AEGON NV
Form 20-F
March 21, 2014
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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, 2013

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)

J.H.P.M. van Rossum

Senior Vice President and Corporate Controller

Aegon N.V.

Aegonplein 50, 2501 CB The Hague, The Netherlands

+31-70-3448334

Jurgen_vanRossum@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 2013 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, 2013, for Aegon N.V. (the company) and its subsidiaries (collectively known as Aegon). This report presents the Consolidated Financial Statements of Aegon (pages 122-288) and the Parent Company Financial Statements of Aegon (pages 291-305).

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 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 the 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 Canadian dollar when 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; CZK when referring to the lawful currency of Czech Republic and UAH when referring to the lawful currency of Ukraine.

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

In 2013 we achieved strong results across our markets and experienced increasing demand for our core products and services, as we pursue our mission of helping individuals and families take responsibility for their financial future. Over the past year, we have made significant progress in enhancing the growth prospects for our business, strengthening our financial position, and in transforming our business to create value for our many stakeholders.

In each of our chosen markets, profound and lasting market changes are driving increased demand for reliable financial solutions. People are living longer than at any time in history; the post-war (baby boomer) generation is now entering retirement with an immense pool of accumulated and still-growing assets that will need to be managed for an increasingly longer retirement; governments are continuing to withdraw from traditional means of publicly-provided pension support; and companies have considerably decreased, or ended altogether, their contributions to employee retirement plans. In many developing markets, strong economic growth is creating a sizable and growing affluent middle class that will inevitably seek the same financial protection and long-term security solutions as those in more mature economies. All of these factors provide excellent growth opportunities for our business and confirm that our products and services have never been more needed. Moreover, they provide the basis for the broad range of actions we are taking to further transform our businesses and enhance our ability to interact better and more frequently with those who depend on us.

During 2013, we expanded our reach through promising new distribution agreements in our key markets. We continued to invest in our businesses in Central & Eastern Europe, Asia and Latin America, given the strong demand for protection and savings products in these developing economies. Meanwhile, we continued to review our products and services, broadening and deepening our capabilities in order to target opportunities, and ensuring that the products we offer deliver value for both our customers and Aegon, given our long-term risk-return criteria.

In the United States, we have brought nearly all of our businesses together under the well-recognized Transamerica brand, furthering the strategic integration of our operations which began three years ago. In what continues to be the largest market in the world for life insurance and retirement products and services, we have enhanced our leadership positions with new distribution partners, and developed new digital capabilities that will allow us to better serve our current and future customers diverse financial needs across their life-cycle.

At the center of our strategy is our focus on getting closer to our customers through an accelerated investment in technology. The nature of many of our products necessitates professional advice and, as such, we believe the financial advisor will continue to play an essential role in our business. New digital platforms have been introduced to provide intermediaries with the tools to operate more efficiently in a rapidly changing landscape. In the United Kingdom for instance, Aegon s new pension platform, known as Aegon Retirement Choices, is demonstrating early success. We recognize that consumers increasingly research and wish to purchase financial services products online, as they do many other products and services. Consequently, we are committed to enabling our current and future customers to interact with us in the ways they choose. In the Netherlands, we launched new digital channels aimed at specific customer segments more likely to purchase life insurance and retirement solutions through digital rather than traditional channels.

In addition to enabling our businesses to connect and engage with customers better and with greater frequency, technology also delivers the tools to create a truly distinctive and relevant customer experience. We are committed to providing greater ease of interaction with our businesses, simplifying product explanations, and empowering customers with practical online tools that will both enable them to better understand their financial needs and provide greater clarity about the products and services available to address these needs. This approach, we believe, is essential to our focus on building customer loyalty and strengthening our competitive advantage in an increasingly crowded market.

Consistent with our strict risk-return discipline, we further strengthened Aegon s risk profile by maintaining a solid balance sheet and further improving our capital position. The strong financial performance, combined with our actions to reduce costs across our organization during 2013, enabled us to continue the momentum of recent years. Clearly, our strategic priorities have delivered their intended benefits to our customers and businesses, and to our valued shareholders who have every reason to expect an attractive and growing return on their investment.

Essential to our long-term success is creating an internal culture of customer-centricity, innovation and shared responsibility. Equipping our leaders with the resources they require to promote this culture is among our most important objectives. During the past year, we have introduced a number of training and development programs to enhance the professional skills and competencies of employees at all levels. Mindful of the pace of technological advances in today s digital environment, we also recognize the need to attract talented individuals from outside our industry who are able to embrace and accelerate the changes we are implementing. Encouraging new ways of thinking and responding to the considerable opportunities we have identified is a pre-requisite of management, and key to our long-term success.

Beyond what we have done to fulfil our commitments to our customers over the past year paying just over EUR 20 billion in claims and benefits our businesses have also contributed financially and our employees given generously of their time and talents to make a difference in the communities in which they live and work. Aegon takes seriously its broader commitments to the communities where we operate and to society at large. In addition to maintaining sound corporate governance standards and practices, we believe this can have a positive impact on issues related to the environment, responsible investment, financial literacy, and other socially sustainable concerns. This, we believe, is as critical to our long-term business success as our disciplined risk and financial management.

My Management Board colleagues and I wish to express our gratitude to the dedicated men and women of Aegon who have contributed to our solid results and strategic progress over the past year. Through their focused and determined efforts, we have enhanced our ability to better serve our current and future customers by delivering consistently high quality products and services, while strengthening our prospects for sustainable, profitable growth going forward. We also wish to reaffirm our commitment to you, our valued shareholders, who have likewise made possible the achievements of recent years through your abiding confidence and support.

Thank you for your ongoing interest in Aegon and in all that we are doing to assist our current and future customers in planning and achieving a secure financial future. Ensuring that we continue to be in a strong position to deliver on our promises remains our most important priority.

Sincerely,

Alex Wynaendts

Chairman of the Executive Board of Aegon N.V.

and Chief Executive Officer

Composition of the Executive Board

and the Management Board

Alex 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.

Darryl Button (1969, Canadian)

Chief Financial Officer

Member of the Executive Board

Member of the Management Board

Darryl Button began his career by Mutual Life Insurance Co. of Canada and joined Aegon in 1999 as Director of Product Development and Risk Management of Aegon USA s Institutional Markets operation unit. He was appointed Corporate Actuary of Aegon USA in 2002, followed by CFO of Aegon Americas in 2005. Between 2008-2011, Mr. Button took on the responsibilities of Chairman and executive management of Aegon s Canadian operations, and in 2012 he joined Aegon s Corporate Center as Executive Vice President and Head of the Corporate Financial Center. In 2013, Mr. Button was appointed as CFO and member of the Executive Board of Aegon. He is also a member of the Management Board.

Adrian Grace (1963, British)

Member of the Management Board

Chief Executive Officer of Aegon UK

Adrian Grace started his career with Leeds Permanent Building Society in 1979, before joining Mercantile Credit in 1984. In 2001, Mr. Grace joined Sage Group PLC as Managing Director of the Small Business Division. In 2004, Barclays Insurance asked him to join them as Chief Executive. Mr. Grace joined HBOS in 2007 as Managing Director of Commercial within the Corporate Division. In 2009, he joined Aegon UK as Group Business Development Director and on April 4, 2011, he became the Chief Executive Officer. Mr. Grace has been a member of Aegon s Management Board since February 2012. He sits on the Board of the Association of British Insurers.

Tom Grondin (1969, Canadian)

Member of the Management Board

Chief Risk Officer of Aegon N.V.

Tom 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. His current responsibilities include managing the Risk and Compliance functions. In this role, Mr. Grondin is responsible for development and oversight of Aegon s Enterprise Risk Management framework and Aegon s internal Economic Framework. The Economic Framework has helped guide Aegon s risk and business strategy over the years. He joined Aegon in 2000 in one of Aegon USA s larger operations. Mr. Grondin had overall responsibility for pricing, profitability and risk management for the business. Prior to joining Aegon, he was employed as a consultant at Tillinghast Towers Perrin and before that as asset liability manager at Manulife Financial.

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Marco 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.

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Aegon s strategy

Aegon is an international provider of life insurance, pensions and asset management products, with businesses in more than 25 markets in the Americas, Europe and Asia, and just over EUR 475 billion in revenue-generating investments. Aegon employs nearly 27,000 people, and has millions of customers across the globe.

Aegon s purpose is *to help people take responsibility for their financial future*. To achieve this, the company strives to provide easy-to-understand products that help customers make better financial decisions for themselves and their families. As a company, Aegon believes that everyone, regardless of their income, deserves to retire with dignity and peace of mind.

Aegon s ambition is to become a leader in all of its chosen markets. This means being the most recommended provider of life insurance and pensions among customers, the preferred partner among intermediaries and distributors, and the employer of choice for both current and prospective employees.

Recognizing the increasing demand for asset protection, accumulation and long-term retirement security products and services, Aegon is investing in new approaches to better serve the full range of customers financial needs throughout their life cycle. This includes accelerating investment in technology to enable Aegon s businesses to interact directly with customers.

Fostering a truly customer-centric culture throughout the organization is at the core of Aegon s strategy. This entails ensuring that every employee understands how he or she can contribute to a distinctive and consistently positive customer experience. To support this essential cultural mindset, a new coordinated approach to performance management has been implemented across Aegon s businesses, with a strong emphasis on talent development and customer centricity. Compensation and incentives have been aligned accordingly. Aegon encourages new thinking and innovative approaches as it continues to transform its businesses.

In recent years, Aegon has taken steps to reduce costs, lower risk and free up capital for reinvestment in its businesses. It has divested businesses no longer considered core, or which have failed to provide sufficient returns or prospects for long-term growth. These actions have enabled Aegon to achieve a solid capital position, deal effectively with economic and market volatility, and position its businesses for future growth. At the same time, Aegon has invested in key areas of growth, such as emerging markets in Central & Eastern Europe, Asia and the Americas, while also restructuring its businesses to achieve greater operational efficiency and deliver a higher level of customer service. Better leveraging the broad expertise that

exists within Aegon across various businesses and geographies continues to be a key strategic objective.

Aegon s strategy is supported by its ambition: *to be a leader in all of its chosen markets*. To support this ambition, Aegon has implemented four strategic objectives:

¿ *To optimize its portfolio* by investing in businesses that offer attractive returns and strong prospects for growth and, if necessary, closing or divesting business that do not meet Aegon s risk-return requirements, or contribute to its long-term ambitions;

- *To enhance customer loyalty* by improving customer service, investing in new distribution capabilities, and expanding the company s online presence to connect better and more frequently with its customers;
- *To deliver operational excellence* by improving efficiency and reducing costs, innovating and making better use of its resources around the world;
- *To empower employees* by providing the tools, training and internal culture necessary to better serve the developing needs of its customers, while also enabling employees to realize their full potential.

In 2013, Aegon took clear steps toward each of these objectives, helping position the company s businesses for the future, and meet the risks and opportunities presented by long-term industry trends.

Optimize portfolio

Aegon targeted opportunities in its core markets in the Americas, Europe and Asia by:

- Investing in the rapidly-expanding at-retirement market of people in their fifties and sixties who are actively preparing for retirement in the United States, the United Kingdom and the Netherlands. In the United Kingdom, Aegon is seeking to increase its share of the workplace savings and non-advised markets;
- Repositioning in Central & Eastern Europe by channeling other resources into new products and services, ceasing new investment in mandatory private pensions due to government restrictions, selling off pension operations in the Czech Republic, and expanding the life and pensions business in Romania;

- ¿ Expanding into new markets through the acquisition of Fidem Life, one of Ukraine s leading providers in the emerging life insurance market, and the opening of a new office in Germany in the second half of 2013 to market variable annuities;
- ¿ Re-pricing, redesigning and withdrawing products, improving Aegon s overall product mix to reduce capital requirements and improve profitability;
- ¿ Restructuring in Spain by securing a twenty-five year joint venture and distribution partnership with Banco Santander, the country s largest bank, and exiting some former joint ventures;
- ¿ Entering new distribution partnerships with other key banks, including Barclays Bank in the United Kingdom.

Enhance customer loyalty

Aegon is expanding digital distribution capability and improving understanding of customers changing needs by:

- ¿ Launching new online products in Spain and Turkey. Aegon now retails online in nearly all its markets, and has also expanded its digital marketing and social media efforts;
- ¿ Investing in emerging new business models. In the Netherlands, Aegon launched Kroodle, a social media platform to sell general insurance, and in recent years has begun distribution through the drugstore chain Kruidvat;
- ¿ Expanding the company s variable annuities business, and launching other related products, such as a new series of mutual funds in the United States, and new additional risk riders with products in Central & Eastern Europe;
- ¿ Implementing a common measurement for customer loyalty. Aegon has implemented the Net Promoter Score (NPS) across its businesses, and is using NPS methodology to drive long-term improvements in products and customer service. The company has also established a Customer Intelligence Council to improve analysis of customer data and statistics, and launched the not-for-profit Transamerica Center for Health Studies to research and contribute to important health issues in the United States.

Deliver operational excellence

Aegon improved efficiency, supported intermediaries and expanded distribution through traditional channels by:

- ¿ Continuing to reduce costs where possible to allow for increased investments. Cost saving initiatives included the creation of a shared service center in the Americas, further cost reduction in the Netherlands, and restructuring both in the United Kingdom and at Aegon s Corporate Center;
- ¿ Pursuing value over volume through a strict pricing discipline, an approach aimed at securing profitable, sustainable growth while making sure that, before any new product or service is introduced, customer benefits are fully assessed and taken into account through an updated Pricing & Product Development Policy;
- ¿ Investing in a new online platform in the United Kingdom, called Aegon Retirement Choices. The platform provides independent financial advisors with a clear overview of Aegon s product range, and helps them to provide the right advice to Aegon s customers;
- ¿ Opening up access to Aegon s Global Ethics Line to make it easier for outside parties to report suspected misconduct and violations of the company s Code of Conduct;
- ¿ Completing a second transaction to reduce the risk associated with longer life expectancy in the Netherlands and cover EUR 1.4 billion in longevity reserves.

Empower employees

Aegon strengthened employee engagement, and improved the working environment by:

- Introducing limited paid time off for volunteer work. By the end of 2013, 91% of Aegon s employees worldwide had access to this benefit;
- Helping employees establish new affinity groups in the United States and the Netherlands in support of broader efforts to improve workforce diversity;
- Deepening Aegon s regular talent review, which maps employees skills against the company s long-term requirements;
- Supporting employees impacted by company restructuring with social plans and programs to find new employment within and outside the company;
- Implementing local action plans based on the findings from the 2013 Global Employee Engagement Survey. Aegon identified three main priorities: do more to explain the company s business strategy to employees; strengthen employees focus on customers; provide additional opportunities for career development;
- Developing an Employer Value Proposition, which sets out the advantages of working for Aegon among prospective employees. The Employer Value Proposition will support wider efforts in new recruitment.

Market conditions

The global economy continued to recover in 2013, but growth was low in many countries, and business confidence remained depressed. Overall, world output expanded by 2.9%, the lowest annual rate of growth since the end of the previous recession in 2009. Growth is forecast to accelerate in 2014, but the global economy still faces significant downside risks.

In the United States, economic growth improved. There was further improvement in the US housing market. Unemployment decreased though much of the decline in reported rates was attributed to people withdrawing from the labor force rather than to job creation. Cuts in government spending subdued economic growth, however.

In Europe, growth rates continued to lag behind those of the United States and other developed economies. High rates of unemployment persisted, particularly in those countries hit hardest by the recent eurozone crisis. The German and French economies showed modest growth, while those of Spain and Italy remained in recession. Meanwhile, the UK economy showed stronger growth. In the Netherlands, the economy contracted. Many European countries continued to struggle with structural, economic and financial sector reform.

Overall growth in emerging markets was relatively strong, though at a much lower rate than in previous years. In China, the world s second largest economy, growth slowed to 7.6%, with export markets sluggish and the Chinese economy re-focusing on internal consumption. In Central & Eastern Europe, growth rates improved, due in part to a stronger performance from the region s main trading partners in Western Europe.

Share prices in both the United States and Europe rose to new highs on signs of renewed economic growth. The Dow Jones Industrial Average ended the year up nearly 26%; over the same period, the FTSE-100 gained almost 15%. The long-term yield on US bonds also increased significantly on expectations of tapered debt purchases by the Federal Reserve. Short-term interest rates remained at historical lows of close to zero. In the United States, the Federal Reserve began to tighten monetary policy at the end of the year in response to further significant improvement in unemployment rates. Yields on 10-year German bonds improved, due in part to increased demand from eurozone banks.

Increased financial stability in the eurozone strengthened the euro. By the end of 2013, the euro had gained just over 3.6% against the US dollar, and more than 3% against sterling. Slower economic growth brought depreciation in many emerging market currencies, including the Brazilian real, the Indian rupee and the South African rand.

Economists are optimistic about further economic growth in 2014. Nevertheless, the global economy faces considerable risks, particularly from the future direction of Federal Reserve monetary policy and the management of the US government budget. Uncertainty also persists with regard to structural economic reform in Europe, and continued weak labor markets on both sides of the Atlantic. Emerging market growth remains relatively high, but may be impacted as the global economy adjusts to historically low GDP growth rates, especially in China and India.

Long-term industry trends

The life insurance and pensions industry is in a period of significant change for several reasons. These include shifts in the global economic balance, aging populations, changing demographics, new legislation, and the increasing trend of customers who research financial services products and then purchase online.

The world s population is growing older. By the middle of the century, the United Nations estimates that worldwide almost 1.5 billion people will be over the age of 65. More than three quarters will live in less developed economies. Rising life expectancy will increase the length of retirement. At the same time, governments are no longer able to afford generous state pensions. This means greater demand for life insurance, pensions and other long-term savings and investment products as individuals seek ways to achieve a secure financial future.

There is change in the way insurance and pension products are sold and purchased. The regulatory environment has changed significantly in many of Aegon s markets. In the United States, for example, there has been major healthcare and financial services reform. In the United Kingdom and the Netherlands, new legislation has effectively ended commissions for brokers and other intermediaries. As a result, financial services providers like Aegon, and financial advisors and intermediaries, are seeking to interact better and more regularly with their customers to serve their broader needs. Meanwhile, new technology is increasing the ability of customers to research and buy financial products online. Emerging competition from online-only providers has begun to challenge established business models.

The economic recovery remains uncertain. Despite improvement, economic growth remains uncertain. Financial volatility has increased, and interest rates are at historical lows, which may restrict profits for insurance companies and other financial service providers. Increased volatility means customers are more aware of financial risk.

Companies are held to higher standards of corporate behavior. There is increasing pressure on companies to be responsible employers, investors and purchasers of goods and services. Many companies increasingly recognize the connection between financial performance and responsible resources management.

Solvency II and related developments

Solvency II will become operational on January 1, 2016; to ensure a smooth transition, many national prudential frameworks are undergoing adjustment. Aegon continues 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.

Aegon aims to contribute to the resolution of any outstanding issues relating to Solvency II by active participation in discussions with several industry bodies. In particular, it provides input to measures to address long-term guarantee issues. At the request of their national supervisory authorities, a number of Aegon companies participated in the recent long-term guarantees assessment. In accordance with Solvency II requirements, Aegon has set up risk management processes and governance structures. Aegon actively manages 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. The company is also optimizing its reporting process to be aligned with the requirements to be introduced by Solvency II.

Aegon is on track with embedding Solvency II requirements into its existing business processes in a business-as-usual environment, while keeping abreast of the latest national, EU and international policy and regulatory developments relevant to insurance groups. To ensure that Aegon is not disadvantaged competitively by the implementation of Solvency II, or related wider international developments, Aegon contributes to discussions with European and International regulators and supervisors. For example, Aegon is participating in the EU-US dialogue and global initiatives by the International Association of Insurance Supervisors (IAIS) to establish a common framework for the supervision of internationally active insurance groups (ComFrame) and develop a basic international capital standard.

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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, nearly 27,000 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, and 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 Aegon Group companies of all non-

European countries; and Aegon Asset Management Holding B.V., the holding company for some of its asset management entities.

Aegon operates in more than 25 countries in the Americas, Europe and Asia, and serves 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 includes the United States, Canada, Brazil and Mexico; the Netherlands; the United Kingdom; and New Markets, which includes a number of countries in Central & Eastern Europe, and Asia, Spain, France, Variable Annuities Europe, and Aegon Asset Management.

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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 provided 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)	**2013**	2012 [1)]	2011 [2)]	2010 [2)]	2009 [2)]
Amounts based upon IFRS					
Premium income	19,939	19,049	19,521	21,097	19,473
Investment income	7,909	8,413	8,167	8,762	8,681
Total revenues [3)]	29,805	29,327	29,159	31,608	29,751
Income/ (loss) before tax	1,147	1,866	938	1,940	(410)
Net income/ (loss)	**980**	**1,543**	**887**	**1,777**	**239**
Earnings per common share					
Basic	0.36	0.68	(0.05)	0.77	(0.13)
Diluted	0.36	0.68	(0.05)	0.69	(0.13)
Earnings per common share B					
Basic	0.01	-	-	-	-
Diluted	0.01	-	-	-	-

1 As described in Note 2 of the Consolidated Financial Statements, comparative information related to previous periods was retrospectively restated for the changes in accounting policies on IFRS 10, IFRS 11 and IAS 19.

2 The consolidated financial statements, comparative information related to previous periods was retrospectively restated for the changes in accounting policies on IAS 19.

3 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)	**2013**	2012 [1)]	2011 [2)]	2010 [2)]	2009 [2)]
Amounts based upon IFRS					
Total assets	353,745	364,832	345,091	331,995	298,540
Insurance and investment contracts	282,107	276,358	270,679	270,693	248,903
Borrowings and trust pass-through securities [3)]	12,159	13,846	10,040	8,604	7,314
Shareholders equity	20,059	23,449	20,036	16,806	11,812

1 As described in Note 2 of the Consolidated Financial Statements, comparative information related to previous periods was retrospectively restated for the changes in accounting policies on IFRS 10, IFRS 11 and IAS 19.

2 The consolidated financial statements, comparative information related to previous periods was retrospectively restated for the changes in accounting policies on IAS 19.

3 Includes subordinated borrowings and excludes bank overdrafts.

Number of common shares					
In thousands	**2013**	2012	2011	2010	2009
Balance at January 1	1,972,030	1,909,654	1,736,049	1,736,049	1,578,227
Share issuance	120,713	-	173,605	-	157,822
Stock dividends	38,716	62,376	-	-	-
Balance at end of period	**2,131,459**	**1,972,030**	**1,909,654**	**1,736,049**	**1,736,049**

Number of common shares B					
In thousands	**2013**	2012	2011	2010	2009
Balance at January 1	-	-	-	-	-
Share issuance	579,005	-	-	-	-
Stock dividends	-	-	-	-	-
Share withdrawal	-	-	-	-	-
Balance at end of period	**579,005**	**-**	**-**	**-**	**-**

Dividends

Aegon declared interim and final dividends on common shares for the years 2010 through 2013 in the amounts set forth in the following table. The 2013 interim dividend amounted to EUR 0.11 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 13, 2013. At the General Meeting of Shareholders on May 21, 2014, 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 2013 to EUR 0.22. 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
2009	-	-	-	-	-	-
2010	-	-	-	-	-	-
2011	-	0.10	0.10	-	0.13	0.13
2012	0.10	0.11	0.21	0.12	0.14	0.26
2013	0.11	0.11 [2)]	0.22	0.15	-	-

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

From May 2003 to May 2013, Aegon had common shares and class A and class B preferred shares. The annual dividend on Aegon s class A and class B preferred shares was 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 was paid on the preferred shares. This resulted in a rate of 2.75% for the year 2012. Applying this rate to the weighted average paid-in capital of its preferred shares during 2012, the total amount of annual dividends Aegon made in 2013 on its preferred shares for the year 2012 was EUR 59 million. In addition, Aegon paid a 2013 interim dividend on the preferred shares of EUR 24 million, covering the period from January 1, 2013 until the cancellation of all preferred shares in May 2013.

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 3, 2014, the USD exchange rate was EUR 1 = USD 1.3763.

The high and low exchange rates for the US dollar per euro for each of the last six months through February 2014 are set forth below:

Closing rates	Sept. 2013	Oct. 2013	Nov. 2013	Dec. 2013	Jan. 2014	Feb. 2014
High (USD per EUR)	1.3537	1.3810	1.3606	1.3816	1.3682	1.3806
Low (USD per EUR)	1.3120	1.3490	1.3357	1.3552	1.3500	1.3507

The average exchange rates for the US dollar per euro for the five years ended December 31, 2013, 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)]
2009	1.3955
2010	1.3216
2011	1.4002

2012	1.2909
2013	1.3303

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

Business lines

Americas

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

Life & Protection

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

Individual Savings & Retirement

Primarily variable annuity products and retail mutual funds. Currently fixed annuities are not actively sold.

Employer Solutions & Pensions

Includes both individual and group pensions, as well as 401(k)-type of pension plans, and stable value solutions.

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

Independent distribution channel, offering both life and non-life insurance solutions.

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. Also includes the tied-agent distribution business.

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 the Czech Republic, Hungary, Poland, Romania, Slovakia, Turkey, and Ukraine. Includes life insurance, individual and group pension products, savings and investments, as well as general insurance.

Spain

Distribution partnerships with Spanish banks, offering life insurance, accident and health, and general 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. Aegon has 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 equity and fixed income, covering third party clients, insurance-linked solutions, and Aegon s own insurance companies.

Results of operations

Results 2013 worldwide

Underlying earnings geographically			
Amounts in EUR millions	**2013**	2012	%
Net underlying earnings	**1,541**	**1,424**	**8%**
Tax on underlying earnings	405	427	(5%)
Underlying earnings before tax geographically			
Americas	1,369	1,366	0%
The Netherlands	355	325	9%
United Kingdom	98	110	(11%)
New markets	236	274	(14%)
Holding and other activities	(113)	(224)	50%
Underlying earnings before tax	**1,945**	**1,851**	**5%**
Net fair value items	(1,133)	(41)	-
Gains / (losses) on investments	502	407	23%
Impairment charges	(121)	(176)	31%
Other income / (charges)	(52)	(162)	68%
Run-off businesses	14	2	-
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	**1,155**	**1,881**	**(39%)**
Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	*8*	*15*	*(47%)*
Income tax	(174)	(338)	49%
Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	*(8)*	*(15)*	*47%*
Net income	**980**	**1,543**	**(36%)**
Commissions and expenses	5,809	5,765	1%
of which operating expenses	3,328	3,177	5%

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 joint ventures in Spain, China and Japan and Aegon s associates in India, Brazil and

Mexico.

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

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 may use different local generally accepted accounting principles (GAAPs)), and this may make the comparability difficult from period to period.

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New life sales			
Amounts in EUR millions	**2013**	2012	%
Americas	464	520	(11%)
The Netherlands	206	246	(16%)
United Kingdom	1,014	936	8%
New markets	228	253	(10%)
Total life production	**1,911**	**1,955**	**(2%)**

Gross deposits (on and off balance)			
Amounts in EUR millions	**2013**	2012	%
Americas	28,424	27,042	5%
The Netherlands	1,338	1,484	(10%)
United Kingdom	281	37	-
New markets	14,287	10,909	31%
Total gross deposits	**44,330**	**39,472**	**12%**

ues geographically 2013 millions	Americas	The Netherlands	United Kingdom	New Markets	Holding, other activities and eliminations	Segment total	Associates and Joint Ventures eliminations	Consolidated
e gross premiums	6,187	3,515	6,537	1,349	(59)	17,529	(416)	17,112
h insurance premiums	1,787	243	-	170	-	2,200	(10)	2,190
premiums	-	487	-	194	-	681	(44)	637
ums	**7,975**	**4,245**	**6,537**	**1,713**	**(59)**	**20,410**	**(471)**	**19,939**
e	3,370	2,310	2,054	233	-	7,968	(58)	7,909
on income	1,273	328	80	583	(238)	2,026	(76)	1,950
	4	-	-	2	4	10	(3)	6
	12,622	**6,883**	**8,670**	**2,531**	**(293)**	**30,413**	**(608)**	**29,805**
ees, including agent	12,256	4,282	2,400	7,651	302	26,891	(3,417)	23,474

By product segment			
Amounts in EUR millions	**2013**	2012	%
Life	1,017	1,068	(5%)
Individual Savings & Retirement	507	490	3%
Pensions	386	352	10%

Non-life	12	15	(20%)
Distribution	16	15	7%
Asset management	95	101	(6%)
Other	(111)	(224)	51%
Associates	24	34	(29%)
Underlying earnings before tax	**1,945**	**1,851**	**5%**

Results 2013 worldwide

Aegon s 2013 net income amounted to EUR 849 million. Increased underlying earnings before tax of EUR 1,945 milion were impacted by a loss of EUR 1,309 million on fair value items driven by losses on the hedging programs and long-term economic assumption changes. This was partly offset by lower impairment charges and lower other charges since 2012 included a charge of EUR 265 million in relation to the acceleration of product improvements for unit-linked insurance policies.

Net income

Net income decreased to EUR 980 million compared to EUR 1,543 million in 2012. Higher underlying earnings, realized gains on investments, lower impairments and other charges were more than offset by losses from fair value items.

Underlying earnings before tax

Aegon s underlying earnings before tax in 2013 increased 5% to EUR 1,945 million compared to EUR 1,851 million in 2012. Underlying earnings before tax rose from business growth, deleveraging, the positive effects of favorable equity markets and the net positive impact of one-time items. These positive one-time items were only partly offset by the loss of earnings due to divestments in Spain and Aegon Asset Management, and the impact of unfavorable currency exchange rates.

¿ Underlying earnings before tax in the Americas improved slightly to EUR 1,369 million. Growth in Variable Annuities and Pensions offset the impact of unfavorable currency exchange rates, lower earnings from Fixed Annuities, higher sales and employee related expenses, and additional investments in technology. At constant currencies, underlying earnings increased by 3%.

¿ In the Netherlands, underlying earnings before tax increased 9% to EUR 355 million. Higher Pension earnings, driven mostly by a benefit resulting from observed mortality of EUR 25 million and improvement in Non-life more than offset lower earnings in Life & Savings, due mostly to reduced policy charges on unit-linked products of EUR 28 million as part of the acceleration of product improvements to unit-linked insurance policies.

¿ Underlying earnings before tax in the United Kingdom amounted to EUR 98 million in 2013, a decline of 11% compared to 2012. The positive impact of higher equity markets was more than offset by adverse persistency of EUR 22 million following the implementation of the Retail Distribution Review and investment in technology.

¿ Underlying earnings before tax from New Markets declined 14% to EUR 236 million. Higher earnings in Asia and Aegon Asset Management, which benefitted from higher asset balances, were more than offset by lower earnings in Central & Eastern Europe due to the introduction of the insurance tax in Hungary and divestments in Spain and Aegon Asset Management.

¿

Total holding costs decreased 50% to EUR 113 million, mainly as a result of lower net interest costs following debt redemptions, lower operating expenses and a gain of EUR 18 million related to interest on taxes.

Fair value items

The results from fair value items amounted to a loss of EUR 1,133 million. The loss was mainly driven by equity macro hedges (EUR 590 million) and long-term economic assumption changes (EUR 405 million) in the Americas and a loss of EUR 118 million in the guarantee portfolio in the Netherlands, which mainly the result of the tightening of Aegon s credit spread and model refinements.

In 2013, to reflect the low interest rate environment, Aegon lowered its long-term assumption for 10-year US Treasury yields by 50 basis points to 4.25% and extended the uniform grading period from 5 years to 10 years. Aegon also changed its assumed returns for US separate account bond fund to 4% over the next 10 years and 6% thereafter from its previous assumptions of 4% over the next 5 years and 6% thereafter. In addition, Aegon changed its long-term equity market return assumption for the estimated gross profit in variable life and variable annuity products in the Americas from 9% to 8%. In total, these assumption changes led to a negative impact on earnings of EUR 405 million in 2013. Both the assumptions for the bond fund and that for the long-term equity market are gross assumptions from which asset management and policy fees are deducted to determine the policyholder return.

The loss on fair value hedges in the Americas was mainly driven by the loss on the equity macro hedges, which have been set up to protect Aegon s capital position, as a result of strong US equity market performance in 2013. Aegon restructured its equity hedges as the equity collar hedge expired at the end of the year.

Realized gains on investments

Realized gains on investments amounted to EUR 502 million and were driven primarily by adjustments to the asset mix in the Netherlands during the second half of the year to bring it in line with the new regulatory yield curve, as well as normal trading activity.

Impairment charges

Impairment charges improved by EUR 55 million to EUR 121 million in 2013, mostly due to recoveries on investments in subprime residential mortgage-backed securities in the United States.

Other charges

Other charges amounted to EUR 52 million, which is a 68% improvement from 2012 and included a charge of EUR 192 million related to a write-off of intangibles related to the Polish pension fund business following a legislation change coming into force in January 2014. In addition, 2013 included a charge of EUR 71 million due to increased accruals in connection with Aegon s use of the U.S. Social Security Administration s death master-file and a EUR 25 million charge in the Netherlands following the Koersplan court verdict and restructuring charges mainly in the Americas and the United Kingdom (EUR 108 million in total). These charges were partly offset by gains from the sale of joint ventures with Unnim and CAM of EUR 102 million and EUR 74 million respectively, and gains from the recapture of certain reinsurance contracts amounting to EUR 200 million in the Americas.

Run-off businesses

The results of run-off businesses improved to EUR 14 million, mainly due to a deferred policy acquisition cost (DPAC) true-up of EUR 11 million in BOLI/COLI (bank/corporate owned life insurance).

Income tax

Income tax amounted to EUR 174 million resulting in an effective tax rate of 15%, driven mostly by the combined effects of negative fair value items taxed at nominal rates, tax credits, and tax exempt items. There was also a tax charge of EUR 50 million in the Americas related to hedging losses in 2013, and a benefit of EUR 93 million in the United Kingdom from a reduction in the corporate tax rate from 23% to 20%.

The effective tax rate on underlying earnings for 2013 was 21%

Commissions and expenses

Commissions and expenses in 2013 increased 1% compared to 2012 to EUR 5,809 million. Operating expenses increased 5% to EUR 3,328 million, driven mainly by higher sales and employee performance related expenses due to growth in the Americas, restructuring costs in the Americas and United Kingdom, and higher investments in technology to support future growth.

Production

Compared to 2012, Aegon s total sales increased 6% to EUR 7.2 billion as higher gross deposits more than offset lower new life sales. Gross deposits increased 12% to EUR 44.3 billion, driven by variable annuities and mutual funds in the United States and Aegon Asset Management. New life sales were down 2%. Higher pension production in the United Kingdom was offset primarily by lower universal life sales in the Americas due to product withdrawals and product redesign, resulting from focus on value creation, as well as adverse currency movements.

Capital management

The 2013 gross leverage ratio, which is calculated by dividing the total gross financial leverage by the total capitalization, was 30.0%.

Aegon s Insurance Group Directive (IGD) ratio decreased to 212%, mainly due to the impact of IAS 19 and the switch to the swap curve for regulatory solvency calculations in the Netherlands. The combined risk-based capital ratio of Aegon s life insurance subsidiaries in the United States was approximately 440% of the Company Action Level (CAL) risk-based capital. The IGD ratio in the Netherlands, excluding Aegon Bank, was approximately 240%. The Pillar I ratio in the United Kingdom, including the With Profit fund, was approximately 150% at the end of 2013.

On February 10, 2014, Aegon called for the redemption of the USD 550 million in junior perpetual capital securities with a coupon of 6.875% issued in 2006. The redemption was effective March 15, 2014, when the principal amount of USD 550 million was repaid with accrued interest.

Dividends from business units

Aegon received EUR 1.5 billion of dividends from its business units during 2013, split between EUR 0.9 billion from the Americas, EUR 0.5 billion from the Netherlands and EUR 0.1 billion from Aegon Asset Management and Central & Eastern Europe. Capital contributions of EUR 0.5 billion were paid to Aegon s operating units, including EUR 0.4 billion to the United Kingdom.

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Results 2012 worldwide

Underlying earnings geographically			
Amounts in EUR millions	2012	2011	%
Net underlying earnings	**1,424**	**1,247**	**14%**
Tax on underlying earnings	427	297	44%
Underlying earnings before tax geographically			
Americas	1,366	1,286	6%
The Netherlands	325	298	9%
United Kingdom	110	14	-
New markets	274	249	10%
Holding and other activities	(224)	(303)	26%
Underlying earnings before tax	**1,851**	**1,544**	**20%**
Net fair value items	(41)	(416)	90%
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 joint ventures and associates)	**1,881**	**947**	**99%**
Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	*15*	*9*	*67%*
Income tax	*(338)*	*(60)*	-
Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	*(15)*	*(9)*	*(67%)*
Net income	**1,543**	**887**	**74%**
Commissions and expenses	5,765	6,250	(8%)
of which operating expenses	3,177	3,420	(7%)

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 and Joint Ventures eliminations	Consolidated
Total life insurance gross premiums	6,541	3,004	6,047	1,374	(73)	16,893	(693)	16,200
Accident and health insurance premiums	1,833	220	-	188	-	2,241	(11)	2,230
General insurance premiums	-	475	-	144	-	619	-	619
Total gross premiums	**8,374**	**3,699**	**6,047**	**1,706**	**(73)**	**19,753**	**(704)**	**19,049**
Investment income	3,654	2,273	2,337	319	-	8,583	(170)	8,413
Fees and commission income	1,177	329	133	524	(263)	1,900	(44)	1,856
Other revenue	5	-	-	3	5	13	(4)	9
Total revenues	**13,210**	**6,301**	**8,517**	**2,552**	**(331)**	**30,249**	**(922)**	**29,327**
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	1,068	992	8%
Individual Savings & Retirement	490	476	3%
Pensions	352	227	55%
Non-life	15	51	(71%)
Distribution	15	-	-
Asset management	101	60	68%
Other	(224)	(303)	26%
Associates	34	41	(17%)
Underlying earnings before tax	**1,851**	**1,544**	**20%**

Results 2012 worldwide

Aegon s 2012 net income of EUR 1,543 million and underlying earnings before tax of EUR 1,851 million were higher than in 2011, as a result of 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 1,543 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 20% to EUR 1,851 million in 2012. This was 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 1,366 million. The 6% increase compared to 2011 was mainly due to growth of the business and a strengthening of the US dollar against the euro. The positive effects of business growth and favorable equity markets were partly offset by lower fixed annuity earnings (as the product was 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 325 million. The 9% 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 110 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 DPAC 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 were now being charged, in part, to operating units. These charges reflected 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 a loss of EUR 41 million. Negative results in the Americas and in the United Kingdom on hedges due to higher equity markets partly offset by positive results on the guarantee portfolio in the Netherlands.

Realized gains on investments

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

Impairment charges

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

Other charges

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

Run-off businesses

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

Income tax

Net income contained a tax charge of EUR 338 million in 2012 (including a tax charge of EUR 15 million related to profits of joint ventures and 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 8% compared to 2011 to EUR 5,765 million, largely driven by lower operating expenses. Operating expenses decreased 7% compared to 2011 to EUR 3,177 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 and 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 and excluding remeasurement 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 23.5 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 8.40 at December 31, 2012 (2011: EUR 8.19).

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

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

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Results 2013 Americas

	Amounts in USD millions			Amounts in EUR millions		
	2013	2012	%	**2013**	2012	%
Net underlying earnings	**1,328**	1,288	3%	**1,001**	1,002	0%
Tax on underlying earnings	489	468	4%	368	364	1%
Underlying earnings before tax by product segment						
Life & Protection	752	746	1%	567	581	(2%)
Fixed annuities	*205*	*255*	*(20%)*	*155*	*198*	*(22%)*
Variable annuities	*450*	*359*	*25%*	*339*	*280*	*21%*
Retail mutual funds	*33*	*25*	*32%*	*25*	*19*	*32%*
Individual Savings & Retirement	688	639	8%	518	497	4%
Employer Solutions & Pensions	350	319	10%	263	248	6%
Canada	18	40	(55%)	14	31	(55%)
Latin America	9	12	(25%)	7	9	(22%)
Underlying earnings before tax	**1,817**	**1,756**	**3%**	**1,369**	**1,366**	**0%**
Net fair value items	(1,288)	(98)	-	(971)	(76)	-
Gains / (losses) on investments	149	225	(34%)	112	175	(36%)
Impairment charges	(56)	(151)	63%	(42)	(117)	64%
Other income / (charges)	95	(37)	-	72	(28)	-
Run-off businesses	18	4	-	14	2	-
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	**734**	**1,699**	**(57%)**	**553**	**1,322**	**(58%)**
Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	*4*	*4*	*0%*	*3*	*3*	*0%*
Income tax	(142)	(342)	58%	(107)	(266)	60%
Of which Income tax from certain proportionately consolidated joint ventures and associates included in	*(4)*	*(4)*	*0%*	*(3)*	*(3)*	*0%*

income before tax						
Net income	**592**	**1,357**	**(56%)**	**446**	**1,056**	**(58%)**
Life insurance gross premiums	8,212	8,405	(2%)	6,187	6,541	(5%)
Accident and health insurance premiums	2,372	2,356	1%	1,787	1,833	(3%)
Total gross premiums	**10,584**	**10,761**	**(2%)**	**7,975**	**8,374**	**(5%)**
Investment income	4,473	4,694	(5%)	3,370	3,654	(8%)
Fees and commission income	1,689	1,512	12%	1,273	1,177	8%
Other revenues	6	6	0%	4	5	(20%)
Total revenues	**16,752**	**16,973**	**(1%)**	**12,622**	**13,210**	**(4%)**
Commissions and expenses	4,332	4,276	1%	3,264	3,329	(2%)
of which operating expenses	1,985	1,823	9%	1,496	1,420	5%

	Amounts in USD millions			Amounts in EUR millions		
New life sales	**2013**	2012	%	**2013**	2012	%
Life & Protection	505	563	(10%)	380	438	(13%)
Canada	68	60	13%	51	47	9%
Latin America	42	45	(7%)	32	35	(9%)
Total recurring plus 1/10 single	**615**	**668**	**(8%)**	**464**	**520**	**(11%)**

	Amounts in USD millions			Amounts in EUR millions		
	2013	2012	%	**2013**	2012	%
New premium production accident and health insurance	902	905	0%	680	705	(4%)

	Amounts in USD millions			Amounts in EUR millions		
Gross deposits (on and off balance)	**2013**	2012	%	**2013**	2012	%
Life & Protection	11	12	(8%)	8	9	(11%)
Fixed annuities	*552*	*371*	*49%*	*416*	*289*	*44%*
Variable annuities	*8,496*	*5,350*	*59%*	*6,402*	*4,163*	*54%*
Retail mutual funds	*4,301*	*3,437*	*25%*	*3,241*	*2,675*	*21%*
Individual Savings & Retirement	13,349	9,158	46%	10,058	7,127	41%
Employer Solutions & Pensions	24,222	25,383	(5%)	18,251	19,755	(8%)
Canada	125	177	(29%)	94	138	(32%)
Latin America	18	17	6%	14	13	8%
Total gross deposits	**37,725**	**34,747**	**9%**	**28,424**	**27,042**	**5%**

Exchange rates	Weighted average rate		Closing rate as of	
Per 1 EUR	**2013**	2012	**December 31, 2013**	December 31, 2012
USD	1.3272	1.2849	1.3780	1.3184
CAD	1.3674	1.2839	1.4641	1.3127

Results 2013 Americas

Net income of USD 592 million for the year 2013 was negatively impacted by long-term economic assumption changes and losses on equity macro hedges, which have been put in place to protect Aegon s capital position. Underlying earnings before tax increased to USD 1,817 million in 2013, mainly driven by higher earnings from variable annuities and pensions. New life sales decreased, primarily due to focus on profitability of universal life products, while gross deposits increased.

Net income

Net income for the Americas decreased to USD 592 million in 2013. Higher underlying earnings, other income as well as lower impairments were more than offset by the increase of the loss on fair value items. Results on fair value items amounted to a loss of USD 1,288 million, which were primarily the result of long-term economic assumption changes of USD 514 million and the loss on equity hedges of USD 804 million, which was primarily caused by rising equity markets. Realized gains on investments amounted to USD 148 million, while impairment charges improved to USD 56 million. Other income was USD 95 million, mainly related to gains of USD 265 million on the recapture of certain reinsurance contracts being partly offset by increased accruals of USD 94 million in connection with the company s use of the U.S. Social Security Administration s death master-file and restructuring charges of USD 48 million.

Underlying earnings before tax

2013 underlying earnings before tax increased 3% to USD 1,817 million as higher earnings in variable annuities and pensions from business growth and favorable equity markets more than offset lower earnings in fixed annuities.

- ¿ Life & Protection underlying earnings before tax increased 1% to USD 752 million, as growth of the business was partially offset by the negative impact of lower reinvestment rates due to the low interest rate environment.
- ¿ Underlying earnings before tax from Individual Savings & Retirement increased 8% to USD 688 million, as higher earnings from variable annuities and mutual funds more than offset lower earnings from fixed annuities. Earnings from variable annuities were up 25% to USD 450 million, primarily driven by higher net inflows and favorable equity markets. Earnings from mutual funds increased 32% to USD 33 million, resulting from growth of the business and favorable markets.
- ¿ Employer Solutions & Pensions underlying earnings before tax increased 10% to USD 350 million in 2013, which was primarily the result of strong net pension inflows and favorable equity markets.
- ¿ Underlying earnings before tax from Canada decreased to USD 18 million, primarily as a result of actuarial assumption changes and model refinements. In Latin America underlying earnings before tax were down to USD 6 million.

Commissions and expenses

Commissions and expenses increased by 1% to USD 4,332 million in 2013 compared to 2012. Operating expenses increased by 9%, to USD 1,985 million, primarily the result of higher sales and employee performance related expenses, investments to expand Aegon s digital capabilities and restructuring costs.

Production

New life sales decreased 8% to USD 615 million in 2013, as lower universal life sales due to product withdrawals and product redesign were only partly offset by higher sales of term life products. New premium production for accident & health insurance was stable compared to 2012 and amounted to USD 902 million. This was the result of strong sales of the Medicare part D prescription plan product, which was introduced in 2012, being offset by the loss of two distribution partners for travel insurance and the termination of certain affinity marketing partnerships.

Gross deposits increased 9% to USD 37.7 billion in 2013. Gross deposits in variable annuities, retail mutual funds and retirement plans were all higher than in 2012. Variable annuities gross deposits were up 59% to USD 8.5 billion in 2013, which was primarily driven by Aegon s continued focus on key distribution partners. The increase in retirement plan deposits was driven by plan takeover deposits and focusing on retirement readiness by growing customer participation and contributions.

Results 2012 Americas

	Amounts in USD millions			Amounts in EUR millions		
	2012	2011	%	2012	2011	%
Net underlying earnings	**1,288**	**1,342**	**(4%)**	**1,002**	**965**	**4%**
Tax on underlying earnings	468	446	5%	364	321	13%
Underlying earnings before tax by product segment						
Life & Protection	746	791	(6%)	581	569	2%
Fixed annuities	*255*	*287*	*(11%)*	*198*	*206*	*(4%)*
Variable annuities	*359*	*360*	*0%*	*280*	*260*	*8%*
Retail mutual funds	*25*	*23*	*9%*	*19*	*16*	*19%*
Individual Savings & Retirement	639	670	(5%)	497	482	3%
Employer Solutions & Pensions	319	278	15%	248	200	24%
Canada	40	48	(17%)	31	35	(11%)
Latin America	12	1	-	9	-	-
Underlying earnings before tax	**1,756**	**1,788**	**(2%)**	**1,366**	**1,286**	**6%**
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	4	41	90%	2	28	(93%)
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	**1,699**	**934**	**82%**	**1,322**	**671**	**97%**
Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	*4*	*1*	-	*3*	*1*	-
Income tax	(342)	(27)	-	(266)	(20)	-
Of which Income tax from certain proportionately consolidated joint ventures and associates included in	*(4)*	*(1)*	-	*(3)*	*(1)*	-

income before tax						
Net income	**1,357**	**907**	**50%**	**1,056**	**651**	**62%**
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**	**16,703**	**2%**	**13,210**	**12,008**	**10%**
Commissions and expenses	4,276	4,922	(13%)	3,329	3,540	(6%)
of which operating expenses	1,823	1,931	(6%)	1,420	1,389	2%

	Amounts in USD millions			Amounts in EUR millions		
New life sales	2012	2011	%	2012	2011	%
Life & Protection	563	466	21%	438	334	31%
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%**

	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 & Retirement	9,158	8,412	9%	7,127	6,048	18%
Employer Solutions & Pensions	25,383	23,266	9%	19,755	16,727	18%
Canada	177	335	(47%)	138	241	(43%)
Latin America	17	4	-	13	3	-
Total gross deposits	**34,747**	**32,029**	**8%**	**27,042**	**23,028**	**17%**

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

Results 2012 Americas

Aegon s businesses in the Americas 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 1,357 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 1,756 million in 2012, a decrease of 2% 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 6% to USD 746 million, mostly the result of the non-recurrence of favorable items in 2011.
- ¿ Underlying earnings before tax from Individual Savings & Retirement decreased by 5% to USD 639 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 359 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 increased slightly to USD 25 million.
- ¿ Employer Solutions & Pensions underlying earnings before tax increased by 15% to USD 319 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 13% to

EUR 4,276 million in 2012, mainly due to lower amortization of deferred policy acquisition costs. Operating expenses decreased by 6% to USD 1,823 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.

Overview of Americas

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

Aegon USA

Aegon USA is one of the leading life[1] insurance organizations in the United States and the largest of Aegon s operating units. Aegon USA administers millions of policies and employs approximately 11,000 people. Many of the Aegon USA companies operate under the Transamerica brand, one of the best known names[2] in the United States insurance business. Aegon USA companies have existed since the mid-19th century. 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, Aegon USA uses a variety of distribution channels to help customers access its products as best suits their needs. Aegon USA has long-standing relations with banks across the United States, and also distributes products and services through agents, broker-dealers, Registered Representatives, the Internet, and 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 and Canadian Premier Life subsidiaries. At December 31, 2013, Aegon Canada had approximately 657 employees.

Aegon Brazil

In 2009, Aegon acquired a 50% interest in Mongeral Aegon Seguros e Previdência S.A., Brazil s sixth largest independent (i.e. non-bank affiliated) life insurer. At December 31, 2013, Aegon Brazil had approximately 444 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, 2013, Aegon Mexico had approximately 84 employees. In December 2013, Aegon entered into a joint venture with Adminstradora Akaan S.A. de C.V. to create Akaan-Aegon S.A.P.I. de C.V. to explore financial service opportunities. This organization will initially focus on third party asset management.

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. The use of the term Aegon USA throughout this document refers to the operating subsidiaries in the United States, through which Aegon USA conducts business. Aegon USA has operating licenses in every US state, as well as 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 divisions acting through one or more of the Aegon USA life insurance companies:

¿ Life & Protection;
¿ Individual Savings & Retirement;
¿ Employer Solutions & Pensions.

These divisions, described in further detail below, represent groups of products that are sold through Aegon USA s operating companies through 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, identify business synergies, and 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.

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

Overview of 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;
- Registered Representatives;
- Independent marketing organizations;
- Banks;
- Regional and independent broker-dealers;
- Benefit 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. 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

Transamerica Life Canada (TLC) provides life insurance products to Canadian consumers. By working through a variety of distribution channels, TLC has acquired a national network of thousands of independent advisors. These advisors provide middle market Canadians with individual life insurance and protection products. Canadian Premier offers simplified life, group creditor and accident and sickness coverage. Distribution channels include:

- Independent and career agents;
- Independent managing general agencies;
- Agencies owned by Transamerica Life Canada;
- Bank-owned national broker-dealers and mutual fund dealers;
- Bank and credit union affinity partners.

Overview of business lines

Aegon USA

Life & Protection

Life & Protection (L&P), the largest of the three divisions, serves customers in a broad range of market segments. Consumers may choose to purchase directly or through career (or independent) agents, the worksite, or sponsored (or affinity) groups. L&P offers a comprehensive portfolio of protection solutions.

Products

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

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 (or 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, retiree medical and student health. Specialty lines include travel, membership and creditor (installment, mortgage or 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 L&P 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, worksite, and broker-dealer.

Affinity markets

The Affinity Markets group markets directly to consumers through either 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

Transamerica Agency Group includes Transamerica Agency Network (comprising Independent Group and Transamerica Agency Network), Career Agency, Transamerica Senior Markets, Edgewood Financial Network and several independent marketing organizations. This group provides life insurance and supplemental health insurance 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 and financial institutions 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.

Worksite

Transamerica Employee Benefits (TEB) offers life and supplemental health insurance products through employers, labor unions and trade associations. TEB s comprehensive portfolio includes universal life, whole life and term life insurance, as well as accident, critical illness, cancer, hospital indemnity, medical expense indemnity, short-term disability, and dental policies. Some of these products provide insureds with lump sum or specified income payments when hospitalized, disabled or diagnosed with a critical illness. Others pay benefits for specific medical expenses and treatments, or cover deductibles, co-payments and coinsurance amounts not covered by other health insurance. In addition, TEB offers stop loss insurance to employers to protect against catastrophic losses under self-funded health plans.

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 helps clients create, grow and protect wealth through a range of financial products and services.

Individual Savings & Retirement

Through its insurance companies, broker-dealers and investment advisors, Aegon USA offers a wide range of savings and retirement products and services, including mutual funds and variable and fixed annuities. The Individual Savings & Retirement (IS&R) 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

Aegon USA s fee-based business comprises asset management and insurance products that generate fee income by providing investment management, administrative or risk transfer services. Generally, fee income is sensitive to withdrawals and equity market movements.

Aegon USA s operations 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 managers with oversight for the Transamerica mutual funds. Aegon USA selects, manages, and retains affiliated and non-affiliated managers from a variety of investment firms based on a number of qualitative and quantitative factors.

Mutual funds

Transamerica is a sub-advised or manager of managers fund platform. Fund managers can include those affiliated with Transamerica. Aegon USA earns investment management fees on investment products managed by unaffiliated sub-advisors and also earns direct investment management fees through affiliated managers acting as sub-advisors.

Variable annuities

Variable annuities are sold to individuals and retirement plans in the United States. Variable annuities allow policyholders to accumulate assets for retirement on a tax-deferred basis, and to participate in equity or bond market performance. Variable annuities allow policyholders to select payout options designed to help meet the policyholders need for income upon maturity, including lump sum payment, or income for a fixed period or life. Variable annuities have a maturity date at which benefits must be used or the contract surrendered. Commonly this date corresponds to the annuitant s age, with a maximum age of 99 years.

Premiums paid on variable annuity contracts are invested in underlying funds chosen by the policyholder, including bond and equity funds, and 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. Generally, surrender charges are not a large form of revenue as policyholder surrender rates are typically lower when a surrender charge penalty remains. Collected surrender charges are typically used to recoup unamortized deferred acquisition costs.

A guaranteed minimum withdrawal benefit is offered on some variable annuity products Aegon USA has either issued or assumed from a ceding company. This benefit guarantees a policyholder may 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, upon the death of the insured 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 has not been 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 increases the value of the guarantee with interest or with increases in the account value.

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

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

Fixed annuities

Fixed annuities include deferred annuities, fixed index annuities, and immediate annuities. These product lines have been de-emphasized due to the low interest rate environment. A fixed annuity exposes Aegon to interest rate risk and behavior and mortality risk. The insurer s interest rate risk may be mitigated through product design, close asset liability management and hedging, although the effects of policyholder behavior cannot be fully mitigated. Immediate annuities have lower behavior risks than deferred annuities, but contain interest rate risk, and longevity risk if annuity payments are life contingent.

Income from fixed annuities is generated by spread on investment earnings over the credited rate, policy fees if

applicable, and surrender charges. Fees and surrender charges are not a large source of revenue on fixed annuities.

An immediate annuity is purchased with a single lump sum premium payment, and the benefit payments generally begin within a year of purchase. The benefit payment period may be for a fixed period or 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.

The policyholder may surrender the annuity prior to maturity and receive the cash value less surrender charges. Fixed annuities have a specified crediting rate that may be reset periodically at the company s discretion after an initial guarantee period. Fixed annuity contracts in the United States also offer guaranteed minimum surrender values and payout options. Fixed annuities have a maturity date at which benefits must be used or the contract surrendered. Commonly this date corresponds to the annuitant s age, up to a maximum of 95 years. Upon maturity of the annuity, the policyholder s payout options include a lump sum payment, income for life, or payment for a specified period of time.

Minimum interest rate guarantees exist in all generations of fixed 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 3.25%. Equity indexed annuities offer additional returns that are index-linked to published stock market indices and proprietary indices, with a minimum cash value equal to a percentage of the premium increased at a minimum fixed or variable rate. Equity indexed annuities make up a small fraction of the in-force business. Certain fixed annuity products also offer a bailout provision. Under the bailout provision, if the crediting rate falls below the bailout rate, policyholders may 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, and a large bank network. TCI serves these distribution channels through affiliated and external wholesalers.

From late 2009, Aegon USA reduced its sales of fixed annuities in response to lower market interest rates and lower investment returns. Similar market conditions continue to restrict sales of fixed annuities and, as a result, Aegon USA has de-emphasized their sale.

TFA provides a range of financial and investment products, operating as a retail broker-dealer registered with the 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, and pension-related products and services, as well as step-by-step guidance to people who are transitioning to, or living in, retirement related to five key areas, - lifestyle, investments, health care, protection and income.

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 tax-exempt organizations and certain minister;
- 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;
- 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, 457(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

As of January 2013, Diversified Retirement Corporation, Transamerica Retirement Services, and Transamerica Retirement Management were rebranded Transamerica Retirement Solutions.

Transamerica Retirement Solutions is a leading provider of retirement plans in both the institutional market (mid- to large-sized organizations) and the emerging market (small U.S. employers).

In the institutional market, Transamerica Retirement Solutions 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 access to a broad range of investment options, including institutional and retail mutual funds, registered or non-registered variable annuities, and a collective investment trust. The investment options offered in each plan are selected by the client or the client s financial adviser.

In the emerging market, Transamerica Retirement Solutions 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 commonly 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.

Transamerica 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 may 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 for mid- to large-sized defined contribution, defined benefit and non-qualified deferred compensation retirement plans. Transamerica Retirement Solutions institutional market 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 retirement plan products and services are distributed through intermediaries such as retirement plan advisors, benefit consultants, and financial planners. Transamerica Retirement Solutions works closely with strategic alliance relationships and more broadly with many broker-dealers.

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.

For those individual plan participants who are in transition due to a lay-off, job change or planned retirement, Transamerica Retirement Solutions provides personal retirement services by telephone through a team of experienced registered representatives and investment advisors. In addition, Transamerica Retirement Solutions provides pre-retirees guidance and decision support to transition to and through retirement. Transamerica Retirement Solutions offers a variety of solutions, including Individual Retirement Accounts (IRAs), advisory services, annuities and access to other insurance related products and resources. Each plan for retirement can be tailored to the goals and needs of the individual.

Latin America

Aegon s business in Latin America comprises a 50% interest in Mongeral Aegon Seguros e Previdência S.A., a Brazilian independent life insurer, and a 49% interest in Seguros Argos S.A. de C.V., a Mexican life insurance company. Mongeral Aegon 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. In December 2013, Aegon became a 50% owner of a joint venture with Adminstradora Akaan S.A. de C.V. to create Akaan-Aegon S.A.P.I. de C.V. to explore financial service opportunities. This organization will initially focus on third party asset management.

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

Guaranteed investment contracts (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 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 a floating-rate via swap agreements, and contracts issued in foreign currencies were converted at issuance to US dollars through swap agreements to eliminate currency risk. Usually, credited interest on floating-rate contracts resets on a monthly basis to various market indices. The term of the contract may be fixed, generally from six months to ten years, or 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 an 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 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 claim, with the injured party receiving 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.

Bank- and corporate-owned life insurance

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 Aegon Americas companies include other large and highly-rated insurance carriers, as well as certain banks, securities brokerage firms, investment advisors, and other financial intermediaries marketing insurance products, annuities and mutual funds. Aegon USA leverages long-term relationships with many institutions to offer them product lines such as variable annuities, life insurance, mutual funds, and 401(k) products.

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

Aegon USA markets variable universal life, mutual funds, and variable annuities to middle-income clients with equity investment objectives. Variable annuity 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. There is continued interest, and strong competition among providers, in guaranteed lifetime withdrawal products. Aegon USA competes in the variable annuity marketplace. It maintains an effective wholesaling force, and focuses on strategic business relationships and products with competitive features, benefits and pricing. Aegon USA s primary competitors in the variable annuity market are Jackson National, Lincoln National, MetLife, Nationwide, and Prudential.

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

The retirement plan 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 by continued growth in key market segments, technology improvements, and process management efficiency.

In the defined contribution market, Aegon USA s main competitors are Fidelity, Mass Mutual, New York Life, Principal Financial, Schwab, T. Rowe Price, and Vanguard. Aegon USA s main competitors in the defined benefit segment are Mass Mutual, New York Life, Principal Financial, and Prudential. In the emerging market segment and the multiple employer plan segment, Aegon USA s main competitors are American Funds, Fidelity, ING, John Hancock, and Principal Financial. In the single premium group annuity market, Aegon USA s main competitors are John Hancock, Mass Mutual, MetLife, Mutual of Omaha, and Prudential.

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. Regulators in each of those states and jurisdictions have broad powers to 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, fines, sanctions or other monetary penalties 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 state insurance departments, 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 to focus on these compliance issues, and costs may increase as a result of these regulatory activities.

State insurance regulators 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, which are defined

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 2013.

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 modification of these adjusted capital levels by the regulators or rating agency capital models may impact Aegon USA. Previously, states adopted conservative reserving requirements for term and universal life products. These continue to cause capital strain for the life insurance industry and, in volatile market conditions, funding for these reserves is 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 from 2012. 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, to come into effect in 2015. The NAIC passed a revised Model Standard Valuation Law (SVL) and Valuation Manual, which together established Principles-Based Reserving (PBR) in 2012. Seven states, none in Aegon USA s domestic jurisdictions, passed the SVL in 2013. As adoption by a super-majority of states is required for PBR to be effective in any state, the effective date of PBR is expected to be 2016 or later. The NAIC will continue to consider changes to corporate governance and insurers use of captives through 2014. The impact of changes to the use of captives on the company cannot be predicted at this time. Proposals have included abolishing the use of captives or significantly restricting their use.

Although historically the federal government of the United States has not 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, as well as the security of customer information, including obligations in the event of data security breaches. Congress is considering proposals intended to assist in combating cyberthreats. Proposals designed to assist the federal government in combating cyberthreats could impose additional obligations on companies to provide information relative to the effort. At this time, it is uncertain what impact, if any, these proposals may have on insurers.

In addition to the US Congress, non-traditional insurance regulators are increasingly involved in insurance matters traditionally reserved for State regulation; for example, the Federal Reserve Board, the Federal Insurance Office (FIO), the Securities & Exchange Commission and others have recently considered the regulation of captive reinsurance transactions.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), enacted in 2010, established the Federal Insurance Office. While the FIO has no 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 FIO is also authorized to monitor all aspects of the insurance industry, including identifying issues or gaps in the regulation of insurers that could contribute to a systemic crisis in the insurance industry of the US financial system. On December 12, 2013, the FIO submitted to Congress and released to the public a report on how to modernize and improve the system of insurance regulation in the United States. The report details strengths and weaknesses of the current US insurance regulatory system and outlines near-term reforms for states to undertake regarding capital adequacy, safety and soundness, reform of insurer resolution practices, and marketplace regulation. The report also outlines areas for federal involvement in insurance regulation, including pursuing national uniform treatment for reinsurers, adopting national standards for agent licensing and other provisions of The National Association of Registered Agents and Brokers Reform Act of 2013, and studying the use of personal information for insurance pricing and coverage purposes. The FIO is expected to continue to monitor state insurance activities, coordinate policy, and engage in other actions as necessary to pursue the recommendations made in its report. .

The Dodd-Frank Act has entrusted to the Board of Governors of the Federal Reserve Board (the Federal Reserve) a significant regulatory role with respect to life insurers which are either designated as systemically significant or have a bank within the group. Finally, the International Association of Insurance Supervisors (IAIS), which includes the Federal Reserve, FIO and representatives of state regulators, is developing international capital and supervisory standards for internationally active life insurance groups, such as Aegon. It is still to be determined the extent to which these developments or the activities of the FIO and the Federal Reserve will impact Aegon USA and the regulation of insurance in the United States, or life insurers in the United States or internationally.

The Dodd-Frank Act also established the Consumer Financial Protection Bureau, which has the authority to regulate the marketing practices of credit insurance and 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.

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 from time to time by the US Congress and states.

These restrictions adversely impact the telemarketing efforts of Aegon USA, and new proposals, if enacted, will likely impact direct mail efforts. 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 offered by the Aegon USA companies, such as Medigap, 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 advisors 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 against insurance companies or their distributors. Sales of variable insurance and annuity products are regulated by the SEC and the FINRA. The SEC, the 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, another 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). 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.

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 advisors under the Investment Advisers Act of 1940. In accordance with Dodd-Frank Act requirements, the SEC studied and recommended a harmonized standard of care for broker-dealers, investment advisors and persons associated with these firms who provide personalized investment advice. The SEC has solicited comments on the costs and benefits of regulations to establish a harmonized standard of care; however, it has not set a date for proposal of those regulations. Legislation has been proposed in prior congresses that would establish a self-regulatory organization for the examination of investment advisors; however, no action was taken on the legislation. Finally, the SEC and Congress are considering changes to the regulation of money market funds. The impact of any future legislation regulations regarding investment advisors, money market funds, or other investment products cannot be predicted at this time.

The financial services industry, which includes businesses engaged in issuing, administering, and selling fixed and variable insurance products, mutual funds, and other securities, and also includes 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 (especially to seniors), 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 78 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. Management expects any significant marketplace volatility to drive 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. The 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 and the DOL have published, in final and proposed forms, respectively, guidance to facilitate the offering of guaranteed lifetime income products (for example annuities), both as an investment option in a retirement savings plan or as a distribution from that plan. US federal legislation has also been proposed that is designed to increase savings in employer retirement plans and to facilitate managing those retirement savings as income in retirement through annuities. The likelihood of passage of these legislative proposals or finalization of the regulatory guidance cannot be predicted at this time. However, the proposed legislation and guidance, if enacted and finalized as proposed, would increase the awareness of the benefits of annuitization and/or would 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 services 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 is 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 have been debated periodically in the US Congress and also have been proposed in the Executive

Administration s annual budget for the US federal government. Executive Administration budget proposals must be enacted by Congress before they become law. The risk of tax law changes is heightened when additional revenue is sought to reduce the federal deficit. In addition, tax reform initiatives of the type currently being considered by congressional committees further increase the risk of changes to the tax incentives for short- and long-term savings products, to the tax treatment of derivatives used by life insurers to hedge product-related liabilities, and perhaps even 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 and retirement security.

Moreover, legislative proposals which impose restrictions on executive compensation, or restrict employment-based savings plans or the tax benefits related thereto, could adversely impact the sale of life insurance products used in funding those plans and their attractiveness relative to other non-insurance products. 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. Finally, proposed legislation that would limit the ability of an insurer to access the US Social Security Death Master File records would adversely impact the efficient administration of its life insurance policies. The likelihood of enactment of any such legislation cannot be predicted at this time.

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 would redefine some historically foreign-based companies as US corporations for US tax purposes.

Many details of the Dodd-Frank Act were left to study or regulation; 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. For example, the Dodd-Frank Act established the Federal Stabilization Oversight Council (FSOC), responsible for identifying systemically significant companies which are to be subject to additional oversight and heightened and other prudential standards imposed by the Federal Reserve Board. While Aegon USA has not to date been identified by FSOC as systemically significant, the likelihood of future identification of Aegon USA as systemically significant and/or the impact of any designation of other insurers as systemically significant on the competitive position of Aegon USA cannot be predicted at this time.

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, or 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 and 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 in a way that is 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 to implement this law, anticipated over the next several years, 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 (setting the unified estate and gift tax exemption threshold at USD 5 million (adjusted for inflation after 2011), and the maximum tax rate at 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.

Aegon Canada

Transamerica Life Canada (TLC) and Canadian Premier Life (CPL) are 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 and CPL are 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 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 Aegon 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, whereby some liabilities perform better in rising interest rate environments while others tend to perform well in falling interest rate environments. The amount of offset may 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

Aegon USA reinsures part of its life insurance exposure with third party reinsurers under both quota share (traditional indemnity) reinsurance treaties, and excess-of-loss contracts. Aegon USA s reinsurance strategy is consistent with typical industry practice.

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 Aegon s reinsurers is monitored regularly.

Aegon USA

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.

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

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 2013 the Netherlands

Amounts in EUR millions	2013	2012	%
Net underlying earnings	**274**	**260**	**5%**
Tax on underlying earnings	81	65	25%
Underlying earnings before tax by product segment			
Life & Savings	243	267	(9%)
Pensions	111	67	66%
Non-life	(20)	(27)	26%
Distribution	18	16	13%
Share in underlying earnings before tax of associates	2	2	0%
Underlying earnings before tax	**355**	**325**	**9%**
Net fair value items	(65)	71	-
Gains / (losses) on investments	342	138	148%
Impairment charges	(32)	(29)	(10%)
Other income / (charges)	(36)	(279)	87%
Income before tax	**564**	**226**	**150%**
Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	-	*(3)*	-
Income tax	(141)	2	-
Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	-	*3*	-
Net income	**424**	**228**	**86%**
Life insurance gross premiums	3,515	3,004	17%
Accident and health insurance premiums	243	220	10%
General insurance premiums	487	475	3%
Total gross premiums	**4,245**	**3,699**	**15%**
Investment income	2,310	2,273	2%
Fees and commission income	328	329	0%
Total revenues	**6,883**	**6,301**	**9%**
Commissions and expenses	997	1,036	(4%)
of which operating expenses	732	746	(2%)

New life sales

Amounts in EUR millions	**2013**	2012	%
Life & Savings	40	46	(13%)
Pensions	166	200	(17%)
Total recurring plus 1/10 single	**206**	**246**	**(16%)**

Amounts in EUR million	**2013**	2012	%
New premium production accident and health insurance	24	21	11%
New premium production general insurance	26	30	(13%)

Gross deposits (on and off balance)	**2013**	2012	%
Life & Savings	1,338	1,484	(10%)
Total gross deposits	**1,338**	**1,484**	**(10%)**

Results 2013 the Netherlands[1]

2013 net income increased to EUR 424 million compared to 2012 due to higher realized gains on investments and higher underlying earnings before tax which is partly offset by a loss on fair value items (compared to a gain in 2012). The increase in underlying earnings before tax was mostly driven by Pensions earnings and lower operating expenses following implemented cost reduction initiatives.

Net income

Net income from Aegon s businesses in the Netherlands amounted to EUR 424 million. Realized gains on investments totaled EUR 342 million and were primarily the result of adjustments to the asset mix to bring it in line with the new regulatory yield curve and selective de-risking activities. Results on fair value items amounted to a loss of EUR 65 million, which was primarily driven by adverse real estate revaluations of EUR 74 million and a loss in the guarantee portfolio of EUR 118 million. This loss in the guarantee portfolio was mainly the result of the tightening of Aegon s credit spread and model refinements. 2013 impairment charges amounted to EUR 32 million and other charges were EUR 36 million, which mainly included charges of EUR 25 million related to Koersplan (compared to a charge of EUR 265 million related to the acceleration of product improvements for unit-linked insurance products in 2012).

Underlying earnings before tax

Underlying earnings from Aegon s operations in the Netherlands increased 9% to EUR 355 million compared to 2012 as higher earnings in Pensions more than offset lower earnings in Life & Savings.

- Earnings from Life & Savings declined 9% to EUR 243 million compared to 2012 and was impacted by EUR 28 million from reduced policy charges on unit-linked products, as part of the acceleration of product improvements for unit-linked insurance policies.
- Earnings from Pensions increased 66% to EUR 111 million compared to 2012, mainly driven by a benefit resulting from observed mortality of EUR 25 million and higher income on mortgage loan investments allocated to the investment portfolio of the Pension business.
- Non-life earnings improved to a loss of EUR 20 million in 2013. Higher investment income and lower claims on disability products more than compensated for lower profitability of the general insurance business. Distribution recorded a profit of EUR 18 million, up 13% from 2012. This was primarily driven by a continued focus on cost control.

Commissions and expenses

Commissions and expenses decreased by 4% in 2013 compared to 2012. Operating expenses decreased by 2% compared to 2012, to EUR 732 million, as realized cost savings and lower employee benefit expenses offset investments in the business.

Production

Total new life sales decreased 16% in 2013 to EUR 206 million. Individual life sales declined 13% to EUR 40 million in 2013, as the ongoing shift to banksparen products more than offset higher term life sales related to new mortgage production. Pensions sales declined 17% compared to 2012 as signing multiple new contracts was more than offset by the non-recurrence of a very large transaction in 2012. Production of mortgage loans in 2013 amounted to EUR 3.2 billion, up EUR 2.7 billion from 2012.

Premium production for accident & health amounted to EUR 24 million up from EUR 21 million in 2012. General insurance production declined 13% to EUR 26 million. Production was negatively impacted by the focus on profitable business.

Gross deposits decreased to EUR 1.3 billion, as a higher production of *banksparen* products was more than offset by a decline in traditional savings deposits.

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

Results 2012 the Netherlands

Amounts in EUR millions	2012	2011	%
Net underlying earnings	**260**	**238**	**9%**
Tax on underlying earnings	65	60	8%
Underlying earnings before tax by product segment			
Life & Savings	267	185	44%
Pensions	67	98	(32%)
Non-life	(27)	6	-
Distribution	16	8	100%
Share in underlying earnings before tax of associates	2	1	100%
Underlying earnings before tax	**325**	**298**	**9%**
Net fair value items	71	156	(54%)
Gains / (losses) on investments	138	269	(49%)
Impairment charges	(29)	(15)	(93%)
Other income / (charges)	(279)	(164)	(70%)
Income before tax	**226**	**544**	**(58%)**
Income tax	2	(125)	-
Net income	**228**	**419**	**(46%)**
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	2,273	2,192	4%
Fees and commission income	329	329	-
Total revenues	**6,301**	**6,402**	**(2%)**
Commissions and expenses	1,036	1,122	(8%)
of which operating expenses	746	823	(9%)

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%)**

Results 2012 the Netherlands

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 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 228 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 71 million and impairments amounted to EUR 29 million.

Underlying earnings before tax

Underlying earnings before tax from Aegon s operations in the Netherlands increased 9% in 2012 to EUR 325 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 267 million, up 44% 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 67 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 27 million in 2012 as a result of adverse claim experience on disability and general insurance products. Losses on these products 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 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.

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.

Commissions and expenses

Commissions and expenses decreased by 8% in 2012 compared to 2011 driven by lower operating expenses. Operating expenses decreased by 9%, to EUR 746 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 was on track to reduce operating expenses by EUR 100 million in comparison to the cost base for 2010, of which the majority was in 2012. Over the years, Aegon has implemented cost savings of EUR 89 million.

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Overview of the Netherlands

Aegon has operated in the Netherlands for more than 150 years, and is today known as Aegon the Netherlands, one of the country s leading[1] providers of life insurance and pensions, with approximately 4,300 employees. Aegon the Netherlands is headquartered in The Hague, has offices in Leeuwarden and Groningen, and owns the Unirobe Meeùs Group, one of the largest[2] intermediaries in the Netherlands.

Organizational structure

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

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 & Saving;
- Pensions;
- Non-life;
- Distribution.

Overview of sales and distribution channels

Aegon the Netherlands sells through several channels. The Pensions business line includes Sales and account management, which serves large corporations and financial institutions such as company and industry pension funds. In general all business lines use the intermediary channel, which focuses on independent agents and retail sales organizations in the Netherlands. Aegon Bank uses the direct channel, primarily for savings, and Aegon Schadeverzekering has strategic partnerships for the sale of its products and uses an online channel. Aegon the Netherlands launched online bank Knab in 2012 and online insurer Kroodle in 2013, in line with its drive to embrace technology to meet the evolving needs of its customers. Furthermore, Aegon the Netherlands has made significant investments in the direct online channel, which is starting to generate results.

1 Source: DNB/CVS Reports 2012.
2 Source: AM 2012 Jaarboek, published by Assurantie Magazine.
3 Source: Tracking Report Motivaction+.

Overview of business lines

Life & Savings

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

Products

Endowment insurance

Endowment insurance includes several products that accumulate a cash value. Premiums are paid at inception or over the term of the contract.

Accumulation products pay benefits on the policy maturity date, subject to survival of the insured. Most policies also pay death benefits should the insured die during the term of the contract. 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% and in 2013 the guarantee decreased to 0%.

There are various profit-sharing arrangements. Bonuses are either paid in cash (usually for a pension, as described later) or used to increase the sum insured. A common form of profit sharing is to set bonus levels by reference to external indices that are based on pre-defined portfolios of Dutch government bonds. The bonds included in the portfolios have differing 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 should the insured die during the term of the contract. Whole life insurance pays out death benefits in the event of death, regardless of when this occurs. Premiums and amounts insured are established at inception of the contract and are guaranteed. The amount insured may be adjusted at the request of the policyholder. Term life insurance policies do not include profit-sharing arrangements. Part of the whole life insurance portfolio has profit-sharing features, which are based on external indices or the return of related assets.

Annuity insurance

Annuity insurance includes products in the accumulation phase and products 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% and prior to 1999 of 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 benchmarks may also be 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 are unit-linked contracts with a specific bonus structure. At the end of the year in which the insured dies, the policy balance is distributed to the surviving policyholders who belong to the same tontine series, rather than to the policyholder s estate. Should the policyholder die before the policy matures, a death benefit is paid to the dependants. Tontine policyholders may invest premiums in a number of Aegon funds. Aegon the Netherlands manages but no longer sells tontine plans.

Mortgage loans

Since 2013, Aegon the Netherlands has offered annuity and linear residential mortgage loans, either individually or in combination. Previously the business also offered interest-only, unit-linked and savings mortgage loans.

Savings accounts

Aegon the Netherlands offers flexible savings accounts with cash withdrawal with limited restrictions, and deposit accounts with a predetermined maturity.

Investment contracts

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

Long-term deposits (Banksparen)

Banksparen is a saving product for which amounts are deposited in a locked bank account exempt from capital gains tax. The amount saved is available for specific purposes after a certain time period.

Knab

Aegon the Netherlands launched online bank Knab in 2012. The platform provides customers with insights into their financial future and uses a fee-based model to empower informed decision making by customers. A product of collaboration with customers, experts and critics, Knab is designed to meet contemporary customer needs.

Kroodle

In the first quarter of 2013, Aegon the Netherlands launched Kroodle, one of the world s first insurance companies to operate primarily through Facebook allowing customers in the Netherlands to purchase insurance and manage their accounts through their Facebook profile.

Sales and distribution

Aegon the Netherland s life and savings products are sold through Aegon s intermediary and direct channels.

Pensions

The Pensions business provides a variety of full service pension products to pension funds and companies.

Products

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

Separate account group contracts are large group contracts that have an individually determined asset investment underlying the pension contract. A guarantee usually consists of profit sharing, and is the highest of either the market interest rate or the contractual interest rate, 3% or 4%. 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 future surpluses. In general, the guarantee is dependent on the life of the insured so that their pension benefit is guaranteed. Large group contracts also receive part of the technical results for mortality risk and disability risk. The contract period is typically five years and the tariffs, cost loadings and risk premiums 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 may not renew a contract at the end of a contract period.

Aegon offers all customers a defined benefit product with guaranteed benefits. The expected profit is paid to the customer upfront, with the premium adjusted for anticipated investment returns. Customers may contribute funds for future pension increases to a separate account. Aegon the Netherlands also offers defined contribution products with single and recurring premiums to all customers. Profit sharing is based on investment returns on specified funds, and all positive and negative risks, such as investment risk and longevity risk, are attributed to the employees.

A decrease in the number of company and industry pension funds in the Netherlands will continue over the next few years. By law, the assets and liabilities of a terminated pension fund must be transferred to another pension provider. Aegon the Netherlands offers a pension fund buy-out product for its terminating pension funds, for which it takes on the guaranteed or non-guaranteed liabilities, with or without annual pension increases, and receives a lump-sum premium. All risks related to the transferred benefits are carried by Aegon the Netherlands.

Sales and distribution

Most of Aegon the Netherlands pensions are sold through Sales and account management and Aegon s intermediary channel. Customers include individuals, company and industry pension funds, and small, medium and large corporations. Aegon the Netherlands is one of the country s leading providers of pensions

For the majority of company and industry customers, Aegon the Netherlands provides a full range of pension products and services. In addition, TKP Pensioen specializes in pension administration for company and industry pension funds and provides defined contribution plans to corporate and institutional clients, Aegon PPI offers defined contribution plans for small and medium companies.

Non-life

The Non-life business consists of general insurance and accident and health insurance.

Products

General insurance

Aegon the Netherlands offers general insurance products in the corporate and retail markets. These 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 sick leave payments to employees not covered by social security and for which the employer bears the risk.

Sales and distribution

Aegon the Netherlands offers non-life insurance products primarily through the Aegon intermediary channel, and through the direct channel Aegon Online and strategic partnerships, such as with local retailer Kruidvat. Aegon also uses the co-assurance market for the corporate sector, and Sales and account management provides products for larger corporations in the Netherlands.

Distribution

Unirobe Meeùs Group is the main distribution channel owned by Aegon the Netherlands, through which it offers financial advice to its customers, including the sale of insurance, pensions, mortgage loans, financing, savings and investment products.

1 Source: DNB/CVS Reports 2012.

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. This market is, however, subject to quickly changing market dynamics, including the growing use of online channels and a slowly changing pensions landscape (PPI).

Aegon the Netherlands has been a key player in the total life market for many years and is ranked second based on gross premium income in 2012, after ING. The life insurance market in the Netherlands comprises pensions and life insurance. The top six companies by gross premium income accounted for approximately 90% of the total premium income in 2012[1]. Based on gross premium income in 2012[1], Aegon the Netherlands ranks first in the pension market and sixth in the individual life insurance market. Aegon the Netherlands is one of the smaller players in the non-life market. Aegon the Netherlands non-life market share is around 4%, measured in premium income.

In the mortgage loans market, Aegon the Netherlands market share is growing and the company now holds a market share of approximately 9,1% based on new sales[2]. Rabobank, ING and ABN AMRO are the largest mortgage loan providers in this market.

Aegon the Netherlands holds approximately 1.3%[3] of Dutch households savings and is small in comparison to banks Rabobank, ING, ABN AMRO and SNS Bank.

In recent years, several changes in regulations have limited opportunities in the Dutch insurance market, notably in the life insurance market where the tax deductibility of certain products has been reduced, such as for company savings plans. Furthermore, low economic growth and financial market volatility has made customers more reluctant to commit to long-term contracts. These changes have increased competition, resulting in a greater focus on competitive pricing, improved customer service and retention, and product innovation. Since 2011, Aegon the Netherlands has accelerated its response through organizational restructuring accompanied by significant cost savings.

In the pension market, funds face pressure on their coverage ratios, and increased regulatory and governance requirements. In response, pension funds are seeking to reduce risk exposure by insuring the whole or part of a fund. This is an opportunity for pension providers.

The PPI market is to grow significantly due to the shift from defined benefit plans to defined contribution plans, and demand

for transparent and cost efficient pension products. As a result, significant economies of scale will be required to service this market effectively and the number of providers is expected to shrink within a few years. Aegon the Netherlands has identified this market as an opportunity for growth and plans to invest in building a leadership position.

Regulation and supervision

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

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

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

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

Financial supervision of insurance companies

The European Union Insurance Directives referred to collectively as Solvency I are incorporated into Dutch law. The Directives are based on the home country control principle: an insurance company with a license issued by the regulatory authorities in its home country is allowed to conduct business in any country of the European Union, either directly or through a branch. Separate licenses are required for each branch of the insurance company where it conducts business. The regulatory body that issued the license (DNB in the Netherlands) 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

1 Source: DNB/CVS Reports 2012.
2 Source: Kadaster (ytd October 2013).
3 Source: DNB Statistisch Bulletin.

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 additional information it considers necessary and may conduct an audit at any time. DNB may also make recommendations for improvements and publish these recommendations if the insurance company does not follow them. Finally, DNB may 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 general account technical provision or, if no interest guarantees are provided, approximately 1% of technical provisions with investments for the account of policyholders and an additional 0.3% charge for value at risk.

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

Solvency II will likely be effective from January 1, 2016. In anticipation of Solvency II, the Dutch Ministry of Finance and DNB have taken measures for a more risk-based and forward-looking supervision of insurance companies. Before Solvency II is in force, the most important change in the supervision of insurance companies will be the introduction of the Theoretical Solvency Criteria (TSC) for medium and large life insurers. The TSC is effective from January 1, 2014. The TSC requires that several important Solvency II scenarios are calculated for an insurer, thus giving information about the sensitivity of these scenarios on the available solvency under the current regime in the Financial Supervision Act. The TSC is not comparable with the Solvency Capital Requirement (SCR) under Solvency I, as it is not a capital requirement. It will be used by DNB in the ladder of intervention to prevent breaches of solvency requirement as defined by the Financial Supervision Act.

DNB also supervises pension funds, including premium pension institutions (PPIs), and investment companies. PPIs are required to maintain shareholders equity of at least EUR 0.2 million.

Financial supervision of credit institutions

Aegon Bank N.V. is under DNB supervision and required to 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 finalized and is currently being translated into European legislation through the CRD IV framework. The CRD IV framework was implemented in the Netherlands in the Financial Supervision Act as of January 1, 2014.

Asset liability management

Aegon the Netherlands Risk & Capital Committee, which meets every two months, determines and monitors the balance sheet and profit and loss. 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, to manage and possibly hedge actuarial 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 of the liabilities of Aegon the Netherlands, insurance or otherwise, are nominal and long-term. Based on their characteristics, a long-term liability-driven benchmark is derived. Scenarios and optimization analyses are conducted for fixed income, equities and real estate asset classes. The result is an asset allocation and hedges representing the desired risk-return profile. Constraints, such as the minimum return on equity and the minimum desired solvency ratio, are also taken into account. Most of Aegon the Netherlands investments are managed by Aegon Asset Management. Risk-based restrictions are in place to monitor and control actual portfolio allocations against 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. This 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. Either of Aegon the Netherlands or Deutsche Bank may activate an early termination clause to terminate the contract after ten years. The pay-out is maximized at a predetermined percentage which is higher than 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 at capital markets.

Aegon the Netherlands implemented a second longevity hedge in 2013, in line with its strategy of reducing longevity risk from the balance sheet. This covers underlying longevity reserves in the Netherlands of EUR 1.4 billion. It retains some risk around the best estimate of the insurance liabilities of Aegon the Netherlands, while offering protection for significant future mortality improvements, thus lowering the required capital for solvency II 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.

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 mortality and disability risk.

For non-life, Aegon the Netherlands reinsures its property, marine and motor third-party liability business only. For property 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 windstorm event. For motor third party liability insurance, Aegon the Netherlands has reinsurance in place with a retention level of EUR 2.5 million for each event. For marine insurance there is also an excess of loss contract in place with a retention level of EUR 2 million for each event.

Results 2013 United Kingdom

	Amounts in GBP millions			Amounts in EUR millions		
	2013	2012	%	**2013**	2012	%
Net underlying earnings	**155**	**112**	**38%**	**182**	**139**	**31%**
Tax on underlying earnings	(71)	(23)	-	(84)	(29)	(190%)
Underlying earnings before tax by product segment						
Life	83	66	26%	98	81	21%
Pensions	2	25	(92%)	2	31	(94%)
Distribution	(2)	(2)	0%	(2)	(2)	0%
Underlying earnings before tax	**84**	**89**	**(6%)**	**98**	**110**	**(11%)**
Net fair value items	(14)	(26)	46%	(16)	(31)	48%
Gains / (losses) on investments	41	68	(40%)	48	84	(43%)
Impairment charges	(26)	-	-	(31)	-	-
Other income / (charges)	(38)	28	-	(45)	34	-
Income before tax	**46**	**159**	**(71%)**	**55**	**197**	**(72%)**
Income tax attributible to policyholder return	(27)	(32)	16%	(32)	(40)	20%
Income before tax on shareholders return	**19**	**127**	**(85%)**	**22**	**157**	**(86%)**
Income tax on shareholders return	83	13	-	97	16	-
Net income	**102**	**140**	**(27%)**	**120**	**173**	**(31%)**
Life insurance gross premiums	5,546	4,900	13%	6,537	6,047	8%
Total gross premiums	**5,546**	**4,900**	**13%**	**6,537**	**6,047**	**8%**
Investment income	1,743	1,894	(8%)	2,054	2,337	(12%)
Fees and commission income	68	108	(37%)	80	133	(40%)
Total revenues	**7,356**	**6,902**	**7%**	**8,670**	**8,517**	**2%**
Commissions and expenses	629	594	6%	741	734	1%
of which operating expenses	328	269	22%	387	333	16%

New life sales	Amounts in GBP millions 2013	2012	%	Amounts in EUR millions 2013	2012	%
Life	58	72	(19%)	68	89	(24%)
Pensions	802	686	17%	946	847	12%
Total recurring plus 1/10 single	**860**	**758**	**13%**	**1,014**	**936**	**8%**

Gross deposits (on and off balance)	Amounts in GBP millions 2013	2012	%	Amounts in EUR millions 2013	2012	%
Variable annuities	3	22	(86%)	3	27	(89%)
Pensions	236	8	-	278	10	-
Total gross deposits	**239**	**30**	**-**	**281**	**37**	**-**

Exchange rates	Weighted average rate		Closing rate as of	
Per 1 EUR	**2013**	2012	**31-Dec-13**	December 31, 2012
GBP	0.8484	0.8103	0.832	0.8111

Results 2013 United Kingdom

2013 net income of GBP 102 million is 27% lower than 2012 due to the impact of business transformation costs, higher impairment charges and lower underlying earnings before tax as the positive impact of higher equity markets was more than offset by adverse persistency related to the Retail Distribution Review (RDR) and investments in technology. New life sales increased by 13% to GBP 860 million due to higher sales in group pensions and strong platform growth. Platform assets reached GBP 1.3 billion by the end of 2013.

Net income

Net income decreased to GBP 102 million compared to 2012. The result was impacted by a GBP 18 million book loss on the sale of Positive Solutions and business transformation costs of GBP 51 million related to in-sourcing the platform servicing and development as well as other restructuring costs. The loss on fair value items was GBP 14 million, mainly driven by equity hedges to protect the capital position. Realized gains on investments and impairment charges amounted to GBP 41 million and GBP 26 million, respectively. 2013 included a tax benefit of GBP 79 million related to a reduction in the corporate tax rate.

Underlying earnings before tax

Underlying earnings before tax in the United Kingdom declined 6% to GBP 84 million compared to 2012. The positive impact of higher equity markets was more than offset by adverse persistency related to RDR and investments in technology.

- ¿ Earnings from Life increased 26% to GBP 83 million compared to 2012, driven by improved mortality in annuities, lower operating expenses and a GBP 8 million benefit from reserving changes for annuity products.
- ¿ Earnings from Pensions declined to GBP 2 million compared to 2012. Adverse persistency amounted to GBP 19 million, which the UK insurance industry experienced as a result of the implementation of RDR. Earnings benefited from the favorable impact of higher equity markets. This was offset by GBP 13 million of expenses related to creating a digital capability for the non-advised client group in order to facilitate the upgrade to the platform.
- ¿ 2013 earnings from Distribution amounted to a loss of GBP 2 million. Earnings from Distribution will no longer be reported separately. Positive Solutions was sold, and Origen was moved into the Pensions line of business.

Commissions and expenses

Commissions and expenses increased 6% compared to 2012 as a consequence of higher operating expenses. Operating expenses increased 22% compared to 2012 to GBP 328 million, as expenses related to investments in technology and business transformation costs of GBP 64 million were incurred. Excluding these costs, expenses were 2% lower compared to 2012. Commissions declined due to the sale of Positive Solutions and the impact of the implementation of RDR on Pension business commission.

Production

New life sales were up 13% to GBP 860 million compared to 2012, reflecting strong platform growth and higher sales in group pensions following the implementation of RDR on January 1, 2013.

Platform assets reached GBP 1.3 billion by the end of 2013. Gross deposits amounted to GBP 239 million, driven by platform savings products, as the platform gained momentum in the market.

Results 2012 United Kingdom

	Amounts in GBP millions			Amounts in EUR millions		
	2012	2011	%	2012	2011	%
Net underlying earnings	**112**	**39**	**187%**	**139**	**44**	**-**
Tax on underlying earnings	(23)	(26)	12%	(29)	(30)	3%
Underlying earnings before tax by product segment						
Life	66	88	(25%)	81	101	(20%)
Pensions	25	(69)	-	31	(79)	-
Distribution	(2)	(6)	67%	(2)	(8)	75%
Underlying earnings before tax	**89**	**13**	**-**	**110**	**14**	**-**
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	**159**	**(52)**	**-**	**197**	**(60)**	**-**
Income tax attributible to policyholder return	(32)	(37)	14%	(40)	(43)	7%
Income before tax on shareholders return	**127**	**(89)**	**-**	**157**	**(103)**	**-**
Income tax on shareholders return	13	50	(74%)	16	58	(72%)
Net income	**140**	**(39)**	**-**	**173**	**(45)**	**-**
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	594	724	(18%)	734	835	(12%)
of which operating expenses	269	401	(33%)	333	463	(28%)

New life sales	Amounts in GBP millions 2012	2011	%	Amounts in EUR millions 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%**

Gross deposits (on and off balance)	Amounts in GBP millions 2012	2011	%	Amounts in EUR millions 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 December 31,	December 31,
Per 1 EUR	2012	2011	2012	2011
GBP	0.8103	0.8667	0.8111	0.8353

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Results 2012 United Kingdom

Underlying earnings before tax from Aegon s operations in the United Kingdom improved to GBP 89 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 140 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 89 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 25 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 269 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.

Overview of United Kingdom

In the United Kingdom, Aegon is a major provider of corporate and individual pensions, protection products, annuities, and savings products such as Individual Savings Accounts (ISAs). Aegon UK has some two million customers, approximately 2,400 employees, and GBP 57.3 billion in revenue-generating investments. Aegon UK s main offices are in Edinburgh and London.

Aegon UK is focused on two core markets in the United Kingdom, at-retirement and workplace savings. Both markets present opportunities for growth and are markets where Aegon UK has a heritage of expertise.

2013 was a year of great regulatory change in the United Kingdom, with the introduction of Pensions Reform and the Retail Distribution Review (RDR). Aegon UK has successfully adapted its working practices, business models and products to meet these changes.

In addition to selling and servicing traditional stand-alone pensions, investment and protection products for its core markets, Aegon UK also maintains an award-winning online platform[1], has launched the SmartEnrol auto-enrolment online hub to support employers with their new Pensions Reform duties, and has successfully expanded its distribution network by securing deals with significant global players in the workplace savings market.

Award-winning platform

Aegon UK s award-winning platform[1] provides customers with a seamless transition from saving while working to drawing an income in retirement. The platform is unique in that it allows customers to do both of these things in one place, and enables advisors to offer clients various levels of self-service through a unique gating facility.

Aegon UK offers three propositions to customers through the platform, all of which use the same core technology, product wrappers (for example, pensions, ISAs, savings schemes), investments and client services. The propositions are:

- At Retirement - a wrap solution offered to retail customers via Independent Financial Advisers (IFAs);
- Workplace Savings - a wrap solution offered to corporate customers via banks such as Barclays, employee benefit consultants such as Mercer, and other accounts;
- Aegon One Retirement - a standalone pension solution.

1 The ARC platform won Best Innovation on a Platform and Best Workplace Savings Platform 2012 at the Platform awards.

Together, the At Retirement and Workplace Savings propositions are known as Aegon Retirement Choices (ARC). ARC allows customers investments and savings, workplace pensions and retirement income to be managed from one online solution. The At Retirement and Workplace Savings propositions offer customers a mix of products to cover saving for retirement and taking a retirement income.

One Retirement is an online single retirement account for retirement savings and income drawdown. It offers a range of investment and retirement income options, providing customers with flexible choices for their individual retirement needs, and is easy to use, allowing customers to engage in their retirement planning, and putting advisors in control. As such, it allows Aegon UK to develop a lasting relationship with customers throughout working life, transition into retirement, and retirement. This innovative and unique platform proposition also positions Aegon UK to take advantage of opportunities in the post-RDR world.

Enhanced corporate distribution

Aegon UK s commitment to, and focus on, the workplace savings market has resulted in significant achievements this year. In February, the company secured a significant corporate pensions distribution deal with Barclays bank, supporting Aegon UK s strategy to diversify its distribution and sending a powerful message to the market about its corporate ambition and capability.

In July, Aegon UK was appointed by Mercer to become one of three preferred suppliers for its large-client workplace savings service, Mercer Workplace Savings. In addition, Aegon UK will become the only supplier for Mercers Elect, which focuses on the small and medium-sized enterprises workplace savings market. These appointments further broaden Aegon UK s distribution network and highlight the strong competitive positioning of the ARC platform.

As the UK market develops following the regulatory changes triggered by the RDR and by Pensions Reform, Aegon UK is well placed to provide advisors 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);
- ¿ Aegon Investment Solutions Ltd.

Overview of 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. The advisors provide customers with access to various products, depending on the advisor regulatory status, together with advice on the solution that best suits their financial needs.

In all, there are an estimated 25,000 registered financial advisors in the United Kingdom. Until December 31, 2012, these advisors were classified as either single-tied, multi-tied, whole of market or independent, depending on whether or not they were restricted in the number of providers they represented. The Retail Distribution Review came into effect on January 1, 2013. From this date, retail financial advisors have been classed as either independent or restricted and are remunerated directly by the customer based on the service provided. Aegon UK continues to maintain strong links with financial advisors in all segments of the market. This registration excludes corporate advisors and Employee Benefit Consultants (EBCs).

A dedicated team supports our key corporate advisors and corporate strategic accounts.

As mentioned above, Aegon UK is also developing new distribution opportunities, including agreements with banks and affinity partnerships with organizations outside the industry. Barclays and Mercer are examples of companies with which Aegon UK has established a commercial partnership in 2013.

Overview of business lines

Aegon UK has two business lines:

- ¿ Life;
- ¿ Pensions.

Life

The Aegon UK life business primarily comprises individual protection and individual annuities.

Individual protection

Aegon UK offers a range of products for individual customers, including life cover, critical illness and income protection. 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 available through intermediated advice channels.

Pensions

Aegon UK provides a full range of personal and corporate pensions. The company also offers investment products, including ISAs, General Investment Accounts (GIAs), offshore bonds and trusts.

Platform

Aegon Retirement Choices (ARC) helps advisors and their customers with the transition from work to retirement efficiently and effectively through a technology-driven platform. Aegon UK has deployed leading edge technology to the platform, delivering 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 advisors to demonstrate their professionalism and display their charges for advice in a transparent way. Professionalism and transparency are key principles of the Retail Distribution Review which came into effect on January 1, 2013. In addition to the 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, the platform also offers ISAs and GIAs.

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 United Kingdom, 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 pension 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 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 to either purchase an annuity or 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 gateway

Many DC and master trust pension schemes are managed by a third party with an insurance contract. These are typically trust-based pensions for which the corporate customer (an employer) requires investment solutions that are specific to each pension scheme. These solutions typically require a non-branded investment portal and the provision of fund blending to create scheme default funds. In addition, a growing number of corporate customers want target dated lifestyle fund solutions for their members as they approach retirement. Aegon UK provides a low cost service that uses electronic messaging to automate the process and minimize risk.

In 2013, Aegon UK launched its first non-UK arrangement. This offers a centrally-funded asset solution to support a multinational providing employee benefits in multiple countries.

Individual pensions

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

- ¿ Flexible personal pensions;
- ¿ Self invested personal pensions;
- ¿ Transfers from other retirement plans;
- ¿ Phased retirement options and income drawdown.

As an alternative to annuities, Aegon UK also offers Income for lLife , 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 until the age of 75.

Investment products

Aegon UK offers offshore investment bonds[1]. An offshore bond is traditionally marketed to high-net-worth individuals. Offshore contracts offer considerable tax advantages and a wide choice of investment options. Aegon UK also offers GIAs and ISAs through its platform.

Unit-linked guarantees

Aegon UK offers a range of investment products which provide valuable guarantees for the At-Retirement market. There is an offshore investment plan which provides a guaranteed income for life and an offshore bond which provides capital guarantees (offered by Aegon Ireland plc).

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

Sales and distribution

Investment products and individual and corporate pensions are distributed widely through independent financial advisors, tied distribution and, more recently, partnerships with banks. Aegon UK also maintains close relations with a number of specialist advisors in these markets. Aegon UK is building and diversifying its workplace distribution capability, partnering with Mercer and Barclays in the first half of 2013.

ARC is distributed through intermediated advice channels.

Competition

Aegon UK faces competition from three main sources, life and pension companies, retail investment firms, and retail platform service companies.

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 Bank and Aviva. In the platform market, service companies like Cofunds, Funds Network and Skandia are among Aegon UK s largest competitors.

Regulation and supervision

All relevant Aegon UK companies are regulated by the Prudential Regulation Authority (PRA) and/or the Financial Conduct Authority (FCA).

The PRA is responsible for the prudential regulation of deposit takers, insurers and major investment firms. The FCA is responsible for regulating firms conduct in retail and wholesale markets. It is also responsible for the prudential regulation of those firms that do not come under the PRA s remit.

A number of Aegon UK directors and senior managers have been approved by the FCA and/or the PRA to perform one or more controlled functions. A regulator will only approve a candidate whom it is satisfied is fit and proper to perform the controlled function(s) for which they have applied.

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 a regular basis, 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 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.

For 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 are 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 an excess of assets over liabilities regarding guaranteed benefits and constructive obligations is classified as an insurance or investment contract liability. The Scottish Equitable with-profit fund is a 100:0 fund, whereby 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 are written in policyholder-owned funds (otherwise called with-profit funds). These funds contain free assets which have not yet 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 minimum

pension or guaranteed death or other benefits. Guaranteed rates of return apply only if the policy is kept in force to the dates specified, or only on the events described in the policy conditions. The costs of all guarantees are borne by the with-profit funds and therefore impact the pay-outs to with-profit policyholders.

As part of its demutualization process prior to acquisition by Aegon N.V., the business and assets of Scottish Equitable Life Assurance Society were transferred to Scottish Equitable plc on December 31, 1993. Aegon UK has no financial interest in Scottish Equitable plc. s with-profit fund, except routine yearly fund management charges, and 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; however, the highest rates have been closed to premiums since 1999, and all funds have been closed to new business with investment guarantees since October 2002, except for a small increase in regular payments. For 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

Aegon UK s with-profit fund has an investment strategy 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, and this range may be varied. Within these 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 are distributed to policyholders through a system of bonuses which depends 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. For early withdrawals, there are other measures to ensure that a fair share of total fund growth is received. A market value reduction may be applied to certain funds where, 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 for 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. These free assets are partly invested in equity puts and fixed interest swaps/swaptions to protect against adverse market movements. Aegon UK has an exposure only once these free assets are exhausted. The risk of exposure has been assessed by Aegon UK as 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 free assets are being distributed gradually to with-profit policyholders through the bonus system outlined above. This includes 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, helping to prevent a tontine effect 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 of reinsurance. 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 with reinsurance companies with 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, and by Aegon s Group Reinsurance Use Committee in The Hague. Aegon UK uses a range of reinsurers across the reinsurance market.

Results 2013 New Markets

Amounts in EUR millions	2013	2012	%
Net underlying earnings	**159**	**185**	**(14%)**
Tax on underlying earnings	77	89	(13%)
Underlying earnings before tax by product segment			
Central & Eastern Europe	59	85	(31%)
Asia	42	19	121%
Spain and France	33	69	(52%)
Variable Annuities Europe	7	-	-
Aegon Asset Management	95	101	(6%)
Underlying earnings before tax	**236**	**274**	**(14%)**
Net fair value items	(21)	(1)	-
Gains / (losses) on investments	(1)	10	-
Impairment charges	(16)	(26)	38%
Other income / (charges)	(33)	113	-
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	**167**	**370**	**(55%)**
Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	*5*	*15*	*(67%)*
Income tax	(34)	(121)	72%
Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	*(5)*	*(15)*	*67%*
Net income	**133**	**249**	**(47%)**
Life insurance gross premiums	1,349	1,374	(2%)
Accident and health insurance premiums	170	188	(10%)
General insurance premiums	194	144	35%
Total gross premiums	**1,713**	**1,706**	**0%**
Investment income	233	319	(27%)
Fees and commission income	583	524	11%
Other revenues	2	3	(33%)
Total revenues	**2,531**	**2,552**	**(1%)**
Commissions and expenses	988	870	14%

of which operating expenses	656	613	7%

New life sales			
Amounts in EUR millions	2013	2012	%
Central & Eastern Europe	108	114	(5%)
Asia	67	53	26%
Spain and France	54	86	(37%)
Total recurring plus 1/10 single	**228**	**253**	**(10%)**

Amounts in EUR million	2013	2012	%
New premium production accident and health insurance	43	42	2%
New premium production general insurance	35	25	40%

Gross deposits (on and off balance)	2013	2012	%
Central & Eastern Europe	248	316	(22%)
Asia	587	169	-
Spain and France	9	45	(80%)
Variable Annuities Europe	424	463	(8%)
Aegon Asset Management	13,018	9,916	31%
Total gross deposits	**14,287**	**10,909**	**31%**

Exchange rates	Weighted average rate	
Per 1 EUR	2013	2012
US dollar	1.3272	1.2849
Canadian dollar	1.3674	1.2839
Pound sterling	0.8484	0.8103
Czech koruna	25.9238	25.1140
Hungarian florint	296.3309	288.8606
Polish zloty	4.1940	4.1809

Romanian leu	4.4167	4.4548
Turkish Lira	2.5305	2.3132
Chinese rin bin bi yuan	8.1637	8.1377

Results 2013 New Markets

Net income in 2013 decreased to EUR 133 million as gains from divestments were more than offset by a write down of intangible assets in Poland following legislative changes and lower underlying earnings before tax as increases in underlying earnings before tax in Asia and Variable Annuities Europe were more than offset by decreases in Central & Eastern Europe, Spain and Aegon Asset Management.

Net income

2013 net income declined to EUR 133 million. Higher losses from fair value items and lower gains on investments compared to 2012 were only partly offset by lower impairment charges. In 2013, gains from divestments in Spain were offset by a write down of intangible assets in Poland as the Polish parliament approved legislation to overhaul the existing state pension system. This resulted in an impairment of intangible assets related to the Polish pension business for an amount of EUR 192 million before tax. In 2012, there was a substantial benefit related to the divestment of investment manager Prisma.

Underlying earnings before tax

In New Markets, underlying earnings before tax in 2013 declined 14% to EUR 236 million compared to 2012, as increases in Asia and Variable Annuities Europe were more than offset by declines in Central & Eastern Europe, Spain and Aegon Asset Management.

- Earnings from **Central & Eastern Europe** declined 31% to EUR 59 million compared to 2012, which was primarily driven by the introduction of the insurance tax in Hungary and lower non-life results in Hungary from adverse claim experience. Additionally, earnings were impacted by investments related to the inclusion of the business in Ukraine.
- Results from **Asia** increased 121% to EUR 42 million compared to 2012, driven mainly by actuarial assumption changes and model refinements of EUR 22 million. The positive impact of growth of the business and cost savings was offset by higher non-deferred acquisition costs driven by strong growth in variable annuities production in Japan where Aegon does not yet defer its acquisition expenses.
- Earnings from **Spain & France** decreased 52% to EUR 33 million compared to 2012 due to the divestment of the joint ventures with CAM, Civica and Unnim. The new joint venture with Santander contributed to underlying earnings, which was mostly offset by investments in developing a direct distribution channel. The earnings contribution from partner La Mondiale in France rose slightly and amounted to EUR 21 million for the year.
- Results from **Variable Annuities Europe** amounted to EUR 7 million, mainly resulting from growth of the business.
- Earnings from **Aegon Asset Management** declined 6% to EUR 95 million, as the positive impact of higher third party asset balances was more than offset by the loss of earnings from the sale of hedge fund manager Prisma in the fourth quarter of 2012.

Commissions and expenses

In 2013, commission and expenses increased 14% to EUR 988 million compared to 2012. Operating expenses increased 7% to EUR 656 million. The increase in operating expenses was the result of higher costs in Asia and Variable Annuities Europe driven by investments to support future growth, the inclusion of the business in Ukraine and the introduction of the insurance tax in Hungary. The increase in commissions is driven by higher sales in Asia compared to 2012.

Production

New life sales decreased 10% to EUR 228 million compared to 2012.

- In Central & Eastern Europe, new life sales declined 5% to EUR 108 million compared to 2012. Sales growth in Turkey and Slovakia driven by improved distribution productivity and product launches respectively, was more than offset by lower sales in Poland resulting from reduced production in the broker channel.
- In Asia, new life sales increased 26% to EUR 67 million compared to 2012. This was mainly driven by the launch of a new universal life product and the expanded cooperation with a number of private banks.
- New life sales in Spain declined 37% to EUR 54 million compared to 2012, as the sales contribution from the joint venture with Santander was offset by the loss of sales driven by the divestment of partnerships.

New premium production from accident and health insurance business increased 2% to EUR 43 million compared to 2012, mainly driven by the direct marketing unit in Asia. New premium production from Aegon, general insurance business was up 39% to EUR 35 million compared to 2012, driven by the inclusion of the joint venture with Santander and growth in Central & Eastern Europe.

Gross deposits in New Markets amounted to EUR 14.3 billion, up 31% compared to 2012. Gross deposits in Aegon Asset Management increased 31% to EUR 13 billion, mainly driven by strong growth in institutional sales in the United States and the Netherlands and retail sales in the United Kingdom. Gross deposits in Asia more than tripled to EUR 587 million driven by strong sales of variable annuities in Japan, while deposits in Central & Eastern Europe declined following pension legislation changes.

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 and 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 joint ventures and associates)	**370**	**172**	**115%**
Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	*15*	*8*	*88%*
Income tax	(121)	(61)	(98%)
Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	*(15)*	*(8)*	*(88%)*
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	0%
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 and 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 and 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.

Overview of Central & Eastern Europe

Aegon has operations in the Central & Eastern European (CEE) countries of the Czech Republic, Hungary, Poland, Romania, Slovakia, Turkey, and Ukraine. Aegon first entered the Central & Eastern European market in 1992 with the purchase of a majority stake in Hungary s former state-owned insurance company, Állami Biztosító. Aegon Hungary is Aegon s leading business in the region and a springboard for further expansion. Aegon s regional expansion continued in 2013 with entry into the Ukrainian market.

Organizational structure

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

- Aegon Magyarország Általános Biztosító Zártkörűen Működő Részvénytársaság;
- Aegon Magyarország Befektetési Alapkezelő Zártkörűen Működő Részvénytársaság;
- Aegon Magyarország Pénztárszolgáltató Zártkörűen Működő Részvénytársaság
- Aegon Towarzystwo Ubezpieczeń na Życie Spółka Akcyjna;
- Aegon Powszechne Towarzystwo Emerytalne Spółka Akcyjna;
- Aegon Emeklilik ve Hayat A.S.

Overview of sales and distribution channels

Aegon operates through a number of different sales channels in Central & Eastern Europe. These include tied agents, insurance brokers, call centers, online channels and, particularly in Hungary, Poland, Romania and Turkey, retail banks. Aegon primarily sells life and non-life insurance through tied agents, brokers and call centers, household and car insurance through online channels; in addition, life insurance, mortgage loans, mutual funds and household insurance are sold through banks and other alternative channels.

Overview of business lines

Life & Savings

Aegon companies in Central & Eastern Europe offer a range of life insurance and personal protection products. This includes traditional life and unit-linked products. Unit-linked products cover all types of life insurance, including pension, endowment and savings. Aegon is one of the leading providers of unit-linked products in Poland[1] and Hungary[2].

Traditional general account life insurance is mainly index life products that are not unit-linked but have guaranteed interest rates, as well as group life and preferred term life products.

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 and carry optional accident and health cover.

The main guarantee in Hungary is variable crediting rates with minimum interest guarantees of between 0% and 4% for universal life type products, plus 100% participation in actual interest earned. Profit-share products have a technical interest rate of 2-4% and 85% participation in excess interest. The average minimum interest guarantee is around 3%. In Hungary, a small amount of new business provides a minimum interest guarantee of 2%.

In Poland, an insurance fund with a 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 declared interest guarantees of 1.2% and 1% respectively, and further conditional increases. In Slovakia, the minimum interest rate on universal life products was 3% at the close of 2006, and has since been 2.5%. 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% for 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.

Aegon Life Insurance Company in Romania operates as a branch of Aegon Poland Life Insurance Company and sells unit-linked, term life and endowment insurance policies. An interest guarantee is provided to a unit-linked product that varies between 2%-3.2%, depending on the policy year.

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

In February 2013, Aegon acquired Fidem Life, a life insurance player in Ukraine selling traditional life insurance products.

In the CEE region, Aegon has substantial traditional life insurance portfolios, mainly in Hungary, Turkey and Ukraine. The other Aegon subsidiaries, including Hungary, focus on unit-linked products, in addition to various accident and health riders.

In 2013, Aegon Hungary Composite Insurance Company incorporated a new subsidiary, Aegon Hungary Home Savings and Loan Association. The new entity provides a savings product combined with a preferential loan option which is subsidized by the state during the savings period.

Mortgage loans

Aegon Hungary has offered mortgage loans to retail customers since 2006. 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 four years, the mortgage lending shifted toward lending in the Hungarian forint.

Since 2010, the mortgage loans business has been affected by several legislative changes enacted by the Hungarian Parliament, each having the aim of reducing the financial burden on debtors with foreign currency denominated loans, and arising as a result of the economic downturn. One of the most significant one-time measures was enacted in September 2011 to permit debtors to redeem the outstanding loan amount at a fixed, below market exchange rate that resulted in a substantial loss for the financial industry. Under the currently effective rules debtors may fix the exchange rate applied to their monthly instalments at a below-market exchange rate for a maximum period of five years. The financial losses resulting from this program are borne partially by the Hungarian State and partially by financial institutions.

Pensions

Aegon s pension business in Central & Eastern Europe experienced considerable growth before the financial crisis of 2008, due mainly to the region s strong economic growth, and pension system reform in many of the countries in the region.

In the formerly mandatory private pension market, Aegon was active in Slovakia, Poland, and Romania in 2013, having exited Hungary. In the voluntary pension market, Aegon was active in Hungary and Turkey, having exited Slovakia and the Czech Republic in 2013.

In terms of assets under management, Aegon s private pension funds in Poland, Slovakia and Romania, and voluntary pension fund in Hungary, are among the largest[1] in their countries. In terms of member numbers, Aegon has a significant market presence[2] in Poland, Romania, and Hungary. As of December 2013, Aegon had a total of 1.6 million pension fund members in Central & Eastern Europe.

Since 2009, a series of legislative changes implemented in Aegon s regional country units has impacted this line of business significantly. The most significant impact was in Hungary and another significant impact is expected in Poland.

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 remain enrolled in the private pension fund (on condition of termination of entitlement to the state pension for employment years after 2011) or opt out of private pension funds, transferring 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 97% moved to the state pension system.

Further legislative changes, enacted in Hungary at the end of 2011, required that all contributions deducted from the monthly wages of members were transferred to the state driven pension system (Pillar I). Members were able to transfer contributions to the private (formerly mandatory) pension funds only on a voluntary basis.

Following the above mentioned changes, on May 31, 2012, the delegate general meeting agreed to terminate the Aegon private pension fund without any legal successor in Hungary. The liquidation process began on July 1, 2012, and was completed in 2013.

In Poland, in accordance with legislative changes enacted in 2011, the contribution level payable into the private pension fund was reduced significantly. As of 2012, new members may no longer be actively recruited into private pension funds by pension management companies. Also, in accordance with the legislative changes coming into force on January 31, 2014, the Polish treasury bonds, treasury bills and other state backed debt instruments, representing around 50% of the value of the managed pension fund, are to be transferred back to the

1 Sources: Polish Financial Supervision Authority, www.knf.gov.pl; the Association of Pension Fund Management Companies, Slovakia, www.adss.sk; Authority for Financial Supervision, http://asfro.ro/; The Central Bank of Hungary, https://felugyelet.mnb.hu.

2 Sources: Polish Financial Supervision Authority, www.knf.gov.pl; Authority for Financial Supervision, http://asfro.ro/; The Central Bank of Hungary, https:// felugyelet.mnb.hu.

Social Insurance Institution (ZUS) of Poland. Furthermore, as a result of the changes, membership for the purpose of paying future contributions is to become voluntary. Additionally, ZUS is to provide the retirement benefits to members, requiring a management company to transfer to ZUS the remaining assets, commencing ten years before a member reaches retirement age. As a result, Aegon wrote off the intangible assets on its balance sheet in 2013, resulting in a loss of EUR 192 million before tax.

In Slovakia, Aegon announced its withdrawal from the voluntary pension business in 2011, and exited the market in 2013.

Since September 2012 there has been a significant reduction in the contribution rate payable into private pension funds in Slovakia. Additionally, as of new legislation in 2013, it is no longer mandatory to join a private pension fund (Pillar II).

As of 2013 in Turkey, in accordance with legislative changes enacted in 2012, a reduction is applied to the maximum chargeable level of entrance fees, administration fees, and asset management fees. From 2013, pension contributions are no longer subject to tax incentives; instead, members receive 25% of their contributions in the form of direct support from the state.

In the Czech Republic, as of January 2013, former pension companies were transformed into management companies managing newly launched Pillar II and Pillar III pension funds. These exist alongside the so-called transformation fund, into which savings accumulated to the end of 2012 were placed. Aegon elected not to enter Pillar II in the Czech market. Aegon operated a transformation fund throughout 2013. On December 30, 2013, Aegon disposed of its pension line of business, and thus exited the Czech pension market.

Non-life

Aegon Hungary offers non-life cover (household, car insurance, and some wealth industrial risk). Aegon is the leading[1] insurance company in the Hungarian 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 Slovakia in 2010, and in Poland in 2011, selling household insurance policies in these markets.

Competition

Aegon is among the biggest providers operating in the life insurance market in Hungary. In 2013, it was the second largest[2] provider in Hungary, based on the first nine months standardized premium income, and the third largest[3] provider in the non-life insurance market. Aegon is also a significant market participant in Poland[4] and Ukraine[5]. As of September 2013, it was ranked fifth for unit-linked products in Poland, based on gross written premiums. Aegon is not a significant market participant in those markets in which it was relatively recently incorporated: Aegon Slovakia (incorporated in 2003); Aegon Czech Republic (incorporated in 2004); and Aegon Romania (incorporated in 2008). Similarly, Aegon is not a significant participant in Turkey, in which it acquired its business in 2008.

In Hungary s voluntary pension fund market, Aegon was ranked third[6] for both the number of its members and its managed assets in 2012. For managed assets, in 2013 Aegon was ranked fifth[7] in the Slovakian private pension market. In Poland, Aegon was ranked eighth[8] for number of members and ninth[9] for managed assets in 2013. As of December 31, 2013, Aegon ranked seventh[10] in the Romanian mandatory private pension market, both for net assets under management and number of members.

Regulation and supervision

In Central & Eastern Europe, a single insurance company may only be licensed for, and conduct, one of either a life insurance or non-life insurance business, and not both. In Hungary, however, insurance companies established before 1995 are exempt from this rule. This exemption applies to Aegon Hungary.

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

- The Central Bank of Hungary (MNB);
- National Bank of Slovakia (NBS);
- Czech National Bank (CNB);
- Polish Financial Supervisory Authority (KNF);
- Authority for Financial Supervision (ASF) (Romania);
- Undersecretariat of Treasury (Turkey);
- National Commission for State Regulation of Ukrainian Financial Services Markets.

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.

1 Source: www.mabisz.hu.
2 Source: www.mabisz.hu.
3 Source: www.mabisz.hu.
4 Source: www.knf.gov.pl.
5 Source: http://uainsur.com.
6 Source: The Central Bank of Hungary, https://felugyelet.mnb.hu.
7 Source: The Association of Pension Fund Management Companies, Slovakia, www.adss.sk.
8 Source: www.knf.gov.pl/.
9 Source: www.knf.gov.pl/.
10 Source: Authority for Financial Supervision, http://asfro.ro.

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 (for example, actuarial, financial, and legal) 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 MNB. Slovakia s pension market is regulated by Act 43/2004 on pension asset management companies and respective notices. The private pension business is under the supervision of the National Bank of Slovakia (NBS). In Romania, the private pension system is regulated and supervised by the Authority for Financial Supervision (ASF), 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. In Turkey, the voluntary pension funds are 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 the country s financial institutions (including Aegon Hungary Mortgage Finance Company). In addition, Aegon Hungary Mortgage Finance Company is under the supervision of the MNB.

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 the portfolios against benchmarks is also evaluated during these meetings.

Reinsurance ceded

Aegon takes out reinsurance for its life and 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 Aegon CEE accepts reinsurance companies with a minimum Standard & Poor s (S&P) rating of A-, and for long-tail business Aegon CEE accepts reinsurance companies with a minimum S&P rating of AA-. The credit standing of the reinsurance partners is held under strict monitoring, discussed on a monthly basis by the Global Reinsurance Use Committee and assessed on a quarterly basis by the Risk & Capital Committee. From 2013, Aegon Hungary began a long-term cooperation with Aegon Blue Square Re for property, catastrophe and motor third party liability risks. In the first phase, Blue Square Re takes the risk; in the second phase, Blue Square Re retro-seeds the risk in the reinsurance market with some retention levels.

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

- Property catastrophe excess of loss treaty (EUR 5.4 million retention). The Slovakian and Polish branch offices have a separate XL treaty with lower retention (EUR 0.2 million);
- Motor third party liability excess of loss treaty (EUR 0.4 million retention);
- Property per risk excess of loss treaty (EUR 1 million retention).

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

Overview of Asia

Aegon Asia operates in the Asia region through three major joint ventures in China, India and Japan, and a 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. Aegon-CNOOC has extended its network of offices and business in China since 2003. Its geographic spread provides access to a potential market of more than 640 million people, many in the booming coastal provinces of eastern China.

In 2006, Aegon formed a new life insurance partnership in India 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, 2013, Aegon Religare had a pan-India distribution network with 70 branches, across 55 cities and 21 states, and had issued more than 345.000 policies to over 300.000 customers.

In early 2007, Aegon signed a joint venture agreement in Japan with Sony Life, one of Japan s leading insurance companies. Operations launched in 2009 as Sony Life Insurance Co. Ltd (Aegon Sony Life). By December 2013, the joint venture had signed distribution partnerships with one mega bank and fourteen regional banks, in addition to Sony Life s Life Planner channel of over 4,000 professionals. The focus of the joint venture is annuity sales in Japan.

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 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

In 2011, a new organizational structure was adopted for Aegon s operations in Asia, with all Asia-based insurance businesses managed as one regional division headquartered in Hong Kong and operates to a branch of Aegon Asia B.V. In 2012, Aegon Direct and Affinity Marketing Services (ADAMS) and Transamerica Life Bermuda (TLB) were integrated into the Asia division of the New Markets operating unit. The objective is to leverage product and distribution expertise, capture efficiencies, and pursue organic growth of Aegon s franchise in Asia. Previously these entities reported under the Americas operating unit.

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

ADAMS is an independent direct marketing services company with operations in five Asian countries. It was established in Australia in 1998, and subsequently has begun 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 Direct and Affinity Marketing Services;
- Aegon Asia B.V.

Overview of sales and distribution

In China, Aegon sells its products through multiple distribution channels, such as agents, independent brokers, banks, direct marketing, and the group channel. As of November 2013, Aegon s bancassurance network in China was 675 outlets.

As of December 2013, Aegon Religare s widespread agency network, which it had established by 2010, comprised more than 7,000 agents, following some consolidation in 2012. In addition to agency distribution, there has been an increase in Direct to Customer (D2C) distribution, such as digital sales platforms and the use of the direct sales force channel. Aegon Religare is a pioneer in the online protection space, and has experienced a significant increase in the number of sales generated online in 2012 and 2013. Aegon Religare also distributes its products through strategic partner Religare Group, and partnerships with companies that offer financial services to their clients, brokers, and, to an 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, which now comprises fourteen regional banks. In 2010, Aegon Sony Life launched a partnership with SMBC, one of Japan s largest national banks, and substantially added further regional bank partners thereafter important in Japan as banks sell more insurance. Furthermore, banks are eager to expand into fee income activities due to the reducing effect on mainstay business margins as a result of the financial crisis and low interest rates.

ADAMS is one of the largest independent insurance direct marketing services companies in Asia by both geographic footprint and premiums. ADAMS specializes in direct and affinity marketing, and services business partners across the direct marketing value chain. It has developed significant capabilities in customer analytics and data management, integrated marketing and operational execution, and is investing in and building digital and e-commerce capabilities to expand opportunities with existing business partners beyond telemarketing.

The focus of TLB is on building strong relationships with private and priority banks, local and international brokers and intermediaries.

Overview of 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 endowment with high-sum assured protection and critical illness products. Regular premium participating endowment and single-pay universal life are key products for the bancassurance channel. Telemarketers largely sell return of premium products. Popular products in the brokerage channel are return of premium, participating endowment, and critical illness.

At the end of 2013, Aegon Religare had a number of term plans, traditional individual participating products, traditional pension participating products, unit-linked plans, and health products.

Universal life and term products

TLB main products consist of USD Guaranteed Universal Life (GUL) and USD term plans for the high-net-worth market, and a new range of products was launched in the fourth quarter of 2013.

Individual savings and retirement

Aegon Sony Life sells variable annuities. It provides a guaranteed lifetime withdrawal benefit (GLWB) with a rollup function of 3% per annum during the deferral period and a guaranteed minimum accumulation benefit (GMAB). The GMAB product has a 105% trigger feature that allows the customer to receive either a lump-sum withdrawal of the difference between the initial premium and account value or have the difference transferred into a separate non-guaranteed account.

Since early 2012, all actively distributed Aegon Sony Life products had an underlying policyholder fund with a volatility-control mechanism which uses the simple index funds of major economies. Target volatilities are in the range of 4.5% to 6%.

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

Non-life

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

Aegon Religare sells a health product with the same features as a defined-benefit product, which pays benefits specified for the categories of hospitalization, surgery or critical illness, irrespective of the actual expense incurred by the policyholder. In May 2012, Aegon Religare launched online health plan iHealth, in line with the company s focus on digital channels. The off-line version is sold by all channels of the joint venture, including agency, direct and business alliances.

ADAMS has multiple international business partners across Asia, including banks and non-financial institutions. ADAMS focuses on protection products that generate risk premiums, such as term life insurance, personal accident insurance, and supplemental health insurance.

Competition

China - Aegon-CNOOC

As of November 30, 2013, there were 70 life insurance companies in the market, including 42 domestic life companies and 28 foreign life insurers. As of November 30, 2013, Aegon-CNOOC ranked thirty-ninth among life insurance companies and twelfth among foreign life companies, based on total premium income . The company s market share among foreign-invested companies was 2.5%[1]. In descending order, Aegon-CNOOC s channel contributions were brokerage, bancassurance, direct marketing, group and agency annual premium equivalent production and bancassurance, group, brokerage, and direct marketing and agency first year premium production.

On November 14, 2013, the CIRC announced the China Life Insurance Experienced Critical Illness Table (2006-2010). As of December 31, 2013, the table is to be used as the basis for evaluating the statutory reserves of critical illness products. The table is expected to have a profound impact on product innovation in the life insurance industry in China.

1 Source: China Insurance Regulatory Commission (CIRC).

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China is following global trends in the use of digital channels, and Chinese government agencies attach great importance to the e-business industry development. With a netizen population of around 591 million[1], a growing number of people in China purchase insurance products online. On November 6, 2013, Zhong An Online Property and Casualty Insurance Company began operations in Shanghai to become China s first online insurance company. The company s main focus is corporate and household insurance for internet transactions. The company s key shareholders are Alibaba, Tencent, and China Ping An Group.

Aegon-CNOOC began e-sales in early 2013. Digital sales and service platforms allow Aegon-CNOOC to interact with its customers directly, and offer the convenience of around-the-clock service from any location. As of November 30, 2013, about 35 life insurance companies had launched an e-sales channel. In addition, large insurance groups such as New China Life are establishing wholly-owned e-business companies. Insurers such as Taikang Life and Guohua Life have introduced mobile platforms for insurance services and product purchasing, such as WeChat, alongside standard corporate website and third party website platforms. Estimates suggest e-sales have significant potential in the China life insurance market.

India - Aegon Religare

First year premiums, a measure of new business secured by life insurers, were INR 1,024 billion from January to November 2013, compared to INR 1,029 billion in the same period of 2012. Of this, 53.6% was underwritten in the individual segment and 46.4% in the group segment, compared to 58.6% and 41.4% respectively in the same period of 2012[2].

Linked first year premiums saw a significant drop to INR 109 billion in 2012-2013, a decrease of 37.4% on INR 174 billion in 2011-2012, based on the latest information available on a fiscal year basis from April to March. Non-linked business collections were INR 965 billion in 2012-2013, compared to INR 966 billion in 2011-2012. Total premiums underwritten by the life insurance sector in 2012-2013 were flat at INR 2,872 billion, against INR 2,870 billion in 2011-2012. Renewal premiums accounted for 62.6% of this total, compared to 60.3% in 2011-2012, and first year premiums contributed the remaining 37.4%, against 39.7% in 2011-2012. Agency sales forces continue to be an important distribution channel. Life insurers with banking partners are able to scale up distribution platforms, which are gradually increasing volumes.

There were 24 licensed life insurers in India at the end of December 2013. The Life Insurance Corporation of India remains dominant with a 73% share of new business premiums, with the balance dispersed among private sector companies.

From January to December 2013, the total premium collected by Aegon Religare decreased by 7% to around INR 4.21 billion, from INR 4.52 billion in 2012. This was due to a drop of nearly 22% in first year premium collection to INR 1.29 billion, from INR 1.67 billion in 2012. Renewal premium collection was slightly up at around INR 2.91 billion, compared to INR 2.85 billion for the same period in 2012.

Japan - Aegon Sony Life

The bancassurance channel is a key growth area in the Japanese insurance market. The largest share of market growth is from single premium whole life products. The surrender payment rate of these is higher than savings account interest, and the commission rate incentivizes strong sales by bancassurance representatives.

There is a strong need in Japan for individual annuity products for self-support after retirement. This is because falling birth rates and an aging population work against the public pension scheme. Guaranteed minimum accumulation benefit remains the main product in the variable annuities market. There are seven active companies in Japan s variable annuities market. Aegon Sony Life had the second largest market share in 2013, up from fifth in 2012, with cumulative annual variable annuities sales of JPY 151.6 billion (JPY 34.3 billion in 2012).

Asia - ADAMS

Economic pressure on traditional distribution channels and changes in customer purchasing behavior are driving market recognition that direct marketing is a growing opportunity with further potential. Multinational insurers are increasing their capabilities across the region.

In D2C, market participants use their customers preferred channels. For insurers, this primarily involves the tactical deployment of media such as Direct Response TV, product microsites, health portals, social media platforms. and mobile applications. Online sales for non-life products is increasing in many markets across the region, while life products e-commerce is emerging.

Hong Kong and Singapore - TLB

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

Production for the year reached USD 54.9 million, which was 183% of budget and more than double 2012 s figure of USD 26.1 million.

1 Source: China Internet Network Information Centre as of June 2013.
2 Source: Monthly New Business Report from Insurance Regulatory and Development Authority (IRDA) / IRDA Annual Report 2012-2013.

Regulation and supervision

China - Aegon-CNOOC

The insurance industry in China is regulated by the CIRC. Its regulatory supervision is described as enhancing services, reinforcing regulation, preventing risks, and promoting development .

The CIRC s priorities are to promote healthy and continuous development of business, maintain market stability, and prevent systematic and regional risks. It pays increasing attention to risks concerning maturity payment and surrender, fund utilization, and low solvency.

To further strengthen the protection of policyholders rights and interests, the CIRC continuously advances the supervision of misleading sales, improves supervision systems and measures on life insurance services, and formulates a minimum service standard.

The CIRC also strengthens supervision of insurance corporations, and promotes the China Risk-Oriented Solvency System. A key focus is the implementation of regulations with the aim of making current corporate governance system more effective.

The CIRC also promotes market-oriented reform by further reducing administrative approval processes, driving a broad range of reforms, such as product pricing and marketing mechanisms, and allowing markets to play a fundamental role in resource allocation.

India - Aegon Religare

Indian life insurance companies are regulated by the Insurance Regulatory and Development Authority (IRDA). The IRDA regulates, promotes and encourages the 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.

The IRDA is very active in bringing new regulation. For example, in 2013, the IRDA updated existing and released new regulatory guidelines. Significant changes were made to the following: guidelines on various features of traditional and linked products; investment regulations and fixed income derivatives regulations, including the allowance of interest rate swaps for the purpose of hedging liabilities with interest rate exposure.

Japan - Aegon Sony Life

The Financial Services Agency (FSA) is the government agency supervisor of all insurance companies in Japan. New products and major product amendments are filed with, and approved by, the FSA. General policy provisions, statements of business procedure, pricing and valuation are approved by the FSA. The FSA has the right to on- and off-site inspections. Relevant regulations for insurance operations include, among others, the Insurance Business Law and related enforcement/notice, the Insurance Act, and the Financial Instruments and Exchange Act.

In late 2012, the FSA issued a new solvency margin risk standard which limits the assets used while broadening the measurement for solvency risk. Most recently, the FSA has strictly monitored the solicitation of insurance products to the elderly; as a result, Aegon Sony Life has recently enhanced its guidelines.

Asia - ADAMS

In Hong Kong, the Privacy Commissioner for Data Protection ordered Aegon Direct, a broker company and a wholly owned subsidiary of ADAMS, to delete personal information collected from customers by a vendor which may have misled some of those individuals into providing their information, or did not properly disclose how the information would be used. Aegon Direct was permitted to avoid the deletion by obtaining new customer consent from each individual, and was able to retain thousands of customers through a calling outreach program which ended in August. Aegon removed those customers it was not able to reach by the regulatory deadline of September 30, 2013.

In direct markets, an evolving regulatory environment relates in particular to the use of personal data for marketing purposes. ADAMS remains 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

TLB is incorporated in Bermuda and is regulated by the Bermuda Monetary Authority, the integrated regulator of the financial services sector in Bermuda. TLB s Asia branches are located in Hong Kong and Singapore. The insurance industry in Hong Kong is regulated by the Office of the Commissioner of Insurance (the OCI). The OCI s priorities are to oversee the financial conditions and operations of authorized insurers in Hong Kong. In addition, the OCI considers itself to be a market enabler, committed to facilitating both the healthy development of the insurance industry and the protection of policyholders. The insurance industry in Singapore is regulated by the Monetary of Singapore (the MAS). The MAS is an integrated supervisor overseeing all financial institutions in Singapore banks, insurers, capital market intermediaries, financial advisors and the stock exchange. Its mandate is to foster a sound and progressive financial services sector in Singapore. The MAS also promotes a strong corporate governance framework and close adherence to international accounting standards.

Asset liability management

China - Aegon-CNOOC

A monthly asset liability management meeting is held to monitor duration and liquidity management. The durations of liabilities and assets are calculated separately by block and the duration gap is analyzed. Based on the payment structure and term of insurance liabilities, Aegon-CNOOC usually purchases corporate bonds, government bonds, bank deposits, debt projects, or other fixed income assets to match this liability. Operating funds are invested in the bond fund, money-market fund and bond repurchase markets 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 a board-level Risk Management & Capital Committee (RMC). Additionally, there is a management-level Risk & Capital Committee (RCC). A regular review of risk and capital requirements is conducted by the committee members of the RCC and RMC. Asset liability management (ALM) became critical to the business in 2012 as the business mix changed and sales of traditional products increased. Monthly reviews are performed to ensure appropriate ALM for the closed block of business under traditional products; at the end of each quarter the ALM report is tabled at the RCC meeting.

Japan - Aegon Sony Life and SARe

Aegon Sony Life reinsures (cedes) 100% of its guarantees on variable annuities to SARe. SARe has a comprehensive hedging program in place that covers the major risk dimensions. Execution of this hedging 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 minimum variable annuity guarantees, SARe accepts certain market and policyholder behavior risks. SARe covers 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-market hedging techniques.

The hedging program includes futures contracts, foreign currency forwards and interest rate swaps. Futures contracts are traded on market indices such as TOPIX, S&P 500, FTSE 100, and EuroStoxx 50. Not all equity indices are traded in Japanese Yen (SARe s functional currency): currency exposure is hedged with foreign currency forwards. The hedging program requires regular determination of risk exposures, and regular market monitoring and trading. The program requires substantial cash reserves to cover potential losses on hedging instruments, transaction costs and other charges, all of which are supported by the shareholders as necessary. The hedge strategy is not expected

to eliminate all of the volatility from guarantee value changes. The hedge objective is to minimize economic volatility, which is expected to be reduced by approximately 70%-80%. The hedge will not fund all changes in capital, as a strategy to minimize capital volatility is different to its strategy to minimize economic or income volatility.

Policyholder behavior risks are managed through a combination of product design, pricing techniques, 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 contains 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). This assumption 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 is from 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 in a pool of assets backing simular liabilities. Asset Liability Management is performed as part of assets portfolio management.

Hong Kong and Singapore - TLB

The TLB assets are currently managed by Aegon USA Investment Management in the United States in a pool of assets backing simular liabilities. Asset Liability Management is performed as part of assets portfolio management.

Reinsurance ceded

China - Aegon-CNOOC

Aegon-CNOOC shares its morbidity and mortality risk with 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 has also modified co-reinsurance with Hannover Re to improve its solvency ratio in addition to morbidity and mortality risk transfer. 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 by the IRDA. Aegon Religare has reinsurance treaties with Munich Re, Swiss Re and RGA Re to share 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 variable annuities with SARe. Aegon Sony Life may use third party reinsurance for a minor part of this, taking into account transfer pricing issues.

Asia - ADAMS

ADAMS business model mainly creates value by offshore reinsurance through an Aegon reinsurer, whereby risk-based premium is acquired for the group. ADAMS positions itself as an independent marketing services provider, which allows it to front partnerships with local insurers, particularly where Aegon does not have a local presence. ADAMS also generates some fee income from its services.

Hong Kong and Singapore - TLB

TLB uses third party mortality reinsurance for its universal life and traditional policies. 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 are generally the leading providers in the reinsurance industry.

There is also a coinsurance arrangement with the affiliate company TLIC for some universal life 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.

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Overview of Spain

Aegon entered the Spanish market in 1980 with the purchase of local insurer Seguros Galicia. In recent years, Aegon s activities in Spain have developed through distribution partnerships with Spanish banks.

Until 2010, Aegon Spain operated through two subsidiaries, Aegon Seguros Salud and Aegon Seguros de Vida, which merged to form Aegon Espana S.A. de Seguros y Reaseguros, as of January 1, 2011. Aegon Administracion y Servicos A.I.E., a separate legal entity, provides administration and operations services to all Aegon companies in Spain, including joint ventures with third parties. In addition, Aegon operates through partnerships with the financial entities Banco Santander, Cajatres and Liberbank.

Aegon sold its stake in the partnership with Unnim on June 3, 2013, and with Caja Mediterraneo on July 19, 2013.

Organizational structure

Aegon Spain s main subsidiaries and affiliates are:

¿ Aegon Espana S.A. de Seguros y Reaseguros;
¿ Aegon Administracion y Servicos A.I.E.;
¿ Caja Badajoz Vida y Pensiones (50%), in partnership with Cajatres;
¿