties in assimilating the operations, technologies, products and personnel of the acquired company; significant delays in completing the integration of acquired companies; the potential loss of key employees or customers of the acquired company; potential losses from unanticipated litigation; and tax and accounting issues. In addition, expansion into new and emerging markets may involve heightened political, legal and regulatory risks, such as discriminatory regulation, nationalization or expropriation of assets, price controls and exchange controls.

Aegon s acquisitions could result in additional indebtedness, costs, contingent liabilities and impairment expenses related to goodwill and other intangible assets. In addition, they may divert management s attention and other resources. Divestitures of existing operations could result in Aegon assuming or retaining certain contingent liabilities. All of the foregoing could adversely affect Aegon s businesses, results of operations and financial condition. Future acquisitions may also have a dilutive effect on the ownership and voting percentages of existing shareholders. There can be no assurance that Aegon will successfully identify suitable acquisition candidates or that Aegon will properly value acquisitions made. Aegon is unable to predict whether or when any prospective acquisition candidate will become available

or the likelihood that any acquisition will be completed once negotiations have commenced.

Catastrophic events, which are often unpredictable by nature, could result in material losses and abruptly and significantly interrupt Aegon s business activities.

Aegon s operating results and financial position can be adversely affected by volatile natural and man-made disasters such as hurricanes, windstorms, earthquakes, terrorism, riots, fires and explosions, pandemic disease and other catastrophes. Over the past several years, changing weather patterns and climatic conditions have added to the unpredictability and frequency of natural disasters in certain parts of the world and created additional uncertainty as to future trends and exposure. Generally, Aegon seeks to reduce its exposure to these events through individual risk selection, monitoring risk accumulation and purchasing reinsurance. However, such events could lead to considerable financial loss to Aegon s businesses. Furthermore, natural disasters, terrorism and fires could disrupt Aegon s operations and result in significant loss of property, key personnel and information about Aegon and its clients. If its business continuity plans have not included effective contingencies for such events, Aegon could experience business disruption and damage to corporate reputation and financial condition for a substantial period of time.

Aegon regularly develops new financial products to remain competitive in its markets and to meet the expectations of its clients. If clients do not achieve expected returns on those products, Aegon may be confronted with legal claims, pressure groups and negative publicity.

Aegon may face claims from customers and negative publicity if Aegon s products result in losses or fail to result in expected gains, regardless of the suitability of products for customers or the adequacy of the disclosure provided to customers by Aegon and by the intermediaries who distribute Aegon s products. New products that are less well understood and that have less of a historical performance track record may be more likely to be the subject of such claims. Any such claims could have a materially adverse effect on Aegon s results of operations, corporate reputation and financial condition.

Aegon may not be able to protect its intellectual property and may be subject to infringement claims.

Aegon relies on a combination of contractual rights with third parties and copyright, trademark, patent and trade secret laws to establish and protect Aegon s intellectual property. Third parties may infringe on or misappropriate Aegon s intellectual property, and it is possible that third parties may claim that Aegon has infringed on or misappropriated their intellectual property rights. Any resulting proceedings in which Aegon would have to enforce and protect its intellectual property, or defend itself against a

claim of infringement of a third party s intellectual property, may require significant effort and resources and may not prove successful. As a result of any proceeding in which Aegon would have to enforce and protect its intellectual property, Aegon may lose intellectual property protection, which could have a materially adverse effect on Aegon s businesses, results of operation, financial condition and Aegon s ability to compete. As a result of any proceeding in which Aegon would have to defend itself against a claim of infringement of a third party s intellectual property, Aegon may be required to pay damages and provide injunctive relief, which could have a materially adverse effect on Aegon s businesses, results of operations and financial condition.

Inadequate or failed processes or systems, human factors or external events could adversely affect Aegon s profitability, reputation or operational effectiveness.

Operational risk is inherent in Aegon s businesses and can manifest itself in many ways including business interruption, poor vendor performance, information systems malfunctions or failures, regulatory breaches, processing errors, modeling errors, and/or internal and external fraud. These events can potentially result in financial loss, harm to Aegon s reputation and hinder Aegon s operational effectiveness. Management undertakes significant effort to control these risks and keep operational risk at appropriate levels by maintaining a well-controlled environment and sound policies and practices. Notwithstanding these control measures, however, operational risk is part of the business environment in which Aegon operates and is inherent in Aegon s size and complexity as well as Aegon s geographic diversity and the scope of the businesses Aegon operates. Aegon s risk management activities cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. Furthermore, if the contractual arrangements put in place with any third party service providers, including providers of information technology, administrative or investment management services, are terminated, Aegon may not find an alternative provider on a timely basis or on equivalent terms. Aegon may incur losses from time to time due to these types of risks.

Aegon s operations support complex transactions and are highly dependent on the proper functioning of information technology and communication systems. Any failure of Aegon s information technology or communications systems may result in a materially adverse effect on Aegon s results of operations and corporate reputation.

While systems and processes are designed to support complex transactions and avoid systems failure, fraud, information security failures, processing errors and breaches of regulation, any failure could lead to a materially adverse effect on Aegon s results of operations and corporate reputation. In addition,

Aegon must commit significant resources to maintain and enhance its existing systems in order to keep pace with industry standards and customer preferences. If Aegon fails to keep up-to-date information systems, Aegon may not be able to rely on information for product pricing, risk management and underwriting decisions. In addition, even though backup and recovery systems and contingency plans are in place, Aegon cannot assure investors that interruptions, failures or breaches in security of these processes and systems will not occur, or if they do occur, that they can be adequately addressed. The occurrence of any of these events could have a materially adverse effect on Aegon s businesses, results of operations and financial condition.

A computer system failure or security breach may disrupt Aegon s businesses, damage Aegon s reputation and adversely affect Aegon s results of operations, financial condition and cash flows.

Aegon uses computer systems to store, retrieve, evaluate and utilize customer and company data and information. Aegon s businesses are highly dependent on its ability to access these systems to perform necessary business functions such as providing customer support, administering variable products, making changes to existing policies, filing and paying claims, managing Aegon s investment portfolios and producing financial statements. While Aegon has policies, procedures, automation and backup plans designed to prevent or limit the effect of failure, Aegon s computer systems may be vulnerable to disruptions or breaches as a result of natural disasters, man-made disasters, criminal activity, pandemics or other events beyond Aegon s control. The failure of Aegon s computer systems for any reason could disrupt Aegon s operations, result in the loss of customers and may adversely affect Aegon s businesses, results of operations and financial condition.

Aegon retains confidential information on its computer systems, including customer information and proprietary business information. Any compromise of the security of Aegon s computer systems that results in the disclosure of personally identifiable customer information could damage Argon s reputation, expose Aegon to litigation, increase regulatory scrutiny and require Aegon to incur significant technical, legal and other expenses.

Judgments of US courts may not be enforceable against Aegon in Dutch courts.

The United States and the Netherlands do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Judgments of US courts, including those predicated on the civil liability provisions of the US federal securities laws, may not be enforceable in Dutch courts. Therefore, Aegon s investors that obtain a judgment against

Aegon in the United States may not be able to require Aegon to pay the amount of the judgment unless a competent court in the Netherlands gives binding effect to the judgment. It may, however, be possible for a US investor to bring an original action in a Dutch court to enforce liabilities against Aegon, Aegon s affiliates, directors, officers or any expert named therein who resides outside the United States, based upon the US federal securities laws.

II - Risks relating to Aegon s common shares

Aegon s share price could be volatile and could drop unexpectedly, making it difficult for investors to resell Aegon s common shares at or above the price paid.

The price at which Aegon s common shares trade will be influenced by a large number of factors, some of which will be specific to Aegon and Aegon s operations and some of which will be related to the insurance industry and equity markets in general. As a result of these factors, investors may not be able to resell their common shares at or above the price paid for them. In particular, the following factors, in addition to other risk factors described in this section, may have a material impact on the market price of Aegon s common shares:

- Investor perception of Aegon as a company.
- Actual or anticipated fluctuations in Aegon s revenues or operating results.
- Announcement of intended acquisitions, disposals or financings, or speculation about such acquisitions, disposals or financings.
- Changes in Aegon s dividend policy, which could result from changes in Aegon s cash flow and capital position.
- Sales of blocks of Aegon s shares by significant shareholders, including Vereniging Aegon.
- A downgrade or rumored downgrade of Aegon s credit or financial strength ratings, including placement on credit watch.
- Potential litigation involving Aegon or the insurance industry in general.
- Changes in financial estimates and recommendations by securities research analysts.
- Fluctuations in capital markets including foreign exchange rates, interest rates and equity markets.
- The performance of other companies in the insurance sector.
- Regulatory developments in the Netherlands, the United States, Canada, United Kingdom and other countries in which Aegon operates.
- International political and economic conditions, including the effects of terrorist attacks, military operations and other developments stemming from such events and the uncertainty related to these developments.
- News or analyst reports related to markets or industries in which Aegon operates.
- General insurance market conditions.

The high and low prices of Aegon s common shares on NYSE Euronext Amsterdam were EUR 5.68 and EUR 2.68 respectively in 2011

and EUR 4.89 and EUR 3.05 respectively in 2012. The high and low sales prices of Aegon s common shares on the NYSE New York were USD 8.03 and USD 3.62 respectively in 2011 and USD 6.47 and USD 3.92 respectively in 2012. All share prices are closing prices.

Aegon and Aegon s significant shareholders may offer additional common shares in the future, and these and other sales may adversely affect the market price of the outstanding common shares.

Aegon may decide to offer additional common shares in the future, for example, to strengthen Aegon s capital position in response to regulatory changes or to effect an acquisition.

In February 2013, Aegon and Vereniging Aegon reached an agreement to exchange, subject to approval by the Annual General Meeting of Shareholders on May 15, 2013, all of Aegon s preferred shares for cash and common shares. As a result of the transaction, the number of common shares outstanding would increase by approximately 7%. However, the dilutive effect on earnings per share is limited to 3% as there will be no preferred dividend payments following the transaction. See also the section Major Shareholders for a description of the agreement reached.

In connection with its refinancing in September 2002, Vereniging Aegon entered into an equity repurchase facility and a back-up credit facility. On February 9, 2010, both facilities were replaced by a three year term and revolving facilities agreement with a consortium of banks. In the context of its agreement with Aegon, on February 9, 2013 Vereniging Aegon extended this agreement until December 31, 2013. At the same time, Vereniging Aegon entered into a new three year term and revolving facilities agreement with the same consortium of banks. This agreement will only become effective and replace the extended agreement if on May 15th, 2013 the annual General Meeting of Shareholders approves the agreement between Aegon and Vereniging Aegon. Under both respective agreements, Aegon s common shares in the possession of Vereniging Aegon are pledged to the consortium of banks. If Vereniging Aegon were to default under the facilities agreement in force at that time, the lenders may dispose of Aegon s common shares held by them as collateral in order to satisfy amounts outstanding.

An additional offering of common shares by Aegon, the restructuring of Aegon s share capital (see also the section Major Shareholders for a description of the agreement reached between Aegon and Vereniging Aegon in February 2013, the sales of common shares by significant shareholders or by lenders to Vereniging Aegon, or the public perception that an offering or such sales may occur, could have an adverse effect on the market price of Aegon s common shares. As of December 31, 2012, Aegon s total authorized share capital consisted of 3,000,000,000 common shares, par value EUR 0.12 per share, and 1,000,000,000 preferred shares (divided into

500,000,000 class A and 500,000,000 class B preferred shares), par value EUR 0.25 per share. All of Aegon s outstanding common shares are freely tradable, and all shareholders, including large shareholders such as Vereniging Aegon, are free to resell their shares at any time.

Vereniging Aegon, Aegon s major shareholder, holds a large percentage of the voting shares and therefore has significant influence over Aegon s corporate actions.

Prior to September 2002, Vereniging Aegon beneficially owned approximately 52% of the voting shares and thus held voting control over Aegon. In September 2002, Vereniging Aegon reduced its beneficial ownership to approximately 33% of the voting shares (excluding issued common shares held in treasury by Aegon). Pursuant to the Amended 1983 Merger Agreement between Aegon and Vereniging Aegon, in case of an issuance of shares by Aegon, Vereniging Aegon may purchase as many class B preferred shares as would enable it to prevent or offset a dilution to below its actual percentage of the voting shares, unless Vereniging Aegon as a result of exercising these option rights would increase its voting power to more than 33%. The option granted to Vereniging Aegon permits it to purchase class B preferred shares up to a maximum of the non-issued part of the class B preferred shares included from time to time in Aegon s authorized capital if necessary to prevent or offset such dilution.

The class B preferred shares would then be issued at par value (EUR 0.25), unless a higher price is agreed. In the years 2003 through 2009, a total of 69,030,000 class B preferred shares were issued under these option rights. On March 15, 2011, Vereniging Aegon exercised its option rights to purchase 41,042,000 class B preferred shares at par value to offset dilution caused by the equity issuance completed on March 1, 2011. In 2012, Vereniging Aegon exercised its option rights to purchase 8,021,000 class B preferred shares at par value to offset the dilution caused by the distribution of an (interim) dividend in the form of stock in June and September 2012.

In 2003, Aegon implemented certain changes to its corporate governance structure and the relationship with Vereniging Aegon pursuant to which Vereniging Aegon has voluntarily waived its right to cast 25/12 votes per class A or class B preferred share. Consequently, under normal circumstances, Vereniging Aegon s voting power, based on the December 31, 2012, numbers of outstanding and voting shares, is reduced to approximately 22.06% of the votes exercisable in the General Meeting of Shareholders. However, this reduction in voting percentage is not applicable in all circumstances. In certain limited circumstances

at the sole discretion of Vereniging Aegon (such as the acquisition of 15% of the voting shares, a tender offer for shares or a proposed business combination, each by any person or group of persons, whether individually or acting as a group, other than in a transaction approved by the Executive Board and Supervisory Board), Vereniging Aegon s voting rights for a limited period of six months will increase to a percentage that at December 31, 2012, amounted to 32.64%. Consequently, Vereniging Aegon may have substantial influence on the outcome of corporate actions requiring shareholder approval, including:

- Adopting amendments to the Articles of Association.
- Adopting the annual accounts.
- Approving a consolidation or liquidation.
- Approving a tender offer, merger, sale of all or substantially all of the assets or other business combination.
- In particular, during the periods when Vereniging Aegon is entitled to exercise its increased voting rights, it will generally have sufficient voting power to veto certain decisions presented to the General Meeting of Shareholders, including any proposal relating to the following matters:
  - Rejecting binding Supervisory Board nominations for membership to the Supervisory Board and Executive Board.
  - Appointing an Executive Board or Supervisory Board member other than pursuant to Supervisory Board nomination.
  - Suspending or removing an Executive Board or Supervisory Board member other than pursuant to a Supervisory Board proposal.

In February 2013, Aegon and Vereniging Aegon reached an agreement to exchange, subject to approval by the annual General Meeting of Shareholders on May 15, 2013, all of Aegon s preferred shares for cash and common shares (see also the section Major Shareholders for a description of the agreement reached).

Currency fluctuations may adversely affect the trading prices of Aegon s common shares and the value of any cash distributions made.

Because Aegon s common shares listed on NYSE Euronext Amsterdam are quoted in euros and Aegon s common shares listed on NYSE Euronext New York are quoted in US dollars, fluctuations in exchange rates between the euro and the US dollar may affect the value of Aegon s common shares. In addition, Aegon declares cash dividends in euros, but pays cash dividends, if any, on Aegon s shares of New York registry in US dollars based on an exchange rate set the business day following the shareholder meeting approving the dividend. As a result, fluctuations in exchange rates may affect the US dollar value of any cash dividends paid.

Convertible securities (or other securities that permit or require Aegon to satisfy Aegon s obligations by issuing common shares) that Aegon may issue could influence the market price for Aegon s common shares.

Any market that develops for convertible securities or other securities that permit or require Aegon to satisfy obligations by issuing common shares that Aegon has issued or may issue in the future would be likely to influence, and be influenced by, the market for Aegon s common shares.

For example, the price of Aegon s common shares could become more volatile and could be depressed by investors anticipation

of the potential resale in the market of substantial amounts of Aegon s common shares received at maturity. Aegon s common shares could also be depressed by the acceleration of any convertible securities (or other such securities) that Aegon has issued by investors who view such convertible securities (or other such securities) as a more attractive means of participation in Aegon s equity. Negative results could also be produced by hedging or arbitrage trading activity that may develop involving such convertible securities (or other such securities) and Aegon s common shares. Any such developments could negatively affect the value of Aegon s common shares.

Capital and liquidity management

Liquidity and capital resources

In line with its risk tolerance, the goal of Aegon s capital and liquidity management is to secure a stable and strong capital adequacy level for its businesses on various capital metrics, ensuring the company is able to meet its obligations.

Risk tolerance is an important element in Aegon s Enterprise Risk Management Framework, and focuses on financial strength, continuity, steering of the risk preferences and desired risk culture. The core aim is to establish the organization s tolerance for risk in order to assist management in carrying out Aegon s strategy within the Group s available resources.

Guiding principles

Aegon has a number of guiding principles, which determine its approach to capital and liquidity management:

- Ensure Aegon s businesses and operating units have strong capital adequacy.
- Manage and allocate capital efficiently to maximize returns and support the strategy.
- Maintain an efficient capital structure with an emphasis on optimizing Aegon s cost of capital.
- Ensure sufficient liquidity by enforcing strong liquidity risk policies for both business units and the Holding.
- Ensure Aegon s continued access to international money and capital markets on competitive terms.

Taken together, Aegon believes these guiding principles strengthen the company s ability to withstand adverse market conditions, enhance its financial flexibility and serve the long-term interests of both the company and its stakeholders.

Governance

Aegon s Corporate Treasury department manages and coordinates capital and liquidity management strategies and processes. The department acts under direction of the Group Risk & Capital Committee.

Capital management

Strategic importance

In recent years, Aegon has released a significant amount of capital from its existing businesses through a combination of risk reduction, greater capital efficiency and a more active capital management strategy. Given current economic and market uncertainty, Aegon intends to retain prudent capital and liquidity buffers in its operating units and the Holding for the foreseeable future.

Aegon s approach to capital management plays a vital role in the company s broader strategy, which is based in part on ensuring more capital is directed toward those markets that offer stronger growth prospects and higher returns. This includes markets in Latin America, Asia, Spain and Central & Eastern Europe, as well as specific, high-growth segments in the company s more established markets of the United States, the Netherlands and the United Kingdom.

Improving risk profile

Aegon has continued to take measures to improve its risk-return profile by reducing its exposure to world financial markets, resulting in lower overall capital requirements. These measures include, for instance, the continued run-off of Aegon s spread-based institutional business in the United States and hedging the interest rate and equity risk from guarantees in the Netherlands.

Capital requirements and leverage

Aegon s goal is to ensure that all units maintain a strong financial position, now and into the future, and are able to sustain losses from adverse business and market conditions. The company s overall capital management strategy depends on the following factors:

- Capital adequacy
- Capital quality

- Capital leverage

Capital adequacy

Capital adequacy is managed at the company, country and operating unit level, as well as at the level of individual legal entities within the organization. As a matter of policy, Aegon maintains operating companies capital adequacy at whichever is higher of the following:

- Regulatory requirements.
- Rating agency AA capital adequacy for rated entities.
- Any additional, self-imposed internal requirements.

Aegon s Insurance Group Directive ratio - a common measure of capital adequacy in the European Union - was 228% at December 31, 2012, up from 195% at the end of 2011, driven mainly by the company s positive operating performance.

Capital quality

Aegon s total capital base, excluding revaluation reserves, consists of the following components:

- Core capital, which comprises shareholders equity (excluding the revaluation reserve).
- Hybrid capital securities (including currency revaluations).
- Dated subordinated and net senior debt.

Capital leverage

Aegon places limits on the amount of non-core capital in its total capital base, excluding revaluation reserves. Currently, the company s aim is to ensure that core capital comprises at least 70% of the capital base, excluding revaluation reserves, and that perpetual capital securities and dated subordinated and senior debt account for no more than 25% and 5% respectively.

At the end of 2012, Aegon s total capital base, excluding revaluation reserves, consisted of 76.7% core capital and 20.3% hybrid capital securities. Dated subordinated and senior debt accounted for the remaining 3%. Aegon achieved its year-end 2012 goal to improve the quality of its capital base, excluding revaluation reserves, by increasing the proportion of core capital to at least 75%.

At December 31, 2012, core capital amounted to EUR 18.5 billion (December 31, 2011: EUR 17.5 billion) and the total capital base, excluding revaluation reserves, amounted to EUR 24.2 billion (December 31, 2011: EUR 23.8 billion).

Debt funding and back-up facilities

Most of Aegon s debt is issued by Aegon N.V., the parent company. A limited number of other Aegon companies have also issued debt securities, but for the most part these securities are guaranteed by Aegon N.V.

Aegon N.V. has regular access to international capital markets under a USD 6 billion debt issuance program. Access to United States markets is made possible by a separate US shelf registration.

Aegon also has access to domestic and international money markets through its USD 4.5 billion commercial paper programs. At December 31, 2012, Aegon had EUR 413 million outstanding under these programs.

Aegon maintains backup credit facilities with international lenders to support outstanding amounts under these commercial paper programs. The company s principal arrangement is a EUR 2 billion syndicated revolving credit facility maturing in 2017. There are additional backup facilities of USD 2 billion, of which USD 1.5 billion matures in 2015 and USD 0.5 billion matures in 2017. In addition, Aegon also maintains USD 425 million of shorter-dated bilateral backup facilities. Aegon N.V. has not drawn any amounts under any of its liquidity backup facilities.

Operational leverage

Although operational leverage is not considered part of Aegon s capital base, it is an important source of liquidity and funding. Operational debt relates primarily to financing Aegon s mortgage portfolios through securitizations and warehouse facilities, and the funding of US Regulation XXX and Guideline AXXX redundant reserves.

Liquidity management

Strategic importance

Liquidity management is a fundamental building block of Aegon s overall financial planning and capital allocation processes. Aegon s aim is to ensure that liquidity is sufficient to meet cash demands even under extreme conditions. The amount of liquidity held is determined by the company s liquidity risk policy, which ensures that Aegon and its operating companies maintain a prudent liquidity profile.

Sources and uses of liquidity

Aegon s subsidiaries are primarily engaged in the life insurance business, which is a long-term business with relatively illiquid liabilities and generally matching assets. Liquidity consists of both liquid assets held in investment portfolios, as well as inflows generated by premium payments and customer deposits. These are used primarily to purchase investments, as well as to fund benefit payments to policyholders, policy surrenders, operating expenses, and, if the subsidiary s capital position so allows, to pay dividends to Aegon N.V. At Aegon N.V., liquidity is sourced from internal dividends from operating companies and by accessing capital and money markets. Liquidity is coordinated centrally and managed both at Aegon N.V. and at country unit levels.

Aegon maintains a liquidity policy that requires all operating units to project their sources and uses of liquidity over a two year period under normal and severe business and market scenarios. This policy ensures that liquidity is measured and managed consistently across the company and the liquidity stress management plans are in place.

Aegon s liquidity position

At December 31, 2012, Aegon N.V. held, at group level, a balance of EUR 2.2 billion in excess cash compared with EUR 1.5 billion as at the end of 2011.

Aegon s excess liquidity is invested in highly liquid, short-term assets in accordance with the company s internal risk management policies. Aegon believes its working capital, backed by its external funding programs and facilities, is ample for the company s present requirements.

External dividends

Aegon aims to pay out a sustainable dividend to allow equity investors to share in Aegon s performance, which can grow over time if Aegon s performance so allows. After investment in new business to generate organic growth, capital generation in Aegon s operating subsidiaries is available for distribution to the holding company, while maintaining a capital and liquidity position in the operating subsidiaries in line with Aegon s capital management and liquidity risk policies.

Aegon uses cash flows from its operating subsidiaries to pay holding expenses, including funding costs. The remaining cash flow is available to execute Aegon s strategy and to fund dividends on its shares. When determining whether to declare or propose a dividend, Aegon s Executive Board balances prudence with offering an attractive return to shareholders. This is particularly important during adverse economic and/or financial market conditions. Also, Aegon s operating subsidiaries are subject to local insurance regulations which could restrict dividends to be paid to the holding company. There is no requirement or assurance that Aegon will declare and pay any dividends.

A final dividend to common shareholders for 2011 of EUR 0.10 per common share was announced on May 16, 2012, with an interim dividend for 2012 of EUR 0.10 subsequently announced on August 9, 2012. At the annual General Meeting

of Shareholders on May 15, 2013, the Supervisory Board will, absent unforeseen circumstances, propose a final dividend for 2012 of EUR 0.11 per common share related to the second half of 2012 (at shareholder s option in cash or in stock).

Ratings

Throughout the recent financial crisis, Aegon s aim has been to maintain excess capital over and above the amount required to maintain an AA financial strength rating. This remains the company s objective, and plays an important role in determining the overall capital management strategy. Aegon maintained strong financial strength ratings from leading international rating agencies for its operating subsidiaries and a strong credit rating for the Holding.

Agency			Aegon	
December 31, 2012	Aegon N.V.	Aegon USA	the Netherlands	Aegon UK
Standard & Poor s	A-	AA-	AA-	A+
Moody s Investor Service	A3	A1	-	-
Fitch Ratings	A	AA-	-	-

In control statement

Internal risk management and control systems

The Executive Board is responsible for designing, implementing and maintaining internal controls, including proper accounting records and other management information suitable for running the business.

Aegon s internal audit function assists the Executive Board in maintaining effective controls by independently and objectively evaluating the adequacy and effectiveness of the organization s internal control and risk management systems. Criteria established under Internal Control - Integrated Framework , the Treadway Commission s Committee of Sponsoring Organizations (COSO), are used by Aegon s Internal Audit to analyze and make recommendations to the Executive Board concerning the effectiveness of internal controls over Aegon s financial reporting process and the company s internal control framework. Based on risk assessments performed, the Executive Board, under the supervision of the Supervisory Board and its Audit Committee, is responsible for determining the overall internal audit work and for monitoring the integrity of the financial statements of Aegon N.V.

In addition, the Executive Board is responsible for Aegon s enterprise risk management framework under supervision of the Supervisory Board and its Risk Committee. Aegon s risk management function monitors and controls Aegon s solvency position and ensures that risk taking is within Aegon s risk tolerance levels. The Executive Board is informed of any risks that threaten the economic/statutory solvency, reputation of the company, reliability of financial reporting, or operations of the company.

The risk management function develops and monitors compliance with risk policies and risk frameworks. This also involves the facilitation of risk identification (especially for operational and emerging risks) and reviewing risk assessments performed by the businesses. The risk management function is responsible for identifying risk management best practices and working with management to ensure that Aegon adheres to these practices.

Finally, the compliance function plays a key role in monitoring the company s adherence to external rules and regulations and internal policies. On the basis of the above, Aegon s Executive

Board makes the following statement regarding the company s financial reporting risks:

¿ Aegon s risk management and control systems provide reasonable assurance that the company s financial reporting does not contain any material inaccuracies.
¿ Aegon s risk management and control systems functioned properly in 2012.
¿ There are no indications to suggest that Aegon s risk management and control systems will not continue to function properly in 2013.

The risk management and control systems provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of Aegon s published financial statements. However, they cannot provide absolute assurance that a misstatement of Aegon s financial statements would be prevented or detected.

Responsibilities in respect of the financial statements and the Annual Report

The Executive Board is responsible for preparing the financial statements and the Annual Report in accordance with Dutch law and International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

As required by section 5:25c of the Dutch Financial Supervision Act (Wet op het Financieel Toezicht), the Executive Board confirms that, to the best of its knowledge, the financial statements prepared in accordance with applicable accounting standards give a true and fair view of the assets, liabilities, financial condition and profit or loss of the company and the undertakings included in the consolidation as a whole and that the Report of the Executive Board includes a fair view of the development and performance of the business during the financial year and the position at balance sheet date of the company and the undertakings included in the consolidation as a whole, together with a description of the principal risks and uncertainties the company faces.

The Hague, March 20, 2013

The Executive Board of Aegon N.V.

Governance

Report of the Supervisory Board

The Supervisory Board is entrusted with the task of supervising and advising the Executive Board on its management of the company, as well as overseeing Aegon s strategy and the general course of its businesses.

Oversight and advice

In performing their duties, the members of the Supervisory Board are guided by the interests of Aegon and the company s stakeholders. The Supervisory Board is a separate corporate body, independent of the Executive Board. The Supervisory Board currently consists of nine members (for further details on the individual members of Aegon s Supervisory Board, please see pages 111 and 112). The Supervisory Board makes recommendations to the General Meeting of Shareholders concerning all appointments and reappointments to, and dismissals from, both the Executive Board and the Supervisory Board itself. In addition, the Supervisory Board determines the remuneration of individual members of the Executive Board in line with the Remuneration Policy as adopted at the company s General Meeting of Shareholders.

Corporate governance

Details of Aegon s corporate governance structure and a summary of the company s compliance with the Dutch Corporate Governance Code are to be found on pages 120 to 124 of this Annual Report and in the Corporate Governance Statement as published on aegon.com.

Supervisory Board meetings

Attendance

In 2012, the Supervisory Board held a total of seven regular (face to face) meetings and several additional conference call meetings.

Eight out of nine members attended all regular Board meetings. One member did not attend one meeting, due to the rescheduling of that particular meeting, which lead to a conflict with another meeting he had to attend. All Board meetings were immediately preceded or followed by Executive Meetings. These are meetings of the Supervisory Board which are not attended by members of the Executive or Management Boards.

In accordance with Aegon s Supervisory Board Rules, all regular meetings in 2012 were preceded by preparatory meetings, held prior to the Board meetings, attended by the Chairman and the Vice-Chairman of the Supervisory Board and the Chairman of the Audit Committee, as well as by the Chief Executive Officer and Chief Financial Officer from the company s Executive Board.

Meetings of the Committees of the Supervisory Board were usually held before the meetings of the full Supervisory Board. No Supervisory Board members were frequently absent from Committee meetings. Members of Aegon s Executive and Management Boards attended the Supervisory Board meetings held in 2012. Other company executives also attended the meetings at the request of the Supervisory Board to update it on various subjects. Representatives from Ernst & Young, Aegon s external auditors, attended the discussions on the company s 2011 results.

Activities

In 2012, discussions within Aegon s Supervisory Board focused on the following issues, among others:

¿ Strategy, including sustainability.
¿ Annual and quarterly results and the Embedded Value Report 2011.
¿ Talent management and succession planning.

- Legal and compliance issues.
- Aegon Group Plan 2013-2015, including the 2013 Budget.
- Risk management.
- Capital position and Solvency II.
- Executive remuneration.
- Acquisitions, divestments and restructuring of businesses.
- Governance and composition of the Supervisory Board and Executive Board.
- Cancellation of the preferred shares.

In the following paragraphs further detail is provided on the discussions of the Supervisory Board on some of these topics.

Highlights

2011 was marked by the repurchase of the capital support Aegon received from the Dutch State in 2008, therefore during 2012 Aegon could again fully focus on preparing its businesses for a changing environment in terms of continuing market volatility, increasing longevity trends, changing customer behaviors and regulatory and technological developments. In two strategy sessions, and as part of other meetings, the Supervisory Board and Executive and Management Boards discussed the impact of these factors on Aegon and how Aegon could best respond. As an example, the Supervisory Board discussed with management the consequences of the ban on commissions in the United Kingdom and the development of a new online at-retirement and workplace savings platform. 2012 also saw the launch of Knab, an online retail wealth advisory platform in the Netherlands.

The Board also discussed proposals for transactions that would accelerate the growth of the business or allow expansion in new markets. As an example the Board approved the joint venture with Banco Santander in Spain and the acquisition of Fidem Life in Ukraine.

At the same time Aegon continued to restructure its businesses to ensure that the company remains competitive in the new environment. The Board was kept apprised on a regular basis of the progress of these restructurings.

The Supervisory Board and its Risk Committee received regular updates on the eurocrisis and Aegon s preparedness to withstand its consequences. As in 2011 and previous years, the Board and management focused on maintaining a strong capital position, which was evidenced by EUR 2.0 billion excess capital at December 31, 2012.

At meetings in November and December, the Board and the Audit Committee discussed the proposed cancellation of the preferred shares owned by Vereniging Aegon, which was announced on February 15, 2013, and will be submitted to shareholders for approval at the annual General Meeting of Shareholders on May 15, 2013.

Strategy sessions

During a one day session in March and two days in June the Board and management had extensive discussions on Aegon s strategy in view of the changing environment in which Aegon operates and the impact these changes have on the business in the medium-term. The Board agreed with management on the strategic direction which has been developed by management on the basis of the core themes formulated in 2011: employing technology to get much closer to Aegon s end customers, pursuing growth in new markets, providing products and services across the customer s life cycle, developing new distribution models and rebalancing risk. The Board appreciates the commitment of management to ensuring that all employees understand the strategic direction of the company and most importantly, their role in bringing about the strategic transformation that this work intends. This was the result of a broad engagement program whereby management discussed the strategy and its local implications at various levels of the organization. During the strategy sessions, the Board received updates and discussed the initiatives necessary to execute the strategy, such as the use of new technologies in Aegon s distribution channels. Gaining trust from its customers by capitalizing on developments in digital technology, which will enable Aegon to get closer to its customers, is a key element of the strategy. The Board also expressed its support for the integration of sustainability into the strategy, making clear that

it should not be viewed in isolation, but as a fundamental part of the strategy and in the management of day-to-day business.

In the December meeting, the Board discussed further Aegon s approach to sustainability and its objectives: trusted products and services, a responsible approach to investing and building better communities. The Board also discussed the views of the members of the Board on materiality - which issues, risks and opportunities are most important for Aegon s stakeholders and for Aegon as a whole. The outcome was that there is a broad agreement between the views of the Board and external stakeholders. A full description of Aegon s vision on sustainability and the progress on objectives is included in Aegon s 2012 Review, which is published separately.

During the June meeting the Board also paid a visit to Knab. The Board discussed the business model of this innovative banking concept with the leadership team and it was given a live demonstration of its services and features. Also in June, the Supervisory Board discussed with management the preparation for the Analyst & Investor conference later that month.

Results and budget

On February 16, 2012, the Supervisory Board convened to discuss the results of the fourth quarter of 2011. In March 2012, the Supervisory Board reviewed and adopted Aegon s 2011 Annual Report, the consolidated financial statements of Aegon N.V. and the financial statements of Aegon N.V. In May, August and November, the Supervisory Board reviewed Aegon s first, second and third quarter 2012 results, as well as disclosures on value of new business and embedded value.

In December, the Board and management extensively discussed the Group Plan 2013-2015 (including the budget for 2013). The Board noted with satisfaction that Aegon completed the implementation of the financial transformation and could now fully address the strategic transformation by focusing on the application of digital technology, growing the accumulation and At- and after-retirement segments in established markets and the protection and accumulation segments in developing markets. The Board supported the Group Plan and approved the budget for 2013. The Board also approved the 2013 Capital Plan and authorized the Executive Board to provide for Aegon s funding needs as budgeted.

Talent management and other Human Resources topics

In the Board s December meeting, Aegon s Global Head of Human Resources provided an update on the main developments during 2012: the roll-out of the strategy story to all employees worldwide, actions in the field of talent management and succession planning, performance management and the follow up on the Global Employee Survey in 2011.

Legal and compliance

During 2012, the Supervisory Board and the Audit Committee discussed with management, the General Counsel and the Group Compliance Officer various issues of compliance, regulatory and legal issues in Europe, the United States and Asia, among which was the issue of unit-linked policies sold in the Netherlands.

During the year under review, the Chairman of the Board and the Chairs of the Audit Committee and Risk Committee met twice with officials of Aegon s lead regulator, De Nederlandsche Bank N.V. (DNB) to discuss key developments.

As with all large financial institutions in the Netherlands, Aegon s Supervisory Board was subject to a fit and proper test carried out by DNB and AFM in 2012. The outcome of this assessment was shared with Aegon at the end of 2012.

Appointments to the Supervisory Board and the Executive Board

In March, the Supervisory Board decided that shareholders would be asked to approve the reappointments of Mr. Irving W. Bailey, II, Mr. Robert J. Routs, Mr. Ben van der Veer and Mr. Dirk P.M. Verbeek for a term of four years as members of the Supervisory Board. This proposal was accepted by shareholders at their annual General Meeting in May 2012. In November, the Board decided to propose to shareholders the appointment of Mr. Darryl D. Button as CFO for a term of four years as from May 15, 2013, following the retirement of Mr. Jan Nooitgedagt.

Educational sessions and Board review

As part of the Board s continuous professional development two sessions, from both internal and external presenters, provided the members with updates on the following subjects: regulatory and legal developments, Solvency II, IFRS, and capital and risk. The members of the Audit Committee were briefed on specific US regulatory topics during their offsite meeting in Baltimore, where they met with senior management of Aegon Americas and its three business units.

In line with previous years, the Supervisory Board again carried out an extensive Board evaluation. This year the evaluation was facilitated by an external consultant on the basis of written questionnaires and interviews. The review assessed the collective performance of the Board and its Committees and the performance of the Chairman. The consultant presented the results during a meeting of the Supervisory Board in the absence of management. The overall feedback from the self-evaluation found that the Board is operating well and has acted on outcomes of previous evaluations. The Board agreed on the recommendations to be followed up in 2013. The Board established that all of its members are committed to allocating sufficient time and attention to the requirements of Aegon and its businesses.

The performance of members of the Executive Board was discussed at Executive Meetings during the year.

No transactions with a (potential) conflict of interest were reported by the members of the Board in 2012.

Supervisory Board Committees

The Supervisory Board requires its four Committees to prepare specific issues for decision-making by the Board. Each of these Committees is made up of members exclusively drawn from the Supervisory Board itself. In accordance with its charter, each committee reports its findings to the Supervisory Board during a subsequent Supervisory Board meeting. The four Committees are:

¿ the Audit Committee;
¿ the Risk Committee;
¿ the Nominating Committee; and
¿ the Compensation Committee.

Audit Committee: Shemaya Levy, Chair.

Members: Antony Burgmans, Ben van der Veer and Dirk P.M. Verbeek.

Risk Committee: Irving W. Bailey, II, Chair.

Members: Kornelis J. Storm, Ben van der Veer and Dirk P.M. Verbeek.

Nominating Committee: Robert J. Routs, Chair.

Members: Shemaya Levy, Karla M.H. Peijs, Kornelis J. Storm and Leo M. van Wijk.

Compensation Committee: Leo M. van Wijk, Chair.

Members: Irving W. Bailey II, Karla M.H. Peijs and Robert J. Routs.

The Audit Committee

The Audit Committee held seven meetings in 2012, one of which was a combined meeting with the Supervisory Board s Risk Committee. One of the meetings was held in Baltimore at the offices of Aegon Americas and dedicated to the three business lines of the US business: Life & Protection, Individual Savings & Retirement and Employer Solutions and Pensions.

The Audit Committee meetings were attended by Aegon s Chief Financial Officer, the head of the Corporate Financial Center, the Chief Risk Officer and the Internal Auditor. Representatives from Ernst & Young, Aegon s external auditor, also attended these meetings. Officials from Aegon s Group Risk, Group Legal and the Actuarial departments were present at selected meetings of the Audit Committee. In 2012, discussions focused on the following topics: the quarterly results, the annual accounts and the audit process, Aegon s 2011 Embedded Value Report and annual value of new business figures, actuarial analyses, accounting principles as defined by IFRS, financial reports filed with the Securities and Exchange Commission, capital updates, internal control systems and compliance, the external auditor s engagement letter and the audit plan for 2012, tax matters and information technology issues. The latter two topics were discussed in the combined Risk

& Audit Committee meeting. During the year, managers from various business units provided updates on specific topics.

Management and the Audit Committee discussed Ernst & Young s performance, quality, cost levels and independence. This assessment resulted in a recommendation by the Audit Committee to the Supervisory Board that shareholders be asked to reappoint Ernst & Young for the 2012 financial year. At the advice of the Audit Committee, the Supervisory Board decided to put the audit of Aegon s accounts to tender for 2014 and following. This was communicated to the shareholders at the annual General Meeting of Shareholders on May 16, 2012. In February 2013, it was announced that the Board will propose to shareholders to appoint Ernst & Young and as the company s independent auditor for the annual accounts 2013 PwC as the company s independent auditor for the annual accounts 2014 through 2016, at the annual General Meeting of Shareholders on May 15, 2013.

The internal auditor attended the meetings of the Audit Committee during 2012 and provided quarterly updates on the activities of the internal audit function, among others providing details on the progress of internal audits. During the meetings, the Audit Committee held private sessions with the internal auditor, as well as with the external auditor, to discuss their findings. Members of the Executive Board were not present at these sessions.

The Audit Committee also discussed Aegon s compliance with the Sarbanes Oxley Act of the United States, regular reports from the Group Compliance Officer on fraud and general compliance issues and the quarterly legal updates. The Committee confirmed that Mr. Shemaya Levy and Mr. Ben van der Veer qualify as financial experts within the terms and conditions of both the Dutch Corporate Governance Code and the Sarbanes Oxley Act in the United States.

The Risk Committee

The Risk Committee convened five times in 2012. The members of Aegon s Executive Board and the company s Chief Risk Officer attended these meetings, while representatives of Aegon Asset Management attended the meetings on certain occasions to provide insight into the developments of Aegon s general account. The Risk Committee assists the Supervisory Board and Audit Committee in overseeing the activities of Aegon s Enterprise Risk Management (ERM) framework. The Committee also advised the Supervisory Board with respect to the company s risk management strategy and policies. Consequently, the Committee regularly reviews the company s ERM framework, its risk exposure and compliance with company risk policies.

Recurring items on the agenda in 2012 were the quarterly risk dashboard and the Board risk list. The Risk Committee discussed other topics, such as information security, the eurocrisis management plan and developments in the investment portfolio.

The Committee performed a number of deep dives , for example into interest rate risk, policy behavior, risk structuring and transfer and liquidity risk management.

The Nominating Committee

Aegon s Nominating Committee held four meetings in 2012. The CEO attended some of these meetings.

The Nominating Committee discussed the composition of the Supervisory Board and its Committees, as well as existing and upcoming vacancies. The Committee also advised the Supervisory Board on the nominations for four reappointments to the Supervisory Board in 2012.

Over the course of 2011, the Committee reached the opinion that the composition of the Board could be better balanced in terms of gender and geographic diversity. The Committee set out to find a suitable candidate to join the Board and during 2012 the members of the Committee reviewed and interviewed a number of candidates. It is expected that the Board will propose to shareholders that they appoint a new member for a term of four years as from the date of the annual General Meeting of Shareholders in 2013.

The Committee reviewed the composition and functioning of the Executive Board and discussed succession planning with the CEO and Aegon s Global Head of Human Resources. The CEO also discussed with the Nominating Committee changes in global senior management and the Committee decided to positively advise the full Board with regard to the proposal to appoint Mr. Darryl D. Button to the Executive Board. The Committee discussed the diversity of the Executive Board. Aegon s Executive Board consists of two members. Selection and appointment of members of the Executive Board is based on skills and experience necessary for the position. With these considerations in mind the Supervisory Board will have regard the gender diversity in view of the requirement to aim for a balanced composition of the Executive Board.

The Committee also supported the appointment of Mr. Adrian Grace, CEO of Aegon UK, and Mr. Tom Grondin, CRO of Aegon, to the Management Board. In addition, the Committee reviewed and discussed the initiatives taken by management with regard to talent management and international mobility.

The Compensation Committee

The Compensation Committee held seven meetings in 2012, and the CEO attended some of these meetings. The range of topics in scope for the Compensation Committee has increased in recent years as a result of new regulations promulgated by the European Union: the Capital Requirements Directive III (CRD III) and the Guidelines on Remuneration Policies and Practices issued by the Committee of European Banking Supervisors. CRD III is implemented by way of the Decree on Sound Remuneration Policy (Regeling Beheerst Beloningsbeleid Wft 2011-Rbb) as issued by DNB. In 2011, shareholders approved the amended Executive Board Remuneration Policy, which reflected the new regulations.

In 2012, the Compensation Committee oversaw the application and implementation of Aegon s Global Remuneration Framework and the various policies and related procedures. This included, for example, reviewing and/or approving the ex-ante assessments, any exemption requests under the remuneration policies or changes to the list of Identified Staff. In addition, the Committee discussed the results of a review by the Internal Audit Department on the implementation process of the remuneration policies in the US, the Netherlands, the United Kingdom and Aegon Asset Management.

Other topics on the agenda of the Compensation Committee were the 2012 targets for the Executive Board members and the scenario analysis of payout levels under the Executive Board Remuneration Policy.

During the year, the Committee considered advice from independent external consultants on specific topics and ascertained that these consultants did not also advise the members of the Executive Board.

During meetings throughout the year, the Committee was kept updated on developments regarding executive remuneration, exchanges of views with DNB and regulatory and legislative matters.

Composition of the Supervisory Board and Executive Board

Supervisory Board

All members of the Supervisory Board are considered independent under the terms of the Dutch Corporate Governance Code, with the exception of Mr. Kornelis J. Storm.

Mr. Storm is not regarded as independent within the definition of the Code as he served as Chairman of Aegon s Executive Board prior to his retirement in April 2002. Mr. Storm joined the Supervisory Board in July 2002. In April 2010, shareholders reappointed Mr. Storm for a term of four years.

In 2012, the terms of Mr. Robert J. Routs, Mr. Irving W. Bailey II, Mr. Dirk P.M. Verbeek and Mr. Ben van der Veer expired. They were reappointed for terms of four years each by the shareholders on May 16, 2012.

The current term of Mr. Shemaya Levy will expire in 2013. On advice from the Nominating Committee, the Supervisory Board has decided to nominate Mr. Levy for reappointment as member of the Board for a further term of four years by the shareholders at the General Meeting of Shareholders.

Executive Board

There were no changes in the composition of Aegon s Executive Board in 2012. In compliance with the Dutch Corporate Governance Code, members of the Executive Board are appointed by shareholders for a term of four years, with the possibility of reappointment for subsequent four-year terms. In 2013, no member comes up for reappointment. The appointment schedule for members of the Executive Board is included in the company s Executive Board Rules and posted on Aegon s corporate website, aegon.com.

Annual accounts

This Annual Report includes the annual accounts for 2012, prepared by the Executive Board, discussed by both the Audit Committee and the Supervisory Board, and submitted to shareholders for adoption. The Supervisory Board recommends that shareholders adopt these annual accounts.

Acknowledgement

Throughout 2012, Aegon continued to build upon the progress achieved in recent years to create a more efficient, coordinated and responsive organization. A broad range of actions were implemented in the course of the year reflecting Aegon s commitment to delivering on its strategic priorities of creating greater operational efficiencies and pursuing its essential objective of getting closer to customers in order to serve their diverse and developing needs. The members of the Supervisory Board wish to thank the Executive and Management Boards for their continued contributions to further enhancing Aegon s financial position, while making the business investments necessary to the company s increased prospects for growth and market competitiveness. Additionally, Board members recognize and express their gratitude to Aegon s employees around the world for their dedication to serving their customers with integrity, transparency and with the aim of fully understanding and serving their long-term financial security needs. The Supervisory Board has full confidence in management and employees and in their ability to establish a leadership position in each of Aegon s chosen markets, ensuring that it becomes the most recommended provider of quality life insurance, pension, and asset management products and services.

The Board is also grateful to Aegon s business partners and many valued customers for their continued confidence in the company.

The Hague, March 20, 2013

Robert J. Routs

Chairman of the Supervisory Board of Aegon N.V.

Members of the Supervisory Board

Robert J. Routs (1946, Dutch)

Chairman of the Supervisory Board

Chairman of the Nominating Committee

Member of the Compensation Committee

Robert J. Routs is a former Executive Director for Downstream at the energy company Royal Dutch Shell. He was appointed to Aegon s Supervisory Board in 2008 and became Chairman in 2010. His current term as a member of the Aegon Supervisory Board ends in 2016. Mr. Routs is also Chairman of the Supervisory Board of Royal DSM N.V. and Vice-Chairman of the Supervisory Board of Royal KPN N.V. He also sits on the Board of Directors at ATCO Ltd., A.P. Møller - Mærsk A/S and AECOM Technology Corporation.

Irving W. Bailey II (1941, American)

Vice-Chairman of the Supervisory Board

Chairman of the Risk Committee

Member of the Compensation Committee

Irving W. Bailey II is retired Chairman and Chief Executive Officer of Providian Corp., a former Managing Director of Chrysalis Ventures, and former Chairman of the Board of Directors of Aegon USA Inc. He was first appointed to Aegon s Supervisory Board in 2004. His current and last term will end in 2016. Mr. Bailey is also a member of the Board of Directors of Computer Sciences Corp. and Hospira, Inc. as well as a senior adviser to Chrysalis Ventures Inc. (not listed).

Antony Burgmans (1947, Dutch)

Member of the Audit Committee

Antony Burgmans is retired Chairman and CEO of Unilever N.V. and Unilever PLC. He was appointed to Aegon s Supervisory Board in 2007. His current term will end in 2015. Mr. Burgmans is also Chairman of the Supervisory Board of TNT Express N.V. and a member of the Supervisory Board of Akzo Nobel N.V. as well as a member of the Board of Directors of BP p.l.c. Furthermore, he is Chairman of the Supervisory Board of Intergamma B.V. (not listed) and a member of the Supervisory Boards of SHV Holdings N.V. (not listed) and Jumbo Supermarkten B.V. (not listed).

Shemaya Levy (1947, French)

Chairman of the Audit Committee

Member of the Nominating Committee

Shemaya Levy is retired Executive Vice President and Chief Financial Officer of the Renault Group. He was appointed to Aegon s Supervisory Board in 2005 and his current term will end in 2013. He is also a member of the Supervisory Board of TNT Express N.V. and the Board of Directors of PKC Group Oyj and Segula Technologies Group S.A. (not listed).

Karla M.H. Peijs (1944, Dutch)

Member of the Compensation Committee

Member of the Nominating Committee

Karla M.H. Peijs was Queen s Commissioner for the Province of Zeeland in the Netherlands until March 1, 2013. Mrs. Peijs was formerly a member of the European Parliament and Minister of Transport, Public Works and Water Management in the Dutch government. She was appointed to Aegon s Supervisory Board in 2007 and her current term will end in 2015. Mrs. Peijs is also a member of the Supervisory Boards of Q-Park N.V. (not listed) and ANWB B.V. (not listed).

Kornelis J. Storm (1942, Dutch)

Member of the Risk Committee

Member of the Nominating Committee

Kees J. Storm is former Chairman of the Executive Board of Aegon N.V. He was appointed to Aegon s Supervisory Board in 2002 and his current and last term will end in 2014. He is also Chairman of the Board of Directors of Anheuser-Busch InBev NV/SA. He is Vice-Chairman & Senior Independent Director of the Board of Directors of Unilever N.V. and Unilever PLC and a member of the Board of Directors of Baxter International Inc. Furthermore, he is Chairman of the Supervisory Board of KLM Royal Dutch Airlines N.V. (not listed) and Vice-Chairman of the Supervisory Board of Pon Holdings B.V. (not listed).

Ben van der Veer (1951, Dutch)

Member of the Audit Committee

Member of the Risk Committee

Ben van der Veer is former Chairman of the Board of Management of KPMG N.V. He was appointed to Aegon s Supervisory Board in 2008 and his current term will end in 2016. He is also a member of the Supervisory Board of TomTom N.V. and Reed Elsevier NV, as well as a non-executive member of the Board of Directors of Reed Elsevier PLC. He is also a member of the Supervisory Boards of Siemens Nederland N.V. (not listed) and Royal FrieslandCampina N.V. (not listed).

Dirk P.M. Verbeek (1950, Dutch)

Member of the Audit Committee

Member of the Risk Committee

Dirk P.M. Verbeek is Vice President Emeritus of Aon Group. Mr. Verbeek was appointed to Aegon s Supervisory Board in 2008. His current term ends in 2016. He is also Chairman of the Supervisory Board of Robeco Groep N.V. (not listed) as well as a member of the Supervisory Board of Aon Groep Nederland B.V. (not listed). He is adviser to the President and Chief Executive Officer of Aon Corporation. Furthermore, he is Chairman of the Benelux Advisory Board of Leonardo & Co. B.V. (not listed), member of the Advisory Boards of CVC Europe (not listed) and OVG Re/developers (not listed), Chairman of the INSEAD Dutch Council and Honorary Counsel of the Kingdom of Belgium.

Leo M. van Wijk (1946, Dutch)

Chairman of the Compensation Committee

Member of the Nominating Committee

Leo M. van Wijk is former President and CEO of KLM Royal Dutch Airlines N.V. He was first appointed to Aegon s Supervisory Board in 2003, and his current and last term will end in 2015. He is also Deputy Chief Executive Officer and Vice-Chairman of the Board of Directors of Air France-KLM S.A. Furthermore, he is Vice-Chairman of the Supervisory Board of Randstad Holding N.V. and Ajax N.V. as well as Chairman of the Governing Board of Skyteam.

Audit Committee	Risk Committee	Nominating Committee	Compensation Committee
Shemaya Levy (Chair)	Irving W. Bailey, II (Chair)	Robert J. Routs (Chair)	Leo M. van Wijk (Chair)
Antony Burgmans	Kornelis J. Storm	Shemaya Levy	Irving W. Bailey II
Ben van der Veer	Ben van der Veer	Karla M.H. Peijs	Karla M.H. Peijs
Dirk P.M. Verbeek	Dirk P.M. Verbeek	Kornelis J. Storm	Robert J. Routs
		Leo M. van Wijk	

Remuneration Policy and Report

The Aegon Group Global Remuneration Principles provide the foundation for remuneration policies and practices throughout the Group. They have been rolled out for regional and/or local application.

The key pillars of Aegon s Remuneration Principles are as follows:

- Aegon remuneration is **employee-oriented** by: fostering a sense of value and appreciation in each individual employee; promoting the shorter- and longer-term interests and well-being of all Aegon staff via adequate compensation, pension and/or other benefits; supporting the career development of its employees; supporting (international) mobility of its staff.
- Aegon remuneration is **performance-related** by: establishing a clear link between pay and performance by aligning adequate objectives and target setting with performance evaluation and remuneration; reflecting individual as well as collective performance in line with the long-term interests of Aegon; enhancing the transparency and simplicity of Aegon Group remuneration, consistent with the principle of pay for performance ; avoiding any pay-for-non-performance .
- Aegon remuneration is **fairness-driven** by: promoting fairness and consistency in Aegon s remuneration policies and practices, with balanced proportions in the remuneration packages, across the different echelons within Aegon Group and regional units (internally equitable); avoiding, among others, any discrimination on nationality, race, gender, religion, sexual orientation, and/or cultural beliefs in Aegon s remuneration structures (internally equitable); creating global alignment in the total compensation of all Identified Staff (internally equitable); aiming at controlled market competitive remuneration, by providing for total compensation packages in comparison with an appropriately established peer group at regional unit, country and/or functional level (externally equitable).
- Aegon remuneration is **risk-prudent** by: aligning business objectives with risk management requirements in the target setting practices throughout Aegon Group; giving an incentive to appropriate risk-taking behavior while discouraging the taking of excessive risks; protecting the risk alignment effects imbedded in the remuneration arrangements of individual staff against any personal strategies or insurance to counter them.

During 2011, Aegon implemented a Global Remuneration Framework (GRF), supporting the above key pillars. This GRF,

which covers all staff of the Aegon Group, contains the guiding principles to support sound and effective remuneration policies and practices by ensuring consistency in remuneration policies and practices throughout the Aegon Group. The GRF is designed in accordance with relevant rules, guidelines and interpretations. Of these, the Capital Requirements Directive III (CRD III) remuneration principles, the 2010 Guidelines on Remuneration Policies and Practices by the Committee of European Banking Supervisors, CEBS - now European Banking Authority (EBA), and the Decree on Sound Remuneration Policy (Regeling beheerst beloningsbeleid WfT 2011 - Rbb) by the Dutch Central Bank (DNB) are prominent examples.

Aegon s Remuneration Policies are derived from the GRF, among which is the Remuneration Policy for the Executive Board. The policies define specific terms and conditions for the employment of various groups of staff. In addition, all steps in the remuneration process - as well as the involvement of Human Resources, Risk, Compliance and Audit - are governed by the Aegon GRF and its underlying policies.

Role of Risk Management and Compliance

It is recognized that variable compensation may have an impact upon risk taking behaviors and as such may undermine effective risk management. This can lead to excessive risk taking, which can materially impact financial soundness. To avoid such unwarranted effect of the Aegon Remuneration Framework and practices, both the Risk Management and Compliance function are involved in the design and execution of the remuneration policies and practices.

As part of the GRF, separate remuneration policies have been made for three groups of employees, addressing that the roles and responsibilities of these employees require specific risk mitigating measures and governance processes. There are remuneration policies for (i) the Executive Board; (ii) material risk takers (Identified Staff[1]); and (iii) Control Staff[2]. Given the rationale for having a separate policy for material risk takers and the risk mitigating measures that are applied to the remuneration of these individuals, Risk Management is involved in deciding which positions are qualified as Identified Staff. Furthermore, where exceptions to the policies are made to reflect local practices or regulations, Risk Management and Compliance are involved to ensure such exceptions do not undermine effective risk management and sufficient mitigating measures are undertaken. Since 2011, in conjunction with Risk Management and Compliance, existing remuneration policies, including deferral and holding arrangements, payment in non-cash instruments and specific ex-ante and ex-post measures, have been amended.

1 Staff whose professional activities may materially influence Aegon s business performance and risk profile.
2 Senior Staff in Control Function positions (Compliance, Risk and Audit) at Group or country/regional unit level.

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In addition, the Risk Management and Compliance functions, together with the Human Resources and Finance functions are responsible for the execution of the various ex-ante and ex-post measures that have been introduced by Aegon to ensure the Global Remuneration Framework and practices are aligned with the defined risk tolerances and behaviors. In this respect, risk mitigating measures that are undertaken prior to the payout of compensation to individual employees (regardless whether this compensation is deferred) are considered ex-ante measures. Retribution measures that are applied after payout or where it concerns allocated but deferred payments (before vesting of these payments) to ensure sustainability of performance, are considered ex-post measures.

Aegon has endeavored to seek an appropriate balance of ex-ante and ex-post assessments to ensure effectiveness both on the short-term and longer-term risk taking behavior of employees.

General compensation practices

Aegon has a pay philosophy which is based on total compensation. This means that total remuneration for fully functioning employees is aimed at being consistent with compensation levels in the market in which it operates and competes for employees. Total compensation typically consists of base salaries and, where in line with local market practices, variable compensation. Market survey information from reputable sources is used to provide information on competitive compensation levels and practices.

Variable compensation, if any, is capped at an appropriate level as a percentage of base pay. Usually variable compensation for senior management is paid out in cash and shares over multiple years and is subject to further conditions being fulfilled. Variable compensation already allocated may be clawed back in defined circumstances.

In the next sections more detailed information is provided on the compensation practice for the Supervisory Board and Executive Board.

Supervisory Board Remuneration Policy 2012

Aegon s Remuneration Policy with regard to members of its Supervisory Board is aimed at ensuring fair compensation, and protecting the independence of the Board s members. Terms and conditions for members of the Supervisory Board are part of Aegon s broader Remuneration Policy, and are the responsibility of the company s Compensation Committee. They are approved at the General Meeting of Shareholders.

Fees and entitlements

Members of the Supervisory Board are entitled to the following:

¿ A base fee for membership of the Supervisory Board itself. No separate attendance fees are paid to members for attendance at the regular Supervisory Board meetings.
¿ An attendance fee for each extra Board meeting, attended in person or by video or telephone conference.
¿ A committee fee for members on each of the Supervisory Board s Committees.
¿ An attendance fee for each Committee meeting attended in person or through video and/or telephone conferencing.

Each of these fees is a fixed amount. Members of Aegon s Supervisory Board do not receive any performance or equity-related compensation, and do not accrue pension rights with the company. These measures are designed to ensure the independence of Supervisory Board members and strengthen the overall effectiveness of Aegon s corporate governance.

Under the current policy, members of the Supervisory Board are entitled to the following fees:

Base fee for membership of the Supervisory Board	EUR / year
Chairman	60,000
Vice-Chairman	50,000
Member	40,000

Fee for membership of a Supervisory Board committee	EUR / year
Chairman of the Audit Committee	10,000
Member of the Audit Committee	8,000

Chairman of other committees	7,000
Member of other committees	5,000

Attendance fees	**EUR / year**
Extra Supervisory Board meeting	3,000
Audit Committee	3,000
Other committees	1,250

1 Members of the Compensation Committee are as follows: Leo M. van Wijk (Chairman), Irving W. Bailey II, Karla M.H. Peijs and Robert J. Routs.

Information on members of the Supervisory Board and the composition of Aegon s four Committees - Audit, Nominating, Compensation and Risk - may be found on pages 111 and 112.

Supervisory Board Remuneration Report 2012

Members of Aegon s Supervisory Board received the following payments (in EUR) in 2012:

Member	2012	2011
Robert J. Routs (Chairman)	109,250	101,250
Irving W. Bailey II (Vice-Chairman)	98,000	92,500
Anthony Burgmans	87,000	75,000
Arthur Docters van Leeuwen [1)]	-	40,000
Cecelia Kempler [2)]	-	9,625
Shemaya Levy	104,500	96,000
Karla M. H. Peijs	78,250	79,250
Kornelis J. Storm	83,000	74,500
Ben van der Veer	101,250	95,250
Dirk P. M. Verbeek	101,250	92,250
Leo M. van Wijk	86,250	78,250
Total	**848,750**	**833,875**

1 Mr. Docters van Leeuwen stepped down from Aegon s Supervisory Board in July 2011.

2 Ms. Kempler stepped down from Aegon s Supervisory Board in February 2011.

Executive Board Remuneration Policy 2012

Executive Board remuneration

The Executive Board of Aegon is remunerated on the basis of the principles described in Aegon s GRF. Aegon s Remuneration Policy for members of the Executive Board is derived from this Framework and sets out terms and conditions for members of the company s Executive Board.

Aegon s Executive Board Remuneration Policy has four main objectives:

- To enable Aegon to attract and retain highly-qualified members for its Executive Board.
- To provide a well-balanced and performance-related compensation package for Executive Board members.
- To ensure that the interests of Executive Board members are aligned with Aegon s business strategy and risk tolerance as well as the objectives, values and long-term interests of the company.
- To enhance the transparency and simplicity of Executive Board members remuneration, consistent with the principle of pay for performance .

In 2011, the Compensation Committee proposed the General Meeting of Shareholders to amend the Executive Board Remuneration Policy in force since the beginning of 2010, effective as of performance year 2011. This Executive Board Remuneration Policy was prepared in accordance with the Dutch Corporate Governance Code and the Decree on Sound

Remuneration Policy (Regeling beheerst beloningsbeleid WFt 2011-Rbb) by DNB. It was adopted at the General Meeting of Shareholders on May 12, 2011. The Policy will remain in force until such time as the Supervisory Board proposes changes or amendments.

Role of the Compensation Committee

The Compensation Committee of Aegon s Supervisory Board has overall responsibility for the company s Remuneration Policies, including the Executive Board Remuneration Policy. Members of the Committee are drawn from the Supervisory Board.

Each year, Aegon s Compensation Committee reviews Aegon s Remuneration Policies to ensure they remain in line with prevailing international standards. This review is based partly on information provided by Aegon s external adviser, Towers Watson. The adviser, however, does not advise individual members of the Executive and Supervisory Boards.

The Compensation Committee may recommend changes to the policies to the Supervisory Board. Any material changes in the Executive Board Remuneration Policy must also be referred to the General Meeting of Shareholders for adoption.

Review of the Remuneration Policy

Aegon s Executive Board Remuneration Policy is reviewed every year by the Compensation Committee. The Policy applies to all members of Aegon s Executive Board.

Ensuring pay remains competitive

The company regularly compares its levels of executive remuneration with those at other, comparable companies. Companies included in the peer group have been chosen according to the following criteria:

- ¿ Industry (preferably life insurance).
- ¿ Size (companies with similar assets, revenue and market capitalization).
- ¿ Geographic scope (preferably companies operating globally).
- ¿ Location (companies based in Europe).

In 2012, the peer group comprised the following companies: Aviva, Axa, CNP Assurances, Generali, ING Group, Legal & General, Münchener Rückversicherung, Old Mutual, Prudential plc., Standard Life, Swiss Re and Zurich Financial Services.

In addition, to monitor alignment with the general industry in the Netherlands, a reference group has been established, comprising the twelve leading companies listed on NYSE Euronext Amsterdam, excluding financial services providers. The Supervisory Board will regularly review the composition of these two groups to ensure they continue to provide a reliable basis for comparison.

Total compensation

For each member of the Executive Board, Aegon s Supervisory Board determines a maximum total compensation, reflecting the specific roles and responsibilities of the individual. Each year, the Supervisory Board will review total compensation levels to ensure they remain competitive and provide proper, risk-based incentives to members of Aegon s Executive Board. At present, the Executive Board Target Direct Compensation (defined as base salary plus variable compensation) is below the median of the international market. Over time, in order to pay Executive Board members in accordance with the desired market positioning, the alignment to the desired market position needs to be addressed, in accordance with rules and regulations as well as applicable codes. A proposal will be presented at the General Meeting of Shareholders.

Consistent with the Executive Board Remuneration Policy, the total compensation for Executive Board members will consist of fixed compensation and variable compensation.

The Supervisory Board conducts regular scenario analysis to determine the long-term effect of level and structure of compensation granted to members of the Executive Board. The Supervisory Board (Compensation Committee) has discussed and endorsed the 2012 total compensation for the Executive Board.

Fixed compensation

It is the responsibility of the Supervisory Board to determine fixed compensation for members of the Executive Board based on their qualifications, experience and expertise.

Variable compensation

Aegon believes that variable compensation strengthens Executive Board members commitment to the company s objectives and strengthens the Executive Board members commitment to the company s business strategy, risk tolerance and long-term performance. Variable compensation is based on a number of individual and company performance indicators, regularly evaluated by experts in the company s Finance, Risk, Audit, Human Resources and Compliance departments.

This performance is determined using a mix of financial and non-financial indicators. Aegon believes these indicators provide an accurate and reliable reflection of both company and individual performance. The type of performance indicators are selected in accordance with the long-term goals of the company. The level of the indicators should be challenging but at target level achievable. The targets and levels are agreed by the Supervisory Board. Performance is assessed by Aegon s Compensation Committee and validated by the Audit Committee.

For 2012, the performance period for variable compensation is one year. By implementing deferral, and additional holding periods, Aegon believes the long-term interests of the Executive Board member are aligned with the interests of Aegon and its stakeholders.

Variable compensation, comprising both cash and shares, is conditionally granted at the beginning of each performance period. The number of conditionally granted shares is calculated using the fair value of one Aegon share at the beginning of that period. This fair value is equal to the average price on the NYSE Euronext Amsterdam stock exchange for the period December 15 through January 15. After the performance year, the company shall assess the realized performance on the performance indicators and a comparison will be made between the minimum, target and maximum levels of the performance indicators and the realized performance. Subsequently, the amount of conditional variable compensation that can be allocated will be established. Variable compensation will be allocated once accounts for the financial year in question have been adopted by the company s shareholders and after an ex-ante assessment.

The allocated variable compensation consists of equal parts of cash and shares of which 40% will be paid out (or vest) following the performance year, and 60% that will be deferred. This deferred portion will remain conditional until it vests.

The deferred part will vest in equal parts (that is cash and shares) over a three year period. After an ex-post assessment, which may lower the vesting parts, the parts will be paid 50% in cash and 50% in shares vesting. Vested shares are restricted for a further period of three years (with the exception of shares sold to meet income tax obligations).

The payout of the variable compensation can be illustrated with an example as follows. For every 1,000 variable compensation, 400 will be paid out/vest following the performance year. This part will be paid 50% in cash (=200) and 50% in shares vesting immediately (=200 / 3.1261 = 64 shares). The remaining 600 will be deferred. The deferred part will vest in three equal parts,

after the end of each of the following performance periods. The three deferred parts will each be paid 50% in cash (=100) and 50% in shares vesting (=100 / 3.126 = 32 shares). For all vested shares there is an additional holding period of three years after vesting. The compensation schedule can be illustrated by the following overview.

Variable compensation schedule

Variable compensation 2012

Variable compensation is initially granted based on performance, as measured against Aegon group targets and personal objectives. These objectives represent a mix of financial and non-

financial measures, providing an accurate and reliable reflection of corporate and individual performance. The mix of group targets versus personal objectives is 75%-25%.

Objectives	Maximum % of variable compensation	Performance indicator
Group financial IFRS based	30%	Group underlying earnings after tax, return on equity.
Group financial risk adjusted based	30%	Group market consistent value of new business 2012, group pre-tax return on required capital 2012.
Group sustainability	15%	Objective measuring corporate responsibility.
Personal objectives	25%	Individual basket of strategic and personal objectives related to Aegon s strategy.

Each year a one-year target will be set for each performance indicator.

At an aggregate level, payments are made as follows:

- 50% of the maximum variable compensation if the threshold target is reached.
- 80% if the pre-determined performance targets are met.
- Up to 100% if the targets are exceeded.

Risk adjustment methodology (ex-ante)

At the end of the performance period, but prior to allocation of variable compensation, the Supervisory Board will assess whether (downward) modifications are needed. For this purpose quantitative measures as well as qualitative measures (at Group, regional unit and individual level) will be taken into account, such as:

- Breaches of laws and regulations.
- Breaches of internal risk policies (including compliance).
- SOX significant deficiencies or material weaknesses.
- Reputation damage due to risk events.

Ex-post assessment and discretionary adjustments

The Supervisory Board uses its judgement in the assessment of the outcome of personal/strategic targets to make sure that, taken together, they form a fair reflection of the overall performance of the Board member over the performance period.

In addition, the Supervisory Board will apply an ex-post risk assessment to deferred payouts of variable compensation in order to determine whether allocated (that is, unvested) variable compensation should become unconditional (meaning it will vest) or should be adjusted. This ex-post assessment will be based on informed judgment by the Supervisory Board, taking into account significant and exceptional circumstances that are not (sufficiently) reflected in the initially applied performance indicators.

Implementation of this authority will be on the basis of criteria such as:

¿ Outcome of a re-assessment of the performance against the original financial performance indicators.
¿ Significant downturn in the company s financial performance.
¿ Evidence of misbehavior or serious error by the participant.
¿ Significant failure in risk management.
¿ Significant changes in the company s economic or regulatory capital base.

The Supervisory Board will ask the Compensation Committee to review these criteria in detail at each moment of vesting and document its findings. Based on this analysis, the Committee may then put forward a proposal to the Supervisory Board to adjust unvested variable compensation. Deferred variable compensation may only be adjusted downwards. Ex-post, risk-based assessments concern deferred variable compensation, not fixed compensation.

Circuit breaker

For each performance indicator, variable compensation is only paid if the threshold level set for that performance indicator is reached.

Malus and claw-back provision

Where variable compensation has been based upon incorrect data (including non-achievement of performance indicators on hindsight), or in the case of material financial restatements or individual gross misconduct, Aegon s Supervisory Board will have the right to reduce deferred variable compensation payments (in either cash and/or shares) not yet paid out or vested and /or reclaim variable compensation that has already been paid out or vested.

Pension arrangements

Members of Aegon s Executive Board are offered pension arrangements and retirement benefits in line with local practice in their countries of residence and in line with those provided to executives at other multinational companies in those countries. Benefits are similarly offered consistent with Executive Board members contractual agreements, local practices and comparable arrangements at other multinationals. Aegon does not grant Executive Board members personal loans, guarantees or the like, unless in the normal course of business and on terms applicable to all employees, and only with the approval of the company s Supervisory Board.

Terms of employment

Members of the Executive Board are appointed for four years, and may then be re-appointed for successive mandates also for a period of four years.

Members of the Executive Board may terminate their employment with a notice period of three months. If Aegon wishes to terminate the employment of a member of its Executive Board, then the company must give six months notice.

The employment contracts with current members of the Executive Board contain provisions entitling them to severance payments, should their employment be terminated as a result of a merger or takeover. The Supervisory Board has taken appropriate steps to ensure the contractual arrangements of members of the Executive Board are in line with the Executive Board Remuneration Policy.

Executive Board Remuneration Report 2012

At the end of December 2012, Aegon s Executive Board had two members:

¿

Alexander R. Wynaendts, Chief Executive Officer and Chairman of the Executive Board. Mr. Wynaendts was appointed member of the Executive Board in 2003 for four years, and re-appointed in 2007. At the General Meeting of Shareholders in 2011, Mr. Wynaendts was re-appointed for another four years.

¿ Jan J. Nooitgedagt, Chief Financial Officer and member of the Executive Board. Mr. Nooitgedagt was appointed member of the Executive Board in 2009 for four years.

During 2012 no changes took place.

Fixed compensation

The Supervisory Board has adjusted the 2012 fixed compensation of the Executive Board members in order to reflect cost of living increases in line with what has been awarded to all staff in the Netherlands in previous years.

Member	2012	2011
Alexander R. Wynaendts CEO & Chairman EB	1,049,156	962,299
Jan J. Nooitgedagt CFO & Member EB	743,930	709,062

Conditional variable compensation awards 2012

Subject to adoption of the annual accounts at the General Meeting of Shareholders on May 15, 2013 variable compensation for Executive Board members is set in cash and shares, based on both their individual and the company s performance. Targets for the performance indicators have been set in line with the agreed variable compensation targets and 2012 company budgets. Actual performance is being measured over 2012. Under the Executive Board Remuneration Policy 2011, the variable compensation Executive Board members are entitled to, will be paid out over a number of years.

Over the performance year 2012 Mr. Wynaendts was awarded EUR 1,017,681 in total conditional variable compensation. Mr. Nooitgedagt was awarded EUR 699,294. Forty percent of variable compensation related to performance year 2012 is payable in 2013. This will be split 50/50 in a cash payment and in an allocation of shares.

Mr. Wynaendts and Mr. Nooitgedagt are eligible to receive in 2013 a cash payment of EUR 203,536 and EUR 139,859 respectively.

The number of shares to be made available in 2013 is 65,111 and 44,741 for Mr. Wynaendts and Mr. Nooitgedagt respectively (with the exception of shares sold to meet income tax obligations). With regard to vested shares, a retention (holding) period is applicable for a further three years, before they are at the disposal of the Executive Board members.

The remaining part of variable compensation for the performance year 2012 (60%; for Mr. Wynaendts EUR 305,304 and 97,665 shares and for Mr. Nooitgedagt EUR 209,787 and 67,110 shares) is to be paid out in future years, subject to ex-post assessments, that may result in downward adjustments and may be subject to additional conditions being met. In each of the years 2014, 2015 and 2016, 20% of the total variable compensation may be made available. Any payout will be split 50/50 in a cash payment and an allocation of shares (vesting). After vesting a retention (holding) period is applicable for a further three years, before shares are at the disposal of the Executive Board members (with the exception of shares sold to meet income tax obligations).

Impact of ex-ante and ex-post assessment on attribution of variable compensation

No variable compensation from previous years payable in 2012, which has been subject to the claw-back provision, has been reclaimed in 2012.

The ex-post assessment related to the deferred payment from performance year 2011 did not result in a change to the payout of the part that vests in 2013. 20% of the 2011 variable compensation will therefore vest in 2013. Half of this portion of variable compensation will be paid out in cash, the other half in shares vesting. The shares which will vest, with the exception of shares sold to meet income tax obligations, are subject to a three year holding period.

The ex-ante 3 assessment, related to performance year 2012, did not result in a change in payout of variable compensation as determined on the basis of the results.

Corporate governance

Aegon is a public company under Dutch law, and is governed by three corporate bodies: the General Meeting of Shareholders, the Executive Board and the Supervisory Board. As a company based and registered in the Netherlands, Aegon is subject to the Dutch Corporate Governance Code[1] .

Aegon s common shares are listed in Amsterdam and New York. Aegon has institutional and retail shareholders around the world. More than three-quarters of shareholders are located in North America, the Netherlands and the United Kingdom, the company s three main markets. Aegon s largest shareholder is Vereniging Aegon, an association established to protect the broader interests of the company and its stakeholders.

General Meeting of Shareholders

A General Meeting of Shareholders is held at least once a year. Its main function is to decide matters such as the adoption of annual accounts, the approval of dividend payments and appointments to Aegon s Supervisory and Executive Boards.

Meetings are convened by public notice. And when deemed necessary, the Supervisory or Executive Board has the authority to convene an extraordinary General Meeting of Shareholders.

Agenda

Those shareholders who alone or jointly represent at least 1% of Aegon s issued capital or block of shares worth at least EUR 50 million[2] may request items be added to the agenda of these meetings. In accordance with Aegon s Articles of Association, such requests will be granted if they are received in writing at least 60 days before the meeting, and if there are no important interests of the company that dictate otherwise.

Attendance

Every shareholder is entitled to attend the General Meeting of Shareholders, to speak and vote, either in person or by proxy granted in writing. This includes electronically submitted proxies. All shareholders wishing to take part must provide proof of their identity and shareholding, and must notify the company ahead of time of their intention to attend the meeting. Aegon also solicits proxies from New York registry shareholders in line with common practice in the United States.

Record date

The record date is used to determine shareholders entitlements with regard to their participation and voting rights. In accordance with the Dutch law, the record date is 28 days before the day of the General Meeting of Shareholders.

Voting at the General Meeting

At the General Meeting of Shareholders, each share carries one vote. However, under certain circumstances, Aegon s largest shareholder, Vereniging Aegon, may cast 25/12 votes per preferred share[3]. All resolutions are adopted by an absolute majority of votes cast, unless Dutch law or Aegon s Articles of Association stipulate otherwise.

Executive Board

Aegon s Executive Board has two members:

¿ Alexander R. Wynaendts, Chairman of the Executive Board and Chief Executive Officer
¿ Jan J. Nooitgedagt, member of the Executive Board and Aegon s Chief Financial Officer.

Aegon s Executive Board is charged with the overall management of the company and is therefore responsible for achieving the company s aims, strategy and associated risk profile, as well as overseeing any relevant sustainability issues and the development of the company s earnings. Each member has duties related to his or her specific area of expertise.

The number of Executive Board members and their terms of employment are determined by the company s Supervisory Board. Executive Board members are appointed by the General Meeting of Shareholders following nomination by the Supervisory Board.

For certain decisions - detailed in Aegon s Articles of Association - the Executive Board must seek prior approval from the Supervisory Board. In addition, the Supervisory Board may also choose to subject other Executive Board decisions to its prior approval.

1 For further details on how Aegon s corporate governance practices differ from those required of US companies under New York Stock Exchange standards, please refer to the NYSE Listing standards in the Governance section of Aegon s website at aegon.com.
2 The Dutch law currently provides for a threshold of 1% of the shares of the issued capital or a block of shares worth at least EUR 50 million. As per 1/7/2013 the law will be amended. The threshold will be increased to 3% of the issued capital and the threshold of the value will be deleted. The Articles of Association of Aegon N.V. provide for a threshold of EUR 100 million. During the General Meeting of Shareholders in 2010 it was confirmed that the threshold of EUR 100 million in market value will not be effective until the law has changed.
3 For further information, please refer to page 122 for a description of Special control rights.

Management Board

Aegon s Executive Board is assisted in its work by the company s Management Board, which has seven members, including the members of the Executive Board[1]. Aegon s Management Board is composed of Alexander R. Wynaendts, Jan J. Nooitgedagt, Adrian Grace, Tom Grondin, Marco B.A. Keim, Gábor Kepecs and Mark Mullin .

Severance payments

The employment contracts with current members of the Executive Board contain provisions entitling them to severance payments, should their employment be terminated as a result of a merger or takeover[2]. The company s Remuneration Policy for the Executive Board limits exit arrangements to a maximum of one year s fixed salary[3].

Supervisory Board

Aegon s Supervisory Board[4] oversees the management of the Executive Board, as well as the overall course of the company s business and corporate strategy. In its deliberations, the Supervisory Board must take into account the interests of all Aegon stakeholders. The Supervisory Board operates according to the principles of collective responsibility and accountability.

Appointment of Board members

Members are appointed by the General Meeting of Shareholders following nomination by the Supervisory Board itself. At present, Aegon s Supervisory Board consists of nine non-executive members, one of whom is a former member of Aegon s Executive Board.

Committees

The Supervisory Board also oversees the activities of several Committees. These Committees are composed exclusively of Supervisory Board members and deal with specific issues related to Aegon s financial accounts, risk management strategy, executive remuneration and appointments. These Committees are:

- Audit Committee
- Risk Committee
- Compensation Committee
- Nominating Committee

Composition of the Board

Aegon endeavors to ensure that the composition of the company s Supervisory Board is well balanced. A profile has been drawn up outlining the required qualifications of its members. Supervisory Board members are no longer eligible for appointment after the age of 70, unless the Board decides to make an exception. Supervisory Board members remuneration is determined by the General Meeting of Shareholders.

Aegon s ownership structure and exercise of control

As a publicly listed company, Aegon is required to provide the following detailed information regarding any structures or measures that may hinder or prevent a third party from acquiring the company or exercising effective control over it.

A. Capital of the company

Aegon has authorized capital of EUR 610 million, divided into 3 billion common shares, each with a par value of EUR 0.12 and one billion class A and class B preferred shares, each with a par value of EUR 0.25.

At the end of 2012, a total of 1,972,029,595 common shares and 329,773,000 preferred shares had been issued. These represented respectively 74.16% and 25.84% of Aegon s total issued and fully paid-up capital.

Depository receipts for Aegon shares are not issued with the company s cooperation.

Common shares

Each common share carries one vote. There are no restrictions whatsoever on the exercise of voting rights by holders of common shares, whether with regard to the number of votes or to the time period in which they may be exercised.

Preferred shares

All preferred shares are held by Vereniging Aegon, the company s largest shareholder. In line with their higher par value, preferred shares may carry 25/12, or approximately 2.08, votes per share. The voting rights attached to preferred shares are subject to restrictions, as described hereunder under Special Control Rights . Under these restrictions each share carries one vote.

The capital contribution on class A preferred shares is a reflection of the market value of Aegon s common shares at the time the contribution was made. In addition, preferred shares carry the right to a preferred dividend on the paid-in amount. No other dividend is paid on the preferred shares. In the event of the liquidation of the company, the paid-in amount on preferred shares will be reimbursed before any payments on common shares are made.

B. Significant shareholdings

On December 31, 2012, Vereniging Aegon, Aegon s largest shareholder, held a total of 171,974,055 common shares; 211,680,000 class A preferred shares and 118,093,000 class B preferred shares.

1 For further details, please see pages 6 and 7.
2 Employment contracts for members of Aegon s Executive Board are available on Aegon s website (aegon.com).
3 See pages 115 and 116 for the Remuneration Report Executive Board. The Remuneration Policy is also available on Aegon s website (aegon.com).
4 For further details, please see pages 111 and 112.

In the case of new common shares being issued, Vereniging Aegon has the option, under the terms of the 1983 Merger Agreement[1], to acquire additional class B preferred shares to prevent a dilution of its voting rights, unless, by exercising this option, the association increases its share of voting right to more than 33%.

C. Special control rights

Under the Preferred Shares Voting Rights Agreement[2], Vereniging Aegon has voluntarily waived its right to cast 25/12 votes per preferred share, except in the event of a special cause .

These special cause may include:

¿ The acquisition by a third party of an interest in Aegon N.V. amounting to 15% or more.
¿ A tender offer for Aegon N.V. shares.
¿ A proposed business combination by any person, or group of persons, whether acting individually or as a group, other than in a transaction approved by the company s Executive and Supervisory Boards.

If Vereniging Aegon, acting at its sole discretion, determines that a special cause has arisen, it must notify the General Meeting of Shareholders. In this event, Vereniging Aegon retains full voting rights on its preferred shares for a period limited to six months. Based on its current shareholding, Vereniging Aegon would, for that limited period, command 32.64% of the votes at a General Meeting of Shareholders.

As a result of both this and the existence of certain qualified majority voting requirements specified in Aegon s Articles of Association, Vereniging Aegon may effectively be in a position to block unfriendly actions by either a hostile bidder or others for a period of six months. In the absence of a special cause, Vereniging Aegon s share of the company s voting capital represented 22.06% at December 31, 2012.

On February 15, 2013, Aegon N.V. reached an agreement with Vereniging Aegon to cancel all of Aegon s preferred shares, of which Vereniging Aegon is the sole owner. Under the agreement, all of Aegon s preferred shares will be exchanged for cash and common shares. To effectuate the agreement, Aegon s Supervisory Board will propose to shareholders at the annual General Meeting of Shareholders on May 15, 2013, to approve the new capital structure. When this new structure is approved and implemented, it will not have any consequences for the control position of Vereniging Aegon.

For more information on Vereniging Aegon and the proposed new capital structure, please refer to pages 307 to 309 of the consolidated financial statements in this Annual Report, or the website of Vereniging Aegon, www.verenigingaegon.nl.

To Aegon s knowledge, only one other party holds a capital and voting interest in Aegon N.V in excess of 5%. According to its filing with the United States Securities and Exchange Commission on February 13, 2013, US-based investment management firm Dodge & Cox owns over 195 million common shares.

D. Board appointments

The General Meeting of Shareholders appoints members of both the Supervisory and Executive Boards, following nominations by the Supervisory Board. Providing at least two candidates are nominated, these nominations are binding. The General Meeting of Shareholders may cancel the binding nature of these nominations with a majority of two-thirds of votes cast, representing at least one half of Aegon s issued capital.

The General Meeting may, in addition, bring forward a resolution to appoint someone not nominated by the Supervisory Board. Such a resolution also requires a two-thirds majority of votes cast and representing at least one half of Aegon s issued capital.

E. Suspending or dismissing Board members

Members of Aegon s Supervisory and Executive Boards may be suspended or dismissed by the General Meeting of Shareholders with a two-thirds majority of votes cast, representing at least one half of Aegon s issued capital, unless the suspension or dismissal has first been proposed by the company s Supervisory Board. A member of the Executive Board may also be suspended by the Supervisory Board, though the General Meeting of Shareholders has the power to annul this suspension.

F. Amending the Articles of Association

The General Meeting of Shareholders may, with an absolute majority of votes cast, pass a resolution to amend Aegon s Articles of Association or to dissolve the company, in accordance with a proposal made by the Executive Board and approved by the Supervisory Board.

G. Issue and repurchase of shares

New shares may be issued up to the maximum of the company s authorized capital, following a resolution adopted by the General Meeting of Shareholders. Shares may also be issued following a resolution of the Executive Board, providing - and to the extent that - the Board has been authorized to do so by the General Meeting of Shareholders. A resolution authorizing the Executive Board to issue new shares is usually presented at Aegon s annual General Meeting of Shareholders.

Aegon is entitled to acquire its own fully paid-up shares, providing it acts within existing statutory restrictions. Shareholders usually authorize the Executive Board to purchase

1 The 1983 Merger Agreement, as amended, is published on Aegon s website (aegon.com).
2 The Preferred Shares Voting Rights Agreement is published on Aegon s website (aegon.com).

the company s shares under terms and conditions determined by the General Meeting of Shareholders.

H.Transfer of shares

There are no restrictions on the transfer of common shares. As regards the transferability of preferred shares, please refer to clause 10.5 of the Amendment to the 1983 Merger Agreement[1].

I. Shareholder agreements

Aegon has no knowledge of any agreement between shareholders that might restrict the transfer of shares or the voting rights pertaining to them.

J. Exercise of option rights

Senior executives at Aegon companies and other employees have been granted share appreciation rights and share options. For further details, please see note 14 of the notes to Aegon s consolidated financial statements of this Annual Report. Under the terms of existing share option plans Aegon cannot influence the exercise of granted rights.

K. Significant agreements and potential change of control

Aegon is not party to any significant agreements which would take effect, alter or terminate as a consequence of a change of control following a public offer for the outstanding shares of the company, other than those customary in the financial markets (for example, financial arrangements, loans and joint venture agreements).

Dutch Corporate Governance Code

As a company based in the Netherlands, Aegon adheres to the Dutch Corporate Governance Code. Aegon endorses the Code and strongly supports its principles for sound and responsible corporate governance. Aegon regards the Code as an effective means of helping ensure that the interests of all stakeholders are duly represented and taken into account.

The Code also promotes transparency in decision-making and helps strengthen the principles of good governance. The original Code, dated December 2003, was amended in 2008. This new, amended Code came into force on January 1, 2009. This review deals with the Dutch Corporate Governance Code in force from that date. Overseeing Aegon s overall corporate governance structure is the responsibility of both the Supervisory and Executive Boards. Any substantial change to this structure is submitted to the General Meeting of Shareholders for discussion.

A detailed explanation is given below for those instances where Aegon does not fully apply the best practice provisions of the Code. In these few instances, Aegon adheres, as far as possible, to the spirit of the Code.

Code II.2.8

For members of the Executive Board, the Dutch Corporate Governance Code requires that the maximum compensation in the event of dismissal should be one year s salary - or two years salary for cases where one year s salary would be manifestly unreasonable, such as a member who is dismissed in his or her first term of office.

Aegon s position on Code II.2.8

Aegon is committed to applying this best practice provision to all new Executive Board appointments. This best practice provision is also embedded in the company s Remuneration Policy for the Executive Board. The employment contracts with Executive Board members that existed prior to the Code coming into force in 2003 will be respected. The employment agreement of Aegon s CEO Alex Wynaendts, contains a more favorable severance payment arrangement should his employment be terminated as a result of a merger or takeover. Details of Executive Board members employment contracts may be found on Aegon s corporate website, aegon.com.

Code II.3.3

The Code recommends that a member of the Executive Board should not take part in discussions or decision-making related to a subject or a transaction in which he or she has a conflict of interest.

Aegon s position on Code II.3.3

Aegon s CEO and CFO are also members of the Executive Committee of the company s largest shareholder, Vereniging Aegon. This may be construed as a conflict of interest. However, under Vereniging Aegon s Articles of Association, Aegon s CEO and CFO are specifically excluded from voting on issues directly related to Aegon or their position within it. Aegon s Supervisory Board holds the view that, given the historic relationship between Aegon and Vereniging Aegon, it would not be in the company s best interests to prevent them participating in discussions and decision-making related to Vereniging Aegon. For this reason, a protocol has been drawn up authorizing the CEO and CFO to continue their existing practice with respect to their dealings with Vereniging Aegon. The text of this protocol is available on Aegon s website, aegon.com.

1 The 1983 Merger Agreement, as amended is published on Aegon s website (aegon.com).

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Code IV.1.1

The Dutch Corporate Governance Code states that the General Meeting of Shareholders may cancel the binding nature of nominations for the appointment of members to the Executive and Supervisory Boards with an absolute majority of votes and a limited quorum.

Aegon s position on Code IV.1.1

Aegon s Articles of Association provide for a larger majority and a higher quorum than those advocated by the Code. Given that the company has no specific anti-takeover measures, the current system is deemed appropriate within the context of the 1983

Merger Agreement under which Aegon was formed. However, to mitigate any possible negative effects from this, the Supervisory Board has decided that, in the absence of any hostile action, it will only make nominations for appointment of members to the Executive and Supervisory Boards that are non-binding in nature.

Corporate Governance Statement

Generally, Aegon applies the best practice provisions set out in the Code. For an extensive review of Aegon s compliance with the Code, please refer to the Corporate Governance Statement on Aegon s corporate website, aegon.com.

Differences between Dutch and US company laws

Dutch company law is different from US law in the following respects: Aegon, like most large Dutch public companies, has a two-tier governance system involving an Executive Board and a Supervisory Board. The Executive Board is the executive body and its members are employed by the company[1]. Members of the Executive Board are appointed and dismissed by the General Meeting of Shareholders, as inside directors are in the United States. The remuneration policy as regards the members of the Executive Board is adopted by the General Meeting of Shareholders. The number of the Executive Board members and the terms of their employment are determined by the Supervisory Board within the scope of the adopted Remuneration Policy.

The Supervisory Board performs supervisory and advisory functions only and its members are outsiders that are not employed by the company. The Supervisory Board has the duty to supervise the performance of the Executive Board, the company s general course of affairs and the business connected with it. The Supervisory Board also assists the Executive Board by giving advice. Other powers of the Supervisory Board include the prior approval of certain important resolutions of the Executive Board. Members of the Supervisory Board are appointed for a four-year term and may be dismissed by the General Meeting of Shareholders. The remuneration of Supervisory Board members is fixed by the General Meeting of Shareholders. Resolutions entailing a significant change in the identity or character of the company or its business require the approval of the General Meeting of Shareholders.

1 As a result of a change in Dutch corporate law, with effect of 1 January 2013, new members of the Executive Board will not be employees of the company, but will enter into engagement agreements with the company regarding their position as member of the Executive Board.

Code of ethics

Aegon has adopted a code of ethics, titled the Code of Conduct, which contains Aegon s ethical principles in relation to various subjects. The Code of Conduct applies to Aegon employees worldwide, including Aegon s Chief Executive Officer, Chief Financial Officer, Controller and persons performing similar functions.

A new Code of Conduct came into force in 2012 giving a clearer commitment to a customer-centric approach. No waivers were granted in respect of the Code of Conduct which is posted on Aegon s website, aegon.com[1]

1 http://www.aegon.com/en/Home/About/Governance/Documentation/Policies-Procedures-and-Regulations/.

Controls and procedures

A. Disclosure controls and procedures

As of the end of the period covered by this Annual Report, Aegon s management carried out an evaluation, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Aegon s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, Aegon s Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, the disclosure controls and procedures were effective in providing reasonable assurance regarding the reliability of financial reporting.

B. Management s Annual Report on internal control over financial reporting

The directors and management of Aegon are responsible for establishing and maintaining adequate internal control over financial reporting. Aegon s internal control over financial reporting is a process designed under the supervision of Aegon s principal executive and financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its published financial statements. Internal control over financial reporting includes policies and procedures that:

- ¿ Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company.
- ¿ Provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with the generally accepted accounting principles.
- ¿ Provide reasonable assurance that receipts and expenditures are being made only in accordance with the authorizations of management and directors of the company.
- ¿ Provide reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on Aegon s financial statements would be prevented or detected in a timely manner.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management assessed the effectiveness of Aegon s internal control over financial reporting as of December 31, 2012.

In making its assessment management used the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on the assessment, management has concluded that, in all material aspects, the internal control over financial reporting was effective as at December 31, 2012. They have reviewed the results of its work with the Audit Committee of the Supervisory Board.

The effectiveness of internal control over financial reporting as of December 31, 2012, was audited by Ernst & Young, an independent registered public accounting firm, as stated in their report included under item C below.

C. Attestation report of the independent registered public accounting firm

Report of independent registered public accounting firm The Supervisory Board, the Executive Board and Shareholders of Aegon N.V.

We have audited Aegon N.V. s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria).

Aegon N.V. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Aegon N.V. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Aegon N.V., which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, the related consolidated income statements, statements of comprehensive income, statements of changes in equity, and cash flow statements for each of the three years in the period ended December 31, 2012, of Aegon N.V., and our report dated March 20, 2013, expressed an unqualified opinion thereon.

The Hague, the Netherlands, March 20, 2013

Ernst & Young Accountants LLP

D. Changes in internal controls over financial reporting

There have been no changes in internal controls over financial reporting during the period covered by this Annual Report that have materially affected, or reasonably likely to affect, Aegon s internal controls over financial reporting.

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Consolidated income statement of Aegon N.V.

For the year ended December 31

Amounts in EUR million (except per share data)	Note	2012	2011	2010
Premium income	6	19,526	19,521	21,097
Investment income	7	8,501	8,167	8,762
Fee and commission income	8	1,900	1,465	1,744
Other revenues		10	6	5
Total revenues		**29,937**	**29,159**	**31,608**
Income from reinsurance ceded	9	4,128	2,775	1,869
Results from financial transactions	10	12,996	(187)	15,662
Other income	11	151	39	40
Total income		**47,212**	**31,786**	**49,179**
Premiums to reinsurers	6	3,735	3,407	1,859
Policyholder claims and benefits	12	35,155	20,230	38,128
Profit sharing and rebates	13	34	55	36
Commissions and expenses	14	5,736	6,164	6,034
Impairment charges / (reversals)	15	206	483	701
Interest charges and related fees	16	467	491	426
Other charges	17	53	69	122
Total charges		**45,386**	**30,899**	**47,306**
Income before share in profit / (loss) of associates and tax		**1,826**	**887**	**1,873**
Share in profit / (loss) of associates		26	29	41
Income / (loss) before tax		**1,852**	**916**	**1,914**
Income tax	18	(320)	(44)	(154)
Net Income / (loss)		**1,532**	**872**	**1,760**
Net income / (loss) attributable to:				
Equity holders of Aegon N.V.		1,531	869	1,759
Non-controlling interests		1	3	1
Earnings per share (EUR per share)	19			
Basic earnings per share		0.67	(0.06)	0.76
Diluted earnings per share		0.67	(0.06)	0.68

Consolidated statement of comprehensive income of Aegon N.V.

For the year ended December 31

Amounts in EUR million	2012	2011	2010
Net income	**1,532**	**872**	**1,760**
Other comprehensive income:			
Gains / (losses) on revaluation of available-for-sale investments	4,221	3,113	3,873
(Gains) / losses transferred to the income statement on disposal and impairment of available-for-sale investments	(465)	(513)	(203)
Changes in revaluation reserve real estate held for own use	(5)	3	4
Changes in cash flow hedging reserve	(92)	1,058	373
Movement in foreign currency translation and net foreign investment hedging reserve	(116)	409	1,054
Equity movements of associates	22	(18)	(25)
Disposal of group assets	-	-	(22)
Aggregate tax effect of items recognized in other comprehensive income / (loss)	(1,063)	(1,167)	(1,409)
Other	(1)	4	(10)
Other comprehensive income for the period	**2,501**	**2,889**	**3,635**
Total comprehensive income / (loss)	**4,033**	**3,761**	**5,395**
Total comprehensive income attributable to:			
Equity holders of Aegon N.V.	4,034	3,758	5,394
Non-controlling interests	(1)	3	1

Consolidated statement of financial position of Aegon N.V.

As at December 31

Amounts in EUR million	Note	2012	2011
Assets			
Intangible assets	21	2,948	3,285
Investments	22	146,182	144,079
Investments for account of policyholders	23	153,670	142,529
Derivatives	24	21,154	15,504
Investments in associates	25	829	742
Reinsurance assets	26	11,987	11,517
Defined benefit assets	41	201	303
Deferred tax assets	43	33	89
Deferred expenses	27	11,687	11,432
Other assets and receivables	28	7,722	7,792
Cash and cash equivalents	29	9,653	8,104
Total assets		**366,066**	**345,376**
Equity and liabilities			
Shareholders equity	30	24,630	21,000
Other equity instruments	32	5,018	4,720
Issued capital and reserves attributable to equity holders of Aegon N.V.		**29,648**	**25,720**
Non-controlling interests		13	14
Group equity		**29,661**	**25,734**
Trust pass-through securities	33	155	159
Subordinated borrowings	34	61	18
Insurance contracts	35	105,209	104,974
Insurance contracts for account of policyholders	36	76,871	73,425
Investment contracts	37	17,768	20,847
Investment contracts for account of policyholders	38	78,418	71,433
Derivatives	24	17,848	12,728
Borrowings	39	12,758	10,141
Provisions	40	331	444
Defined benefit liabilities	41	2,222	2,184
Deferred revenue liabilities	42	106	104
Deferred tax liabilities	43	3,609	2,499
Other liabilities	44	20,716	19,501
Accruals	45	333	1,185
Total liabilities		**336,405**	**319,642**
Total equity and liabilities		**366,066**	**345,376**

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Consolidated statement of changes in equity of Aegon N.V.

For the year ended December 31, 2012

Amounts in EUR million	Note	Share capital	Retained earnings	Revaluation reserves	Other reserves	Other equity instruments	Issued capital and reserves [1)]	Non-controlling interests	Total
At January 1, 2012		**9,097**	**9,403**	**3,464**	**(964)**	**4,720**	**25,720**	**14**	**25,734**
Net income / (loss) recognized in the income statement		-	1,531	-	-	-	1,531	1	1,532
Other comprehensive income:									
Gains / (losses) on revaluation of available-for-sale investments		-	-	4,221	-	-	4,221	-	4,221
(Gains) / losses transferred to income statement on disposal and impairment of available for-sale-investments		-	-	(465)	-	-	(465)	-	(465)
Changes in revaluation reserve real estate held for own use		-	-	(5)	-	-	(5)	-	(5)
Changes in cash flow hedging reserve		-	-	(92)	-	-	(92)	-	(92)
Movements in foreign currency translation and net foreign investment hedging reserves		-	-	-	(116)	-	(116)	-	(116)
Equity movements of associates		-	-	-	22	-	22	-	22
Aggregate tax effect of items recognized in other comprehensive income / (loss)		-	(6)	(1,060)	3	-	(1,063)	-	(1,063)
Other		-	(18)	19	-	-	1	(2)	(1)
Total other comprehensive income / (Loss)		**-**	**(24)**	**2,618**	**(91)**	**-**	**2,503**	**(2)**	**2,501**

Total comprehensive income / (loss) for 2012		**-**	**1,507**	**2,618**	**(91)**	**-**	**4,034**	**(1)**	**4,033**
Shares issued		2	-	-	-	-	2	-	2
Treasury shares		-	3	-	-	-	3	-	3
Dividends paid on common shares		-	(148)	-	-	-	(148)	-	(148)
Dividend withholding tax reduction		-	3	-	-	-	3	-	3
Issuance of non-cumulative subordinated notes		-	-	-	-	271	271	-	271
Coupons on non-cumulative subordinated notes		-	(23)	-	-	-	(23)	-	(23)
Preferred dividend		-	(59)	-	-	-	(59)	-	(59)
Coupons on perpetual securities		-	(172)	-	-	-	(172)	-	(172)
Cost of issuance of non-cumulative subordinated notes (net of tax)		-	(10)	-	-	-	(10)	-	(10)
Share options and share-based incentive plans		-	-	-	-	27	27	-	27
Other									
At December 31, 2012	**30, 31, 32**	**9,099**	**10,504**	**6,082**	**(1,055)**	**5,018**	**29,648**	**13**	**29,661**

[1] Issued capital and reserves attributable to equity holders of Aegon N.V.

Consolidated statement of changes in equity of Aegon N.V.

For the year ended December 31, 2011

Amounts in EUR million	Note	Share capital	Retained earnings	Revaluation reserves	Other reserves	Convertible core capital securities	Other equity instruments	Issued capital and reserves[1]	Non-controlling interests	Total
At January 1, 2011		8,184	9,529	958	(1,343)	1,500	4,704	23,532	11	23,543
Net income / (loss) recognized in the income statement		-	869	-	-	-	-	869	3	872
Other comprehensive income:										
Gains / (losses) on revaluation of available-for-sale investments		-	-	3,113	-	-	-	3,113	-	3,113
(Gains) / losses transferred to income statement on disposal and impairment of available for-sale-investments		-	-	(513)	-	-	-	(513)	-	(513)
Changes in revaluation reserve real estate held for own use		-	-	3	-	-	-	3	-	3
Changes in cash flow hedging reserve		-	-	1,058	-	-	-	1,058	-	1,058
Movements in foreign currency translation and net foreign investment hedging reserves		-	-	-	409	-	-	409	-	409
Equity movements of associates		-	-	-	(18)	-	-	(18)	-	(18)
Aggregate tax effect of items recognized in other comprehensive income / (loss)		-	-	(1,155)	(12)	-	-	(1,167)	-	(1,167)
Other		-	4	-	-	-	-	4	-	4
Total other comprehensive income / (Loss)		**-**	**4**	**2,506**	**379**	**-**	**-**	**2,889**	**-**	**2,889**
Total comprehensive income / (loss) for 2011		**-**	**873**	**2,506**	**379**	**-**	**-**	**3,758**	**3**	**3,761**
Shares issued		913	-	-	-	-	-	913	-	913
		-	-	-	-	(1,500)	-	(1,500)	-	(1,500)

Repurchase of convertible core capital securities										
Preferred dividend		-	(59)	-	-	-	-	(59)	-	(59)
Coupons on perpetual securities		-	(177)	-	-	-	-	(177)	-	(177)
Coupons and premiums on convertible core capital securities		-	(750)	-	-	-	-	(750)	-	(750)
Share options and share-based incentive plans		-	-	-	-	-	16	16	-	16
Other		-	(13)	-	-	-	-	(13)	-	(13)
At December 31, 2011	**30, 31, 32**	**9,097**	**9,403**	**3,464**	**(964)**	**-**	**4,720**	**25,720**	**14**	**25,734**

[1] Issued capital and reserves attributable to equity holders of Aegon N.V.

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Consolidated statement of changes in equity of Aegon N.V.

For the year ended December 31, 2010

Amounts in EUR million	Note	Share capital	Retained earnings	Revaluation reserves	Other reserves	Convertible core capital securities	Other equity instruments	Issued capital and reserves [1]	Non-controlling interests	Total
At January 1, 2010		8,184	8,103	(1,709)	(2,304)	2,000	4,709	18,983	10	18,993
Net income / (loss) recognized in the income statement		-	1,759	-	-	-	-	1,759	1	1,760
Other comprehensive income:										
Gains / (losses) on revaluation of available-for-sale investments		-	-	3,873	-	-	-	3,873	-	3,873
(Gains) / losses transferred to income statement on disposal and impairment of available for-sale-investments		-	-	(203)	-	-	-	(203)	-	(203)
Changes in revaluation reserve real estate held for own use		-	-	4	-	-	-	4	-	4
Changes in cash flow hedging reserve		-	-	373	-	-	-	373	-	373
Movements in foreign currency translation and net foreign investment hedging reserves		-	-	-	1,054	-	-	1,054	-	1,054
Equity movements of associates		-	-	-	(25)	-	-	(25)	-	(25)
Disposal of group assets		-	-	(22)	-	-	-	(22)	-	(22)
Aggregate tax effect of items recognized in other comprehensive income / (loss)		-	-	(1,358)	(51)	-	-	(1,409)	-	(1,409)
Other		-	7		(17)	-	-	(10)	-	(10)
Total other comprehensive income / (loss)		**-**	**7**	**2,667**	**961**	**-**	**-**	**3,635**	**-**	**3,635**
Total comprehensive income / (loss) for 2011		**-**	**1,766**	**2,667**	**961**	**-**	**-**	**5,394**	**1**	**5,395**
Repurchase of convertible core capital securities		-	-	-	-	(500)	-	(500)	-	(500)

Preferred dividend		-	(90)	-	-	-	-	(90)	-	(90)
Coupons on perpetual securities		-	(187)	-	-	-	-	(187)	-	(187)
Coupons and premium on convertible core capital securities		-	(63)	-	-	-	-	(63)	-	(63)
Share options and share-based incentive plans		-	-	-	-	-	(5)	(5)	-	(5)
At December 31, 2010	**30, 31, 32**	**8,184**	**9,529**	**958**	**(1,343)**	**1,500**	**4,704**	**23,532**	**11**	**23,543**

[1] Issued capital and reserves attributable to equity holders of Aegon N.V.

Consolidated cash flow statement of Aegon N.V.

For the year ended December 31

Amounts in EUR million	Note	2012	2011	2010
Income / (loss) before tax		**1,852**	916	1,914
Results from financial transactions		(12,903)	187	(15,662)
Amortization and depreciation		1,439	1,651	1,590
Impairment losses		206	483	701
Income from associates		(26)	(29)	(41)
Release of cash flow hedging reserve		(62)	(18)	(8)
Other		(139)	(138)	(5)
Adjustments of non-cash items		**(11,485)**	**2,136**	**(13,425)**
Insurance and investment liabilities		(3,224)	(4,940)	(4,274)
Insurance and investment liabilities for account of policyholders		11,042	(154)	14,274
Accrued expenses and other liabilities		536	(421)	502
Accrued income and prepayments		(1,743)	(1,460)	(2,299)
Changes in accruals		**6,611**	**(6,975)**	**8,203**
Purchase of investments (other than money market investments)		(32,464)	(29,612)	(42,691)
Purchase of derivatives		(1,528)	(1,350)	(940)
Disposal of investments (other than money market investments)		34,050	34,924	45,446
Disposal of derivatives		507	1,599	1,452
Net purchase of investments for account of policyholders		960	(1,577)	(1,522)
Net change in cash collateral		(179)	2,180	3,003
Net purchase of money market investments		552	445	39
Cash flow movements on operating items not reflected in income		**1,898**	**6,609**	**4,787**
Tax paid		105	(375)	(274)
Other		53	(45)	58
Net cash flows from operating activities		**(966)**	**2,266**	**1,263**
Purchase of individual intangible assets (other than VOBA and future servicing rights)		(38)	(18)	(20)
Purchase of equipment and real estate for own use		(65)	(72)	(116)
Acquisition of subsidiaries and associates, net of cash		(126)	(99)	(31)
Disposal of intangible asset		1	1	2
Disposal of equipment		10	18	33
Disposal of subsidiaries and associates, net of cash		286	823	(158)
Dividend received from associates		2	3	14
Other		1	(3)	(2)
Net cash flows from investing activities		**71**	**653**	**(278)**
Issuance of share capital		2	913	-
Issuance of non-cumulative subordinated notes		271	-	-
Proceeds from TRUPS [1)], subordinated loans and borrowings		6,693	5,627	7,551
Repurchase of convertible core capital securities		-	(1,500)	(500)
Repayment of TRUPS [1)], subordinated loans and borrowings		(3,886)	(4,342)	(6,577)
Dividends paid		(207)	(59)	(90)
Coupons and premium on convertible core capital securities		-	(750)	(63)
Coupons on perpetual securities		(230)	(237)	(251)
Coupons on non-cumulative subordinated notes		(30)	-	-
Other		(11)	(26)	49
Net cash flows from financing activities		**2,602**	**(374)**	**119**
Net increase / (decrease) in cash and cash equivalents [2)]		**1,707**	**2,545**	**1,104**
Net cash and cash equivalents at the beginning of the year		7,826	5,174	4,013
Effects of changes in exchange rate		27	107	57
Net cash and cash equivalents at the end of the year	**29**	**9,560**	**7,826**	**5,174**

[1] Trust pass-through securities.
[2] Included in net increase / (decrease) in cash and cash equivalents are interest received (2012: EUR 7,345, 2011: EUR 7,407 million and 2010: EUR 8,167 million) dividends received (2012: EUR 1,005 million, 2011: EUR 760 million and 2010: EUR 635 million) and interest paid (2012: EUR 432 million, 2011: EUR 273 million and 2010: EUR 380 million)

The cash flow statement is prepared according to the indirect method.

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Exchange rates

Exchange rates at December 31, 2012

		EUR	USD	GBP	CAD	PLN	CNY	RON	HUF	CZK
1	EUR	-	1.3184	0.8111	1.3127	4.0803	8.2140	4.4455	291.2151	25.0956
1	USD	0.758	-	0.615	0.996	3.095	6.230	3.372	220.885	19.035
1	GBP	1.233	1.625	-	1.618	5.031	10.127	5.481	359.037	30.940
1	CAD	0.762	1.004	0.618	-	3.108	6.257	3.387	221.844	19.118
1	PLN	0.245	0.323	0.199	0.322	-	2.013	1.090	71.371	6.150
1	CNY	0.122	0.161	0.099	0.160	0.497	-	0.541	35.454	3.055
1	RON	0.225	0.297	0.182	0.295	0.918	1.848	-	65.508	5.645
100	HUF	0.343	0.453	0.279	0.451	1.401	2.821	1.527	-	8.618
100	CZK	3.985	5.254	3.232	5.231	16.259	32.731	17.714	1,160.423	-

Exchange rates at December 31, 2011

		EUR	USD	GBP	CAD	PLN	CNY	RON	HUF	CZK
1	EUR	-	1.2982	0.8353	1.3218	4.4578	8.1700	4.3255	314.7625	25.5026
1	USD	0.770								