

AEGON NV  
Form 20-F  
March 21, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F**

(Mark One)

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

OR

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

**Aegon N.V.**

(Exact name of Registrant as specified in its charter)

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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](mailto: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

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

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.  Yes  No

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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

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    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

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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.

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### **4 Strategic information [Letter of the CEO](#)**

#### **[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.

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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

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**6 Strategic information [Composition of the Executive Board and the Management Board](#)**

**[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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8 Strategic information **Aegon's strategy**

**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:

- i 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;

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- ⌚ 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.

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**10 Strategic information [Aegon's strategy](#)**

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.

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### **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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### **12 Business overview [History and development of Aegon](#)**

#### **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)

	<b>2013</b>	2012 <sup>1)</sup>	2011 <sup>2)</sup>	2010 <sup>2)</sup>	2009 <sup>2)</sup>
<b>Amounts based upon IFRS</b>					
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 <sup>3)</sup>	29,805	29,327	29,159	31,608	29,751
Income/ (loss) before tax	1,147	1,866	938	1,940	(410)
<b>Net income/ (loss)</b>	<b>980</b>	<b>1,543</b>	<b>887</b>	<b>1,777</b>	<b>239</b>
<b>Earnings per common share</b>					
Basic	0.36	0.68	(0.05)	0.77	(0.13)
Diluted	0.36	0.68	(0.05)	0.69	(0.13)
<b>Earnings per common share B</b>					
Basic	0.01	-	-	-	-
Diluted	0.01	-	-	-	-

<sup>1</sup> 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.

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

<sup>3</sup> 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)

**Amounts based upon IFRS**

	2013	2012 <sup>1)</sup>	2011 <sup>2)</sup>	2010 <sup>2)</sup>	2009 <sup>2)</sup>
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 <sup>3)</sup>	12,159	13,846	10,040	8,604	7,314
Shareholders' equity	20,059	23,449	20,036	16,806	11,812

<sup>1</sup> 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.

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

<sup>3</sup> Includes subordinated borrowings and excludes bank overdrafts.

**Table of Contents****14 Business overview Selected financial data****Number of common shares**

In thousands	<b>2013</b>	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	-	-	-
<b>Balance at end of period</b>	<b>2,131,459</b>	<b>1,972,030</b>	<b>1,909,654</b>	<b>1,736,049</b>	<b>1,736,049</b>

**Number of common shares B**

In thousands	<b>2013</b>	2012	2011	2010	2009
Balance at January 1	-	-	-	-	-
Share issuance	579,005	-	-	-	-
Stock dividends	-	-	-	-	-
Share withdrawal	-	-	-	-	-
<b>Balance at end of period</b>	<b>579,005</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**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.

<b>Year</b>	EUR per common share <sup>1)</sup>			USD per common share <sup>1)</sup>		
	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 <sup>2)</sup>	0.22	0.15	-	-



- <sup>1</sup> Paid at each shareholder's option in cash or in stock.
- <sup>2</sup> Proposed.

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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:

<b>Closing rates</b>	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:

<b>Year ended December 31,</b>	Average rate <sup>1)</sup>
2009	1.3955
2010	1.3216
2011	1.4002

2012	1.2909
2013	1.3303

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

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### 16 Business overview **Business lines**

#### **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**

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Asset management products, including equity and fixed income, covering third party clients, insurance-linked solutions, and Aegon's own insurance companies.

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**Results of operations****Results 2013 worldwide**

<b>Underlying earnings geographically</b>	<b>2013</b>	2012	%
Amounts in EUR millions			
<b>Net underlying earnings</b>	<b>1,541</b>	1,424	8%
Tax on underlying earnings	405	427	(5%)
<b>Underlying earnings before tax geographically</b>			
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%
<b>Underlying earnings before tax</b>	<b>1,945</b>	<b>1,851</b>	<b>5%</b>
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	-
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>1,155</b>	<b>1,881</b>	<b>(39%)</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	8	15	(47%)
<i>Income tax</i>	(174)	(338)	49%
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(8)	(15)	47%
<b>Net income</b>	<b>980</b>	<b>1,543</b>	<b>(36%)</b>
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.



**Table of Contents****18 Business overview Results of operations Worldwide****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%)
<b>Total life production</b>	<b>1,911</b>	<b>1,955</b>	<b>(2%)</b>

**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%
<b>Total gross deposits</b>	<b>44,330</b>	<b>39,472</b>	<b>12%</b>

**Results geographically 2013**

Amounts in EUR millions	Americas	The Netherlands	United Kingdom	New Markets	Holding, other activities and eliminations	Segment total	Associates and Joint Ventures eliminations	Consolidated
Net gross premiums	6,187	3,515	6,537	1,349	(59)	17,529	(416)	17,112
Health insurance premiums	1,787	243	-	170	-	2,200	(10)	2,190
Life premiums	-	487	-	194	-	681	(44)	637
<b>Net premiums</b>	<b>7,975</b>	<b>4,245</b>	<b>6,537</b>	<b>1,713</b>	<b>(59)</b>	<b>20,410</b>	<b>(471)</b>	<b>19,939</b>
Net investment income	3,370	2,310	2,054	233	-	7,968	(58)	7,909
Net interest income	1,273	328	80	583	(238)	2,026	(76)	1,950
Net other income	4	-	-	2	4	10	(3)	6
<b>Net income</b>	<b>12,622</b>	<b>6,883</b>	<b>8,670</b>	<b>2,531</b>	<b>(293)</b>	<b>30,413</b>	<b>(608)</b>	<b>29,805</b>
Net fees, 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%

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

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**Results 2013 worldwide**

Aegon's 2013 net income amounted to EUR 849 million. Increased underlying earnings before tax of EUR 1,945 million 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.

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### **20 Business overview [Results of operations](#) [Worldwide](#)**

#### **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	%
<b>Net underlying earnings</b>	<b>1,424</b>	<b>1,247</b>	<b>14%</b>
Tax on underlying earnings	427	297	44%
<b>Underlying earnings before tax geographically</b>			
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%
<b>Underlying earnings before tax</b>	<b>1,851</b>	<b>1,544</b>	<b>20%</b>
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%)
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>1,881</b>	<b>947</b>	<b>99%</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	15	9	67%
Income tax	(338)	(60)	-
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(15)	(9)	(67%)
<b>Net income</b>	<b>1,543</b>	<b>887</b>	<b>74%</b>
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%)
<b>Total life production</b>	<b>1,955</b>	<b>1,835</b>	<b>7%</b>

**Gross deposits (on and off balance)**

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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%
<b>Total gross deposits</b>	<b>39,472</b>	<b>31,688</b>	<b>25%</b>



**Table of Contents**22 Business overview **Results of operations** **Worldwide**

	Americas	The Netherlands	United Kingdom	New Markets	Holding, other activities and eliminations	Segment total	Associates and Joint Ventures eliminations	Consolidated
<b>Worldwide revenues geographically 2012</b>								
Amounts in EUR millions								
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
<b>Total gross premiums</b>	<b>8,374</b>	<b>3,699</b>	<b>6,047</b>	<b>1,706</b>	<b>(73)</b>	<b>19,753</b>	<b>(704)</b>	<b>19,049</b>
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
<b>Total revenues</b>	<b>13,210</b>	<b>6,301</b>	<b>8,517</b>	<b>2,552</b>	<b>(331)</b>	<b>30,249</b>	<b>(922)</b>	<b>29,327</b>
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%)
<b>Underlying earnings before tax</b>	<b>1,851</b>	<b>1,544</b>	<b>20%</b>

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**Table of Contents****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.

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**Table of Contents****24** Business overview **Results of operations** **Worldwide****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	%
<b>Net underlying earnings</b>	<b>1,328</b>	<b>1,288</b>	<b>3%</b>	<b>1,001</b>	<b>1,002</b>	<b>0%</b>
Tax on underlying earnings	489	468	4%	368	364	1%
<b>Underlying earnings before tax by product segment</b>						
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%)
<b>Underlying earnings before tax</b>	<b>1,817</b>	<b>1,756</b>	<b>3%</b>	<b>1,369</b>	<b>1,366</b>	<b>0%</b>
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	-
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>734</b>	<b>1,699</b>	<b>(57%)</b>	<b>553</b>	<b>1,322</b>	<b>(58%)</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	4	4	0%	3	3	0%
Income tax	(142)	(342)	58%	(107)	(266)	60%
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in</i>	(4)	(4)	0%	(3)	(3)	0%

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<i>income before tax</i>						
<b>Net income</b>	<b>592</b>	<b>1,357</b>	<b>(56%)</b>	<b>446</b>	<b>1,056</b>	<b>(58%)</b>
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%)
<b>Total gross premiums</b>	<b>10,584</b>	<b>10,761</b>	<b>(2%)</b>	<b>7,975</b>	<b>8,374</b>	<b>(5%)</b>
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%)
<b>Total revenues</b>	<b>16,752</b>	<b>16,973</b>	<b>(1%)</b>	<b>12,622</b>	<b>13,210</b>	<b>(4%)</b>
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		
<b>New life sales</b>	<b>2013</b>	2012	%	<b>2013</b>	2012	%
Life & Protection	505	563	(10%)	380	438	(13%)
Canada	68	60	13%	51	47	9%
Latin America	42	45	(7%)	32	35	(9%)
<b>Total recurring plus 1/10 single</b>	<b>615</b>	<b>668</b>	<b>(8%)</b>	<b>464</b>	<b>520</b>	<b>(11%)</b>

**Table of Contents****26 Business overview Results of operations Americas**

	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		
	2013	2012	%	2013	2012	%
<b>Gross deposits (on and off balance)</b>						
Life & Protection	11	12	(8%)	8	9	(11%)
<i>Fixed annuities</i>	552	371	49%	416	289	44%
<i>Variable annuities</i>	8,496	5,350	59%	6,402	4,163	54%
<i>Retail mutual funds</i>	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%
<b>Total gross deposits</b>	<b>37,725</b>	<b>34,747</b>	<b>9%</b>	<b>28,424</b>	<b>27,042</b>	<b>5%</b>

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

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**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.

**Table of Contents**28 Business overview **Results of operations Americas****Results 2012 Americas**

	Amounts in USD millions			Amounts in EUR millions		
	2012	2011	%	2012	2011	%
<b>Net underlying earnings</b>	<b>1,288</b>	<b>1,342</b>	<b>(4%)</b>	<b>1,002</b>	<b>965</b>	<b>4%</b>
Tax on underlying earnings	468	446	5%	364	321	13%
<b>Underlying earnings before tax by product segment</b>						
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	-	-
<b>Underlying earnings before tax</b>	<b>1,756</b>	<b>1,788</b>	<b>(2%)</b>	<b>1,366</b>	<b>1,286</b>	<b>6%</b>
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%)
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>1,699</b>	<b>934</b>	<b>82%</b>	<b>1,322</b>	<b>671</b>	<b>97%</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	<i>4</i>	<i>1</i>	<i>-</i>	<i>3</i>	<i>1</i>	<i>-</i>
Income tax	(342)	(27)	-	(266)	(20)	-
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in</i>	<i>(4)</i>	<i>(1)</i>	<i>-</i>	<i>(3)</i>	<i>(1)</i>	<i>-</i>

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<i>income before tax</i>						
<b>Net income</b>	<b>1,357</b>	<b>907</b>	<b>50%</b>	<b>1,056</b>	<b>651</b>	<b>62%</b>
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%
<b>Total gross premiums</b>	<b>10,761</b>	<b>10,676</b>	<b>1%</b>	<b>8,374</b>	<b>7,676</b>	<b>9%</b>
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	-
<b>Total revenues</b>	<b>16,973</b>	<b>16,703</b>	<b>2%</b>	<b>13,210</b>	<b>12,008</b>	<b>10%</b>
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%

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	Amounts in USD millions			Amounts in EUR millions		
	2012	2011	%	2012	2011	%
<b>New life sales</b>						
Life & Protection	563	466	21%	438	334	31%
Canada	60	65	(8%)	47	47	-
Latin America	45	51	(12%)	35	37	(5%)
<b>Total recurring plus 1/10 single</b>	<b>668</b>	<b>582</b>	<b>15%</b>	<b>520</b>	<b>418</b>	<b>24%</b>

	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		
	2012	2011	%	2012	2011	%
<b>Gross deposits (on and off balance)</b>						
Life & Protection	12	12	-	9	9	-
<i>Fixed annuities</i>	371	313	19%	289	225	28%
<i>Variable annuities</i>	5,350	5,314	1%	4,163	3,821	9%
<i>Retail mutual funds</i>	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	-
<b>Total gross deposits</b>	<b>34,747</b>	<b>32,029</b>	<b>8%</b>	<b>27,042</b>	<b>23,028</b>	<b>17%</b>

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

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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.

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**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<sup>1</sup> 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<sup>2</sup> 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 Administradora 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.

<sup>1</sup> Source: LIMRA.

<sup>2</sup> Source: Brand Power Analysis.

**Table of Contents****32 Business overview Results of operations Americas****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

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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

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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.



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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 ministers;
- ⌚ 457(b) - a type of deferred compensation plan sponsored by governmental and certain non-governmental employers in the United States;
- ⌚ Deferred compensation plan - a plan or agreement that defers the payment of a portion of the employee's compensation to a future date and which may also include a contribution made by the employer for the employee's benefit;
- ⌚ 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.

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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 Administradora 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

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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<sup>1</sup>.

## 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

<sup>1</sup> 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.

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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.

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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.

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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 promulgated 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.

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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

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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.

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**Results 2013 the Netherlands**

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

**New life sales**

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

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

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

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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**

## Edgar Filing: AEGON NV - Form 20-F

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.

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**Results 2012 the Netherlands**

Amounts in EUR millions	2012	2011	%
<b>Net underlying earnings</b>	<b>260</b>	<b>238</b>	<b>9%</b>
Tax on underlying earnings	65	60	8%
<b>Underlying earnings before tax by product segment</b>			
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%
<b>Underlying earnings before tax</b>	<b>325</b>	<b>298</b>	<b>9%</b>
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%)
<b>Income before tax</b>	<b>226</b>	<b>544</b>	<b>(58%)</b>
Income tax	2	(125)	-
<b>Net income</b>	<b>228</b>	<b>419</b>	<b>(46%)</b>
Life insurance gross premiums	3,004	3,213	(7%)
Accident and health insurance premiums	220	216	2%
General insurance premiums	475	452	5%
<b>Total gross premiums</b>	<b>3,699</b>	<b>3,881</b>	<b>(5%)</b>
Investment income	2,273	2,192	4%
Fees and commission income	329	329	-
<b>Total revenues</b>	<b>6,301</b>	<b>6,402</b>	<b>(2%)</b>
Commissions and expenses	1,036	1,122	(8%)
of which operating expenses	746	823	(9%)
<b>New life sales</b>			
Amounts in EUR millions	2012	2011	%
Life & Savings	46	81	(43%)
Pensions	200	173	16%
<b>Total recurring plus 1/10 single</b>	<b>246</b>	<b>254</b>	<b>(3%)</b>

Amounts in EUR million	2012	2011	%
New premium production accident and health insurance	21	27	(22%)
New premium production general insurance	30	27	11%
<b>Gross deposits (on and off balance)</b>	2012	2011	%
Life & Savings	1,484	1,968	(25%)
Pensions	-	80	-
<b>Total gross deposits</b>	<b>1,484</b>	<b>2,048</b>	<b>(28%)</b>

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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 an 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 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<sup>2</sup> 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<sup>3</sup>.

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.

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#### **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 Netherlands 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.

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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.

<sup>1</sup> Source: DNB/CVS Reports 2012.

**Table of Contents**50 Business overview **Results of operations** **the Netherlands****Competition**

Aegon the Netherlands faces strong competition in all of its markets from insurers, banks and investment management companies. The main competitors are ING Group, Eureko (Achmea), ASR, SNS Reaal (including Zwitterleven) 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<sup>1</sup>. Based on gross premium income in 2012<sup>1</sup>, 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<sup>2</sup>. Rabobank, ING and ABN AMRO are the largest mortgage loan providers in this market.

Aegon the Netherlands holds approximately 1.3%<sup>3</sup> 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:



- 1 De Nederlandsche Bank (the Dutch Central Bank) or DNB;
- 2 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.

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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.

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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.

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**Results 2013 United Kingdom**

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

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

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

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

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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**

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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.

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**Results 2012 United Kingdom**

	Amounts in GBP millions			Amounts in EUR millions		
	2012	2011	%	2012	2011	%
<b>Net underlying earnings</b>	<b>112</b>	<b>39</b>	<b>187%</b>	<b>139</b>	<b>44</b>	-
Tax on underlying earnings	(23)	(26)	12%	(29)	(30)	3%
<b>Underlying earnings before tax by product segment</b>						
Life	66	88	(25%)	81	101	(20%)
Pensions	25	(69)	-	31	(79)	-
Distribution	(2)	(6)	67%	(2)	(8)	75%
<b>Underlying earnings before tax</b>	<b>89</b>	<b>13</b>	<b>-</b>	<b>110</b>	<b>14</b>	<b>-</b>
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)	-
<b>Income before tax</b>	<b>159</b>	<b>(52)</b>	<b>-</b>	<b>197</b>	<b>(60)</b>	<b>-</b>
Income tax attributable to policyholder return	(32)	(37)	14%	(40)	(43)	7%
<b>Income before tax on shareholders return</b>	<b>127</b>	<b>(89)</b>	<b>-</b>	<b>157</b>	<b>(103)</b>	<b>-</b>
Income tax on shareholders return	13	50	(74%)	16	58	(72%)
<b>Net income</b>	<b>140</b>	<b>(39)</b>	<b>-</b>	<b>173</b>	<b>(45)</b>	<b>-</b>
Life insurance gross premiums	4,900	5,611	(13%)	6,047	6,474	(7%)
<b>Total gross premiums</b>	<b>4,900</b>	<b>5,611</b>	<b>(13%)</b>	<b>6,047</b>	<b>6,474</b>	<b>(7%)</b>
Investment income	1,894	1,867	1%	2,337	2,154	8%
Fees and commission income	108	119	(9%)	133	137	(3%)
<b>Total revenues</b>	<b>6,902</b>	<b>7,597</b>	<b>(9%)</b>	<b>8,517</b>	<b>8,765</b>	<b>(3%)</b>
Commissions and expenses	594	724	(18%)	734	835	(12%)
of which operating expenses	269	401	(33%)	333	463	(28%)

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

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

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

**Table of Contents**56 Business overview **Results of operations** **United Kingdom****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**

## Edgar Filing: AEGON NV - Form 20-F

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

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**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<sup>1</sup>, 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 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.

<sup>1</sup> 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.

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#### **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.



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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 iLife, 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<sup>1</sup>. 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.

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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.

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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.

**Table of Contents**62 Business overview **Results of operations** New Markets**Results 2013 New Markets**

Amounts in EUR millions	<b>2013</b>	2012	%
<b>Net underlying earnings</b>	<b>159</b>	<b>185</b>	<b>(14%)</b>
Tax on underlying earnings	77	89	(13%)
<b>Underlying earnings before tax by product segment</b>			
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%)
<b>Underlying earnings before tax</b>	<b>236</b>	<b>274</b>	<b>(14%)</b>
Net fair value items	(21)	(1)	-
Gains / (losses) on investments	(1)	10	-
Impairment charges	(16)	(26)	38%
Other income / (charges)	(33)	113	-
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>167</b>	<b>370</b>	<b>(55%)</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	5	15	(67%)
<i>Income tax</i>	(34)	(121)	72%
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(5)	(15)	67%
<b>Net income</b>	<b>133</b>	<b>249</b>	<b>(47%)</b>
Life insurance gross premiums	1,349	1,374	(2%)
Accident and health insurance premiums	170	188	(10%)
General insurance premiums	194	144	35%
<b>Total gross premiums</b>	<b>1,713</b>	<b>1,706</b>	<b>0%</b>
Investment income	233	319	(27%)
Fees and commission income	583	524	11%
Other revenues	2	3	(33%)
<b>Total revenues</b>	<b>2,531</b>	<b>2,552</b>	<b>(1%)</b>
Commissions and expenses	988	870	14%

of which operating expenses

656

613

7%

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**New life sales**

Amounts in EUR millions

Central &amp; Eastern Europe

Asia

Spain and France

**Total recurring plus 1/10 single**

	<b>2013</b>	2012	%
Central & Eastern Europe	108	114	(5%)
Asia	67	53	26%
Spain and France	54	86	(37%)
<b>Total recurring plus 1/10 single</b>	<b>228</b>	<b>253</b>	<b>(10%)</b>

Amounts in EUR million

New premium production accident and health insurance

New premium production general insurance

	<b>2013</b>	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)**

Central &amp; Eastern Europe

Asia

Spain and France

Variable Annuities Europe

Aegon Asset Management

**Total gross deposits**

	<b>2013</b>	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%
<b>Total gross deposits</b>	<b>14,287</b>	<b>10,909</b>	<b>31%</b>

**Exchange rates**

Per 1 EUR

US dollar

Canadian dollar

Pound sterling

Czech koruna

Hungarian florint

Polish zloty

	<b>Weighted average rate</b>	
	<b>2013</b>	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

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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.

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**Results 2012 New Markets**

Amounts in EUR millions	2012	2011	%
<b>Net underlying earnings</b>	<b>185</b>	<b>184</b>	<b>1%</b>
Tax on underlying earnings	89	65	37%
<b>Underlying earnings before tax by product segment</b>			
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%
<b>Underlying earnings before tax</b>	<b>274</b>	<b>249</b>	<b>10%</b>
Net fair value items	(1)	(30)	97%
Gains / (losses) on investments	10	7	43%
Impairment charges	(26)	(61)	57%
Other income / (charges)	113	7	-
<b>Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)</b>	<b>370</b>	<b>172</b>	<b>115%</b>
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	<i>15</i>	<i>8</i>	<i>88%</i>
Income tax	(121)	(61)	(98%)
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	<i>(15)</i>	<i>(8)</i>	<i>(88%)</i>
<b>Net income</b>	<b>249</b>	<b>111</b>	<b>124%</b>
Life insurance gross premiums	1,374	1,600	(14%)
Accident and health insurance premiums	188	179	5%
General insurance premiums	144	149	(3%)
<b>Total gross premiums</b>	<b>1,706</b>	<b>1,928</b>	<b>(12%)</b>
Investment income	319	320	0%
Fees and commission income	524	469	12%
Other revenues	3	1	-
<b>Total revenues</b>	<b>2,552</b>	<b>2,718</b>	<b>(6%)</b>
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%)
<b>Total recurring plus 1/10 single</b>	<b>253</b>	<b>311</b>	<b>(19%)</b>

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

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<b>Gross deposits (on and off balance)</b>	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%
<b>Total gross deposits</b>	<b>10,909</b>	<b>6,556</b>	<b>66%</b>

## Weighted average rate

**Exchange rates**

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

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**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.



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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 Powszechnie 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<sup>1</sup> and Hungary<sup>2</sup>.

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](http://www.knf.gov.pl).

2 Source: [www.mabisz.hu](http://www.mabisz.hu).

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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<sup>1</sup> in their countries. In terms of member numbers, Aegon has a significant market presence<sup>2</sup> 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](http://www.knf.gov.pl); the Association of Pension Fund Management Companies, Slovakia, [www.adss.sk](http://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](http://www.knf.gov.pl); Authority for Financial Supervision, <http://asfro.ro/>; The Central Bank of Hungary, [https:// felugyelet.mnb.hu](https://felugyelet.mnb.hu).

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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<sup>1</sup> 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<sup>2</sup> provider in Hungary, based on the first nine months' standardized premium income, and the third largest<sup>3</sup> provider in the non-life insurance market. Aegon is also a significant market participant in Poland<sup>4</sup> and Ukraine<sup>5</sup>. 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<sup>6</sup> for both the number of its members and its managed assets in 2012. For managed assets, in 2013 Aegon was ranked fifth<sup>7</sup> in the Slovakian private pension market. In Poland, Aegon was ranked eighth<sup>8</sup> for number of members and ninth<sup>9</sup> for managed assets in 2013. As of December 31, 2013, Aegon ranked seventh<sup>10</sup> 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](http://www.mabisz.hu).

2 Source: [www.mabisz.hu](http://www.mabisz.hu).

3 Source: [www.mabisz.hu](http://www.mabisz.hu).

4 Source: [www.knf.gov.pl](http://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](http://www.adss.sk).

8 Source: [www.knf.gov.pl](http://www.knf.gov.pl).

9 Source: [www.knf.gov.pl](http://www.knf.gov.pl).

10 Source: Authority for Financial Supervision, <http://asfro.ro>.

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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).



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**Table of Contents**72 Business overview **Results of operations** **Asia****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.

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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%<sup>1</sup>. 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.

<sup>1</sup> 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, 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<sup>2</sup>.

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.

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**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



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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 similar 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 similar 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.

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**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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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 Servicios 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 Servicios A.I.E.;
- ⌘ Caja Badajoz Vida y Pensiones (50%), in partnership with Cajatres;
- ⌘ Cantabria Vida y Pensiones (50%), in partnership with Liberbank.
- ⌘ Liberbank Vida (50%), in partnership with Liberbank;
- ⌘ Aegon Santander Generales Seguros y Reaseguros (51%), in partnership with Banco Santander;
- ⌘ Aegon Santander Vida Seguros y Reaseguros (51%), in partnership with Banco Santander.

**Overview of sales and distribution channels**

The challenging economic situation in Spain, which is expected to continue in 2014, has affected all channels, particularly bancassurance. The banking sector has undergone deep change since 2012, when a structural reform program was implemented in Spain. This resulted in the restructuring of the banking sector and triggered a wave of mergers and acquisitions aimed at consolidation, an ongoing process which continues to affect Aegon's partners Liberbank and Cajatres.

The main distribution channel in the Spanish market is bancassurance, which accounts for 72% of life sales, compared to 27% for brokers and a negligible share for direct customers.

Aegon Spain distributes its products nationwide through partner branches and its own sales network.

**Caja Badajoz Vida y Pensiones**

Under Aegon's partnership with Caja Badajoz, agreed in 2005, Aegon and Caja Badajoz set up a 50/50 joint company to sell life insurance and pensions. Caja Badajoz has a network of 229 branches, primarily in the western region of

Extremadura, which adjoins Spain's border with Portugal. In 2011, Caja Badajoz Vida entered into a SIP (Institutional System of Protection) named Grupo Cajatres, currently integrating Caja Inmaculada, Caja Circulo de Burgos and Caja Badajoz.

#### **Cantabria Vida y Pensiones and Liberbank Vida**

Caja Cantabria is one of the largest savings banks in northern Spain, located primarily in its home province of Cantabria. In 2011, Caja Cantabria Vida y Pensiones entered into a SIP named Liberbank, currently integrating Cajastur (320 branches), Caja Extremadura (225 branches) and Caja Cantabria (152 branches).

#### **Aegon Santander Generales Seguros y Reaseguros and Aegon Santander Vida Seguros y Reaseguros**

In December 2012, Aegon and Banco Santander entered an alliance for the distribution of certain insurance products. This became fully operational in June 2013 following completion of the precedent conditions and administrative authorizations.

Banco Santander is the largest financial institution in Spain, with 4,548 branches nationwide. Aegon's agreement with Banco Santander concerns the business lines of pure life risk and the general insurance products accident, home and commercial multi-risk insurance, and sickness. These are to be sold through two insurance entities, Aegon Santander Vida for pure life risk products, and Aegon Santander Generales for general insurance products. Aegon's share in each entity is 51%.

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**Distribution**

Aegon Spain distributes life insurance, general insurance, health and pension products. It uses two main distribution channels, Bancassurance, comprising 66% of the total, and its own network of brokers and agents. Aegon Spain's sales network is focused on individual life and health insurance in urban and rural areas.

**Overview of business lines**

Aegon Spain primarily serves retail customers, and offers life insurance, general insurance, accident and health, and pension products. The recent partnership with Banco Santander enabled Aegon Spain to begin offering general insurance. The gross premium written contribution in 2013 for each of Aegon Spain's business lines was 69% for life insurance, 20% for accident and health insurance, and 11% for general insurance.

**Competition**

The Spanish insurance market is highly competitive.

For Aegon Spain's traditional life, unit-linked variable life and pension products, the major competitors are retail bank-owned insurance companies. The life market is dominated by Grupo Caixa, with a 21% market share, and Santander, with a 12% share, followed by Mapfre, with 10%. Aegon Spain's market share is 1.09%.

For Aegon Spain's health and general insurance products, the main competitors are foreign and local companies. Mapfre leads the non-life insurance market with a 19% market share, followed by Axa and Generali, both with an 8% share. The non-life market is more fragmented than the life market. Aegon Spain's multi-risk business line is responsible for non-life and has a market share of 0.88%.

**Regulation and supervision**

Dirección General de Seguros (DGS) is the regulatory authority for the Spanish insurance industry. Insurance companies are required to report to DGS on a quarterly basis. Spanish regulations incorporate all requirements of the relevant European Union directives. The local regulations for solvency margin are based, respectively, on percentages of the reserves

for the life insurance business and of the premiums and sum at risk for the health and general insurance business. The local regulations for investments require the appropriate matching of investments and technical provisions, and also establish different levels of restrictions on the type of assets in which the insurance company may invest.

**Asset liability management**

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

duration of liabilities.

### **Reinsurance ceded**

Aegon Spain has a one Aegon reinsurance management policy, meaning that both its joint ventures and own business are treated as a whole, with the same economic conditions and reinsurers panel, but with individual profit shares without losses carried forward by each entity belonging to Aegon Spain. The main contract for mortality and morbidity provides proportional reinsurance protection for both its individual risk and group risk policies. With this approach, Aegon Spain seeks to optimize the cost of reinsurance coverage, sharing the profits and not the losses, while achieving prudential diversification of its insurance risk by limiting the maximum possible losses on risks that exceed retention levels. Maximum retention levels vary by product and by nature of the risk being reinsured; generally, however, the retention limit is between EUR 30,000 and EUR 60,000 per life insured. Aegon Spain remains contingently liable for the amount ceded should the reinsurance company fail to meet its obligations. Aegon Spain generally uses only reinsurance companies that have a Standard & Poor credit rating of A or higher. Aegon's Group Reinsurance Use Committee is involved in the pre-approval of reinsurers, and the selection of reinsurers where a reinsurer has a rating of below A. In addition, to reduce its exposure to defaults, Aegon Spain has several reinsurers on its panel and regularly monitors the creditworthiness of each. Further protection is taken out through funds that are withheld for investment by the ceding company where appropriate.

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80 Business overview **Results of operations** **France**

### **Overview of France**

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

### **History**

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

### **Overview of sales and distribution channels**

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

### **Market position**

In 2012, AG2R La Mondiale is ranked tenth by premiums in the life insurance sector and first by premiums in corporate pensions. The Association of Insurers of Luxembourg ranked La Mondiale Europartenaire fourth by premiums in 2013 with a 9% market share.

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**Overview of Variable Annuities Europe**

Variable Annuities Europe's legal entity is Aegon Ireland plc, located in Dublin. Its primary business line is variable annuities for Europe, active in the United Kingdom, Germany, France, and the Netherlands. In addition Aegon Ireland offers offshore bonds for the market in the United Kingdom.

**Overview of sales and distribution channels**

In the United Kingdom and the Netherlands, Aegon Ireland does not employ a direct sales force, but works with the local sales forces of the Aegon companies.

In Germany, Aegon Ireland has its own branch office in Frankfurt and employs a direct sales and customer service team.

Sales in France are through AG2R La Mondiale. Aegon N.V. has a 35% stake in La Mondiale Participations, including the insurance entity with which Aegon Ireland cooperates.

**Variable annuities**

Variable annuities are advised products distributed primarily through financial advisers and banks.

In the United Kingdom, Aegon's distribution channels are the Aegon Retirement Choices (ARC) platform – an online service that allows financial advisers to manage their clients' investment portfolios – banks, and financial advisers.

Aegon Ireland launched its first variable annuity product in Germany in August 2013. Key distribution channels are broker pools and financial adviser networks, serviced through the branch office in Frankfurt.

In France, AG2R La Mondiale sells a single variable annuity product, of which the guaranteed lifetime income option is reinsured to Aegon Ireland. The product is sold through AG2R La Mondiale's own internal networks and through platforms to financial advisers and banks.

In the Netherlands, a single variable annuity product is distributed through Aegon's local banking and financial adviser channels.

**Offshore bonds**

Offshore bonds are offered exclusively in the United Kingdom and distributed through Aegon's ARC platform, other third party platforms, banks, and financial advisers.

## Overview of business lines

### Variable annuities

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

Variable annuities allow a customer to participate in equity or bond market performance with the assurance of a minimum level of future benefit, regardless of the performance of their account. Variable annuities allow a customer to select payout options designed to help meet their need for income upon maturity, including lump sum payment or income for life or a period of time.

Premiums paid on variable annuity contracts are invested in underlying funds, including bond and equity funds and, usually, a cash fund. For most products, the client selects investment options based on their preferred level of risk. The assets related to this product are segregated for the benefit of policyholders in separate accounts of the insurance company.

The account value of variable annuities reflects the performance of the funds. The insurance provider earns administration and expense charges, as well as guarantee charges for the guaranteed benefits.

### Offshore bonds

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

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### **82 Business overview [Overview of Variable Annuities Europe](#)**

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

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

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

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

#### **Competition**

##### **Variable annuities**

From 2012 to 2013, the competitive environment for variable annuities in Europe has experienced no significant change. Ongoing difficult economic and financial conditions have limited new product launches. In the United Kingdom, there are two competitors, Axa and MetLife. MetLife is the market leader, with a total variable annuity market solution covering both pensions and onshore bonds.

In Germany, several competitors offer variable annuity type products, but variable annuities are generally not essential to their overall offering. The main competitors are Canada Life, Axa, and Baloise. Other providers include Allianz, Swiss Life, Generali, and Friends Provident.

In France, AXA and Allianz are the only other providers offering variable annuities, with AXA leading the market.

##### **Offshore bonds**

The UK offshore bond market remains highly competitive. Aegon has a 6% market share, placing it sixth. The top three providers by market share are Axa Wealth, Standard Life, and Canada Life, respectively.

##### **Regulation and supervision**

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

the 1994 Regulations.

Aegon Ireland operates on an FOE basis in Germany (with a branch office in Frankfurt) and on an FOS basis in the United Kingdom and the Netherlands, selling life insurance products in Class III (contracts linked to investment funds) and Class I (life insurance and contracts to pay annuities on human life), excluding contracts written in Class II (contracts of insurance to provide a sum on marriage or on the birth of a child). Aegon Ireland must comply with the general good provisions that apply to insurers selling such policies in each jurisdiction.

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

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**Table of Contents****Overview of Aegon Asset Management**

Aegon Asset Management was formed in October 2009, and brings together Aegon's asset management businesses from around the world. Aegon reports results from Aegon Asset Management through the New Markets reporting line.

**Organizational structure**

Aegon Asset Management has three main brands;

- ⌚ **Aegon Asset Management** specializes in providing fixed income, real estate loan and asset allocation solutions to a range of customers. It benefits from long-standing experience in managing these asset classes for Aegon.
- ⌚ **Kames Capital** is a United Kingdom based asset management company providing fixed income, equities, real estate and multi-asset solutions to United Kingdom and international clients.
- ⌚ **TKPi** is a Netherlands-based fiduciary manager recognized for its manager selection and tailored advice to the Dutch pension market.

Aegon Asset Management has offices in the Netherlands, the United Kingdom, the United States, Canada, Central & Eastern Europe, Spain, Hong Kong and mainland China.

The main operating entities are Aegon USA Investment Management LLC, Aegon USA Realty Advisors LLC, Aegon Investment Management B.V. (the Netherlands), TKP Investments B.V. (the Netherlands), Kames Capital plc (United Kingdom) and Aegon Industrial Fund Management Company Ltd (China, 49% owned).

Aegon Asset Management is managed by a global board representing a number of global functions and local leadership roles.

**Overview of business lines**

Aegon Asset Management manages significant funds on behalf of other Aegon insurance units. Asset inflows are derived from insurance company sales invested into the general account or insurance funds, depending on the product sold. Aegon Asset Management receives funds either in a closed architecture structure (the insurance affiliate seller delegates funds to Aegon Asset Management) or through competition with external asset managers in an open architecture structure (the insurance affiliate seller may choose to delegate funds to an external fund manager other than Aegon Asset Management). Aegon Asset Management also services third party retail and institutional customers investing through collective investment schemes or segregated mandates.

**General account** business consists of funds held on the balance sheet of Aegon insurance companies to meet policyholder liabilities, typically where the insurer has given the policyholder a guarantee. These assets are managed to match the insurers' liabilities. As a rule, general account assets are managed in a closed architecture structure, and the main asset classes are fixed income and mortgage loans. Aegon Asset Management also manages the general account derivatives book.

**Affiliate sales** business generally consists of funds sold by affiliate insurers where the policyholder return is determined by the investment return of the fund, so that the risk is for the policyholder rather than Aegon. The funds have various legal structures, and are usually managed against a benchmark or peer group target. The main asset classes include fixed income, equities, real estate, mortgage loans and alternatives. In the United States and the United Kingdom, a significant element of affiliate sales is conducted on an open architecture basis.

For **third party** business, product design and distribution are typically controlled by Aegon Asset Management (whereas for general account and affiliate sales business these are controlled by the insurance companies). Some third party business is sourced through co-operation arrangements with insurance affiliates. The retail businesses typically sell collective investment vehicles (mutual funds) to the public through wholesale distributors and independent intermediaries. The main asset classes are fixed income and equities, and the funds are usually managed against a benchmark or peer group target. The institutional businesses typically sell tailored services to large corporations or pension funds. They employ a full range of asset classes and manage the funds against objectives, targets and risk profiles agreed with clients. Both absolute and relative return products are offered. Aegon Asset Management distributes these services internationally.

### **Competition in main locations**

Aegon Asset Management competes with other asset management companies on insurance platforms to acquire business from open-architecture Aegon insurance units and third parties. Aegon Asset Management's competitors include global asset managers, which either belong to a financial conglomerate or are stand-alone, and local specialists in the countries where it is active. Generally, there are different competitors for different types of asset class or different styles of management.

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### **84 Business overview [Overview of Aegon Asset Management](#)**

In the United States, fixed income, asset allocation and real estate loans are the focus. In the wholesale market, Aegon Asset Management collaborates as a subadvisor with its insurance company affiliates to produce competitive products. It also works with consultants and other partners to offer products to third party institutions.

In the Netherlands, Aegon Asset Management provides a wide range of investment solutions to retail and institutional clients through its affiliate insurance company. In the third party institutional market, it competes with both fiduciary and balance sheet managers, and global asset managers with an asset-only proposition. Competition continues to be strong in the pension fund industry due to the ongoing consolidation of pension funds and growing service requirements of pension fund clients.

In the United Kingdom, competition in the third party wholesale market is heavily influenced by the effect on distribution of new regulation changes. Kames Capital has received strong net inflows to its flagship fixed income and equity products.

#### **Regulation and supervision**

Aegon Asset Management's global holding company, Aegon Asset Management Holding B.V., is regulated by DNB (the Dutch central bank) as a financial holding company according to the Dutch Act on Financial Supervision. In Europe, regulation for asset management companies is different from that for insurers as it is based on separate European Union directives. Aegon Asset Management's underlying operating entities are regulated by their local regulators, including the AFM (Autoriteit Financiële Markten) and DNB for Dutch entities, the FCA (Financial Conduct Authority) for United Kingdom based entities, the SEC (Securities & Exchange Commission) for United States based entities, and the CSRS (Chinese Securities Regulatory Commission) for Chinese based entities.

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**Risk management****General**

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

**Definition and tolerances**

For Aegon, risk management involves:

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

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

**Objectives of risk management**

Aegon's risk strategy provides direction for the targeted Aegon risk profile while supporting the Aegon business strategy. The targeted risk profile is determined by customer need, Aegon's competence to manage the risk, the preference of Aegon for the risk and whether there is sufficient capacity to take the risk. Key inputs for our risk preferences include expected returns, alignment with customer interests, the existing risk exposures and other risk characteristics.

Next to the targeted risk profile, risk tolerances and limits are established to ensure that Aegon maintains, at all times, a solvency and liquidity position such that no plausible scenario would cause the company to default on its obligations to policyholders. To accomplish this, Aegon has established a number of risk criteria and tolerances as part of its risk strategy:

- ⌚ Financial strength: Ensure Aegon meets long-term obligations to policyholders and to enable Aegon to compete in key markets as a financially strong global insurer;
- ⌚ Continuity: Ensure that Aegon meets policyholder obligations, even under extreme event scenarios;
- ⌚ Culture: Encourage a strong risk awareness by stressing the company's low tolerance for operational risk. This helps to improve operational excellence and ensures that the company is fair in its treatment of customers and other stakeholders;



⌚ Risk balance: Manage the concentration of risk and encourage risk diversification within Aegon.  
**Aegon's risk governance framework**

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

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

### **Governance structure**

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

- ⌚ The Supervisory Board (SB) and the Supervisory Board Risk Committee (SBRC);
  - ⌚ The Executive Board (EB) and the Management Board (MB);
  - ⌚ The Enterprise Risk Management Committee (ERMC) and the Group Risk & Capital Committee (GRCC).
- Additionally, there are working groups and regional committees which support the ERMC and GRCC.

Aegon's EB has overall responsibility for risk management. The EB adopts the risk strategy, risk governance, risk tolerance and material changes in risk methodology and risk policies. The Group Chief Risk Officer (CRO) attends EB meetings and has a direct reporting line to the SB to discuss enterprise risk management and related matters, and is a member of the MB.

The MB oversees a broad range of strategic and operational issues. While the EB remains Aegon's statutory executive body, the MB provides vital support and expertise in safeguarding Aegon's strategic goals. The MB discusses and sponsors

**Table of Contents****86 Risk and capital management Risk management**

enterprise risk management, in particular the risk strategy, risk governance, risk tolerance, and material changes in risk methodology and risk policies.

The SBRC is responsible for overseeing Aegon's enterprise risk management framework, including risk governance and measures taken to ensure risk management is integrated properly into the company's broader strategy. The SBRC oversees the company's risk exposure as it relates to capital, earnings and compliance with Group Risk policies. It is the responsibility of the EB and the Group CRO to inform the SB of any risk that directly threatens the solvency, liquidity or operations of the company. Details of members of the SBRC can be found on pages 96 and 97 of this Annual Report.

The MB is supported by two committees:

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

The ERMC can seek advice on significant ERM framework development work from temporary working groups comprising subject matter experts who represent the company's businesses. These working groups are established by the ERMC, including their membership, scope of work and deliverables.

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

The responsibilities and prerogatives of the RCCs are set out in their respective charters and are similar in content to those of the GRCC, but are tailored to local circumstances. Group Risk is responsible for the development, maintenance and oversight of compliance with the ERM framework, including risk strategy, risk governance, risk tolerance, risk methodology and risk policies. Group Risk also keeps oversight of material risk, balance sheet and commercial decisions taken throughout the company. Group Risk further identifies good risk management practices, facilitates implementation thereof, and helps to ensure that there is consistency in the application of these practices across the company. In addition, Group Risk prepares risk management information, including information about current risk exposures

and issues, and further sensitivity and scenario analyses, either at its own initiative or at the request of management.

Group Risk is responsible for development and oversight of compliance with the risk governance framework, risk methodology, risk tolerances and risk policies. This involves identifying risk, particularly operational and emerging risk, as well as reviewing risk assessments carried out by business units. Group Risk also identifies best risk management practices, facilitates implementation thereof and helps ensure there is consistency in the application of these practices across the company. In addition, Group Risk performs risk and scenario analyses, either at its own initiative or at the request of management.

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

### **Lines of defense**

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

The company's first line of defense, including the business and support functions, has direct responsibility for managing and taking risk in accordance with defined risk strategy, risk tolerance and risk policies. The second line of defense, including the risk management function, facilitates and oversees the effectiveness and integrity of enterprise risk management across the company. The third line of defense, including the audit function, provides independent assurance and challenge regarding the effectiveness and integrity of enterprise risk management across the company.

### **Risk management in 2013<sup>1</sup>**

The effects of the global crisis that began in 2008 continued to be felt throughout 2013. General economic and business conditions remained difficult, especially in Europe where economic growth is low and sometimes even negative. Equity markets are driven mainly by announcements by the United States Federal Reserve Board relating to its policy of quantitative easing. Interest rates remain low, although a significant increase was seen in the third quarter of 2013. Credit spreads remained at the level of end of 2012.

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

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As part of the company's ERM Framework, Aegon carries out regular sensitivity analyses to verify that the impact of different economic and business scenarios on earnings and the capital position are within the risk tolerances set. These analyses also cover extreme event scenarios, such as depression and inflation scenarios.

**Risk overview 2013****Credit risk**

Credit spreads remained stable in 2013. During the year, Aegon continued to reduce its exposure to credit risk. The Dutch operations agreed with the Dutch Central Bank to change the Solvency I valuation curve from ECB AAA to swap. As a result of this decision and of managing the sovereign spread risk under Solvency I, investments in German and French government bonds were exchanged for investment in Dutch government bonds. Moreover, new business and maturing bond cash flows in the United Kingdom were invested in high-rated sovereign-linked paper. In the general account investment portfolio, Aegon retained minimum exposure to peripheral European countries.

**Equity market risk and other investment risks**

Equity markets trended upward in 2013. During 2013, Aegon continued to progress its program of hedging equity risk at its UK pension business, Variable Annuities, US and Dutch operations to protect the company against a possible deterioration in equity markets. The US business implemented a macro hedge to protect the business capital position of Variable Annuities from fluctuations in equity markets. As a result of a mismatch between US statutory and IFRS accounting, this hedge showed a negative impact on income before tax of EUR 590 million in 2013. The Dutch operations extended the existing equity hedge program with an equity volatility hedge.

**Interest rate risk**

Similar to 2012, interest rates remained low in the first half of 2013. In the second half of the year, long-term swap rates in the United States, United Kingdom and the Eurozone increased 61 bps. In the United States, the duration of the investment portfolio was increased by investing in long-term treasuries and forward starting swaps. The US operations also finalized a hedging program to project the capital position against a sharp rise in interest rates. Also in 2013, the existing interest rate programs remained in place for hedging guarantees for Aegon's operations in the Netherlands and at Variable Annuities.

**Currency exchange rate risk**

As an international company, Aegon is exposed to movements in currency exchange rates. However, Aegon does not consider this exposure to be material. The company holds its capital base in various currencies in amounts that correspond to the book value of individual business units, thus mitigating currency exchange rate risk.

**Liquidity risk**

Aegon has put in place a strong liquidity management strategy. Aegon considers extreme liquidity stress scenarios, including the possibility of prolonged frozen capital markets, an immediate and permanent rise in interest rates, and policyholders withdrawing liabilities at the earliest conceivable date.

In addition, the company has liquidity stress planning in place. In 2013, Aegon retained significant holdings of cash and highly liquid assets as a precaution against potential adverse market developments. Stress tests show that available liquidity would more than match the company's liquidity requirements, even if market conditions were to significantly deteriorate.

### **Underwriting risk**

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

### **Operational risk**

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

Aegon faces a number of risks, some of which may arise from internal factors, such as inadequate compliance systems. Others, such as movements in interest rates or unexpected changes in longevity or mortality trends, are external in nature. Aegon's most significant risk is to changes in financial markets, related particularly to movements in interest rates, equity and credit markets. These risks, whether internal or external, may affect the company's operations, its earnings, its share price, the value of its investments, or the sale of certain products and services. A description of risks relating to Aegon's businesses and risks relating to Aegon's common shares can be found on pages 319 to 334 of this Annual Report.

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## **Capital and liquidity management**

### **Liquidity and capital resources**

In line with its risk tolerance, the goal of Aegon's capital and liquidity management is to promote stable and strong capital adequacy levels for its businesses on various capital metrics to ensure that the company is able to meet its obligations.

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

### **Guiding principles**

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

- ⌚ To promote strong capital adequacy in Aegon's businesses and operating units;
- ⌚ To manage and allocate capital efficiently to maximize returns and support the strategy;
- ⌚ To maintain an efficient capital structure with an emphasis on optimizing Aegon's cost of capital;
- ⌚ To ensure sufficient liquidity by enforcing stringent liquidity risk policies for both business units and the holding;
- ⌚ To maintain continued access to international money and capital markets on competitive terms.

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

### **Governance**

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

### **Capital management**

### **Strategic importance**

Aegon's approach towards capital management plays an important role in supporting the execution of Aegon's strategic priorities. These priorities include the shift of capital to those markets that offer higher growth and return prospects, and the shift from spread business to fee business. In addition, the company is improving its risk profile by further reducing total financial leverage. Disciplined risk and capital management support Aegon's aim to pay a sustainable dividend to its shareholders.

### **Improving risk profile**

Aegon continues to take measures to improve its risk-return profile and lower overall capital requirements. These measures include, for instance, the continued run-off of Aegon's spread-based institutional business in the United States, the strategic growth in fee-based earnings and extensive asset-liability management and hedging programs. Examples of these programs include hedging the interest rate and equity risk from guarantees in the Netherlands and hedging the capital position in the Americas against adverse equity and fixed income market swings.

### **Capital requirements and leverage**

Aegon's goal for all units is to maintain a strong financial position in order to sustain losses from adverse business and market conditions. The company's overall capital management strategy is based on capital adequacy, capital quality and capital leverage.

### **Capital adequacy**

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

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

Aegon's Insurance Group Directive ratio was 212% at December 31, 2013, down from 228% at the end of 2012, driven mainly by the switch to the swap curve for regulatory solvency calculations in the Netherlands and the negative impact of IAS 19.

### **Total capitalization**

Aegon's total capitalization consists of the following components:

- ⌚ Shareholders' equity excluding revaluation reserves and the remeasurement of defined benefit plans;
- ⌚ Non-controlling interests and share options not yet exercised;
- ⌚ Total financial leverage.

### **Total financial leverage**

Consistent with the guiding principles of its capital and liquidity management, Aegon NV monitors and manages to several financial flexibility related metrics, including:

- ⌚ Various rating agency leverage metrics;
- ⌚ Gross financial leverage ratio;
- ⌚ Fixed charge coverage.

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Aegon defines total financial leverage as borrowings issued to fund the capital employed in insurance activities. Total financial leverage includes hybrid leverage, subordinated and senior debt, and short term debt such as commercial paper. Aegon's fixed charge coverage is a measure of the company's ability to service its total financial leverage and is calculated as the ratio of underlying earnings before tax and prior to the payment of interest expenses on total financial leverage to interest payments on total financial leverage and preferred dividends. The numbers include the impact of hedging.

At the end of 2013, Aegon's total capitalization was EUR 25.5 billion (EUR 27.3 billion at end 2012). Its gross financial leverage was 30.0% (31.9% at end 2012) and its fixed charge coverage was 5.1x (4.5x at end 2012). Aegon targets a gross financial leverage ratio of 26-30% and a fixed charge coverage of 6.0-8.0x and expects a continued deleveraging in 2014 supporting Aegon's commitment to these targets.

**Debt funding and back-up facilities**

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

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

Aegon also has access to domestic and international money markets through its USD 4.5 billion commercial paper programs. At December 31, 2013, Aegon had EUR 135 million outstanding under these programs.

To support its commercial paper programs and need for letters of credit (LOCs), and to enhance its liquidity position, Aegon maintains backup credit and LOC facilities with international lenders. The company's principal arrangement is a EUR 2 billion syndicated revolving credit facility maturing in 2019, and additional LOC facilities of USD 2 billion, of which USD 1.5 billion matures in 2015 and USD 0.5 billion matures in 2017. In addition, Aegon also maintains various shorter-dated bilateral backup liquidity and LOC facilities in both committed and uncommitted format.

**Operational leverage**

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

Aegon enters into reinsurance agreements for risk and capital management purposes with several affiliated captive insurance companies (captives). All captives are fully consolidated for IFRS reporting.

The captives are utilized for a number of purposes which may include:

- Financing term life insurance (subject to Regulation XXX reserves) and universal life insurance with secondary guarantees (subject to Regulation AXXX reserves) to support lower-risk statutory reserves at a lower cost for policyholders and shareholders;



- ⌚ Managing variable annuity hedging programs;
- ⌚ Managing and segregating risks;
- ⌚ Monetizing embedded value.

All external financing provided to captives to support statutory reserves is disclosed in note 41 (Borrowings) to the consolidated financial statements to the extent that it has been funded. Letters of credit issued by third parties provided to captives to provide collateral to affiliated insurers are disclosed in note 51 (Commitments and contingencies). These letters of credit have been provided by third parties for the benefit of the affiliated company whose liabilities are reinsured.

## **Liquidity management**

### **Strategic importance**

Liquidity management is a fundamental building block of Aegon's overall financial planning and capital allocation processes. Aegon aims to have sufficient liquidity to meet cash demands even under extreme conditions. The company's liquidity risk policy sets guidelines for its operating companies and the holding in order to achieve a prudent liquidity profile.

Liquidity is coordinated centrally and managed both at Aegon N.V. and at country unit levels. Aegon maintains a liquidity policy that requires all operating units to project their sources and uses of liquidity over a two-year period under normal and severe business and market scenarios. This policy ensures that liquidity is measured and managed consistently across the company and the liquidity stress management plans are in place.

### **Sources and uses of liquidity**

Aegon's subsidiaries are primarily engaged in the life insurance business, which is a long-term business with relatively illiquid liabilities and generally matching assets. Liquidity consists of both liquid assets held in investment portfolios, as well as inflows generated by premium payments and customer deposits. These are used primarily to purchase investments, as well as to fund benefit payments to policyholders, policy surrenders, operating expenses, and, if the subsidiary's capital position so allows, to pay dividends to the holding.

**Table of Contents****90 Risk and capital management Capital and liquidity management**

At Aegon N.V., liquidity is sourced from internal dividends from operating companies and by accessing capital and money markets. The main sources and uses of liquidity at Aegon N.V. are dividends from subsidiaries and to shareholders, movements in debt, net expenses (including interest), funding operations, and the balance of acquisitions and divestitures.

The ability of our insurance subsidiaries to transfer funds to the holding company is constrained by the need for these subsidiaries to remain adequately capitalized to the levels set by local insurance regulations and as administered by local insurance regulatory authorities.

In order to ensure the holding company's ability to fulfil its cash obligations, it is Aegon's policy that the holding company holds

liquid assets in reserve to fund at least 1.5 years of holding company operating and funding expenses without having to rely on the receipt of funds from its subsidiaries and without the need to access capital and money markets.

Insurance laws and regulations in local regulatory jurisdictions often contain minimum regulatory capital requirements, e.g. 100% of the Authorized Control Level (ACL) for US insurance entities, 100% Solvency I required capital for Dutch insurance companies and 100% Solvency I Pillar 1 capital for insurance companies in the United Kingdom.

The minimum regulatory capital requirements for our main subsidiaries and the actual capitalization levels as per December 31, 2013, are included in the following table:

Capital requirements	Legal/regulatory minimum capital requirement	Actual capitalization	Excess over legal/regulatory minimum
	100% Authorized Control Level (NAIC RBC ACL)		
United States <sup>1)</sup>	100% Solvency I	~880% of combined ACL	~EUR 5.1 bln
The Netherlands <sup>2)</sup>	100% Solvency I (Pillar 1)	~240% Solvency I	~EUR 2.3 bln
United Kingdom <sup>3)</sup>		~150% Solvency I (Pillar 1)	~EUR 0.7 bln

<sup>1</sup> Capitalization for the United States represents the internally defined combined risk-based capital (RBC) ratio of Aegon's life insurance subsidiaries in the United States. The combined RBC ratio utilizes the NAIC RBC ratio excluding affiliated notes and taking into account excess or deficient amounts related to offshore life affiliates.

<sup>2</sup> Excluding the banking activities.

<sup>3</sup> Including the With Profits fund at unaudited 30 June 2013 values.

Local insurance regulators generally use their discretionary authority and judgment to restrict and/or prohibit the transfer of funds to the holding company to capital levels well above the minimum capital requirements contained in the applicable insurance regulations. The discretionary nature of the regulatory assessment of capital adequacy creates a natural ambiguity around the exact level of capital that is required by local regulatory authorities. Precise capitalization levels effectively required by local insurance regulators are often not known in advance, in part because the views and risk tolerances of certain regulators for certain asset classes continue to develop over time, in line with the development and evolution of local, regional and global regulatory capital frameworks. In practice and for transfer of funds purposes, Aegon manages the capitalization of its subsidiaries in excess of the minimum regulatory capital requirements contained in the applicable regulations, as shown in the table above.

The capitalization level and shareholders' equity of the subsidiaries can be impacted by various factors (e.g. general economic conditions, capital markets risks, underwriting risk factors, changes in government regulations, legal and arbitrational proceedings). To mitigate the impact of such factors on the ability of subsidiaries to transfer funds, the subsidiaries hold additional capital in excess of the levels required by local insurance regulations.

### **Aegon's liquidity position**

At December 31, 2013, Aegon N.V. held a balance of EUR 2.2 billion in excess capital at group level, compared with EUR 2.0 billion at the end of 2012.

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

### **External dividends**

Aegon aims to pay out a sustainable dividend, which may increase based on Aegon's performance, to allow equity investors to share in Aegon's performance. After investments have been made in new business to generate organic growth, capital generated by Aegon's operating subsidiaries is available for distribution to the holding company, while maintaining a capital and liquidity position in the operating subsidiaries in line with Aegon's capital management and liquidity risk policies.

Aegon uses cash flows from its operating subsidiaries to pay holding expenses, including funding costs. The remaining cash flow is available to execute Aegon's strategy and to fund dividends on its shares. When determining whether to declare or propose a dividend, Aegon's Executive Board balances

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prudence with offering an attractive return to shareholders. This is particularly important during adverse economic and/or financial market conditions. Also, Aegon's operating subsidiaries are subject to local insurance regulations which could restrict dividends to be paid to the holding company. There is no requirement or assurance that Aegon will declare and pay any dividends.

**Ratings**

Aegon's objective is to maintain excess capital over and above the amount required to maintain an AA financial strength rating and this plays an important role in determining the overall capital management strategy. Aegon maintains strong financial strength ratings from leading international rating agencies for its operating subsidiaries and a strong credit rating for the holding.

**Agency**

	Aegon			
December 31, 2013	Aegon N.V.	Aegon USA	The Netherlands	Aegon UK
Standard & Poor's	A-	AA-	AA-	A+
Moody's Investors Service	A3	A1	-	-
Fitch Ratings	A	AA-	-	-

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**In control statement**

**Internal risk management and control systems**

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

Aegon's internal audit function assists the Executive Board in maintaining effective controls by independently and objectively evaluating the adequacy and effectiveness of the organization's internal control and risk management systems. Criteria established under Internal Control - Integrated Framework, the Treadway Commission's Committee of Sponsoring Organizations (COSO, 1992 framework), are used by Aegon's internal audit function to analyze and make recommendations to the Executive Board concerning the effectiveness of internal controls over Aegon's financial reporting process and the company's internal control framework. Based on risk assessments performed, the Executive Board, under the supervision of the Supervisory Board and its Audit Committee, is responsible for determining the overall internal audit work and for monitoring the integrity of the financial statements of Aegon N.V.

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

The risk management function develops and monitors compliance with risk policies and risk frameworks. This also involves the facilitation of risk identification and reviewing risk assessments performed by the businesses. The risk management function is responsible for identifying good practices in risk management and working with management to ensure that Aegon adheres to those practices.

Finally, the compliance function plays a key role in monitoring the company's adherence to external rules and regulations and internal policies.

On the basis of the above, Aegon's Executive Board states the following regarding risks to the company's financial reporting:

- ⚡ Aegon's risk management and control systems provide reasonable assurance that the company's financial reporting does not contain any material inaccuracies;
- ⚡ Aegon's risk management and control systems functioned properly in 2013;
- ⚡ There are no indications to suggest that Aegon's risk management and control systems will not continue to function properly in 2014.

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

**Responsibilities for the financial statements and the Annual Report**

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

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

The Hague, March 19, 2014

The Executive Board of Aegon N.V.

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**Governance****Report of the Supervisory Board**

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

**Oversight and advice**

In performing their duties, the members of the Supervisory Board are guided by the interests of Aegon and the company's stakeholders. The Supervisory Board is a separate corporate body, independent of the Executive Board. The Supervisory Board consists of nine members (for further details of the individual members of Aegon's Supervisory Board, please see pages 99 and 100). The Supervisory Board makes recommendations to the General Meeting of Shareholders concerning all appointments and reappointments to, and dismissals from, both the Executive Board and the Supervisory Board. In addition, the Supervisory Board determines the remuneration of individual members of the Executive Board in line with the Remuneration Policy adopted at the company's General Meeting of Shareholders. Overall accountability for Aegon's remuneration governance also sits with the Supervisory Board, such to be advised by its Compensation Committee. This includes the responsibility for designing, approving and maintaining the Aegon Global Remuneration Framework, including the remuneration policies for the Executive Board, Identified Staff and for staff in Control Functions.

**Corporate governance**

Details of Aegon's corporate governance structure and a summary of the company's compliance with the Dutch Corporate Governance Code are on pages 108 to 111 of the Annual Report and in the Corporate Governance Statement published on aegon.com.

**Composition of the Supervisory Board and Executive Board****Supervisory Board**

The composition of the Board is discussed in meetings of the Board and in particular by the Nominating Committee. An overview of the composition in 2013 is included in this report on pages 96 and 97. In 2013, the term of Mr. Shemaya Levy expired. He was reappointed for a new term of four years by the shareholders on May 15, 2013. On the same day shareholders approved the appointment of Mrs. Dona D. Young to the Board for a term of four years. In September 2013, Mrs. Karla M.H. Peijs announced her retirement from the Board on September 30, 2013. The Board is grateful for her many years of service to Aegon and the Board.

All members of the Supervisory Board are considered independent under the terms of the Dutch Corporate Governance Code, with the exception of Mr. Kornelis J. Storm. Mr. Storm is not regarded as independent within the

definition of the Code as he served as Chairman of Aegon's Executive Board prior to his retirement in April 2002. Mr. Storm joined the Supervisory Board in July 2002. He will step down from the Supervisory Board at the Annual General Meeting in May 2014 at the end of his third and last term. On February 20, 2014, Mr. Antony Burgmans announced that he will step down from the Board as per April 1, 2014, in order to comply with the Dutch Act on Management and Supervision (Wet bestuur en toezicht).

### **Executive Board**

The Executive Board consists of two members, Mr. Alexander R. Wynaendts, Chief Executive Officer (CEO), and Mr. Darryl D. Button, Chief Financial Officer (CFO). Mr. Button was appointed to the Executive Board for a term of four years by the shareholders on May 15, 2013, succeeding Jan J. Nooitgedagt as CFO. The Board extends its gratitude to Jan Nooitgedagt, who joined Aegon as CFO in 2009 during the financial crisis for his important contributions to steering Aegon to where it is today, with a strong capital position and solid balance sheet.

In compliance with the Dutch Corporate Governance Code, members of the Executive Board are appointed by shareholders for a term of four years, with the option of reappointment for further four-year terms. In 2014, no members are due for reappointment. The appointment schedule for members of the Executive Board is included in the company's Executive Board Rules and posted on Aegon's corporate website, [aegon.com](http://aegon.com).

### **Supervisory Board meetings**

#### **Attendance**

In 2013, the Supervisory Board held a total of seven regular (face to face) meetings and six additional conference call meetings. Seven out of the ten members attended all regular Board meetings and three members missed one meeting. Attendance details are provided in the table on page 94.



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Name	Regular SB meeting	SB conference call	Audit Committee	Risk Committee	Nominating Committee	Compensation Committee
Rob Routs	7/7	6/6	-	-	6/6	6/6
Irv Bailey	7/7	6/6	-	6/6	-	6/6
Antony Burgmans	6/7	5/6	6/7	-	-	-
Shemaya Levy	7/7	6/6	7/7	-	6/6	-
Karla Peijs <sup>1)</sup>	5/5	5/5	-	-	4/4	4/4
Kees Storm	6/7	6/6	-	5/6	5/6	-
Ben van der Veer	6/7	6/6	7/7	6/6	-	-
Dick Verbeek	7/7	6/6	7/7	6/6	-	-
Leo van Wijk	7/7	5/6	-	-	6/6	6/6
Dona Young <sup>1)</sup>	4/4	3/3	4/4	4/4	-	-

<sup>1</sup> Where a Supervisory Board member retired from the SB or stepped down from a Committee or was appointed during the year, only meetings that were held during his / her tenure are taken into account.

The Board meetings were preceded or followed by Executive Sessions, meetings of the Supervisory Board absent of members of the Executive or Management Boards. In accordance with Aegon's Supervisory Board Rules, regular Board meetings were preceded by preparatory conference call meetings. These were attended by the Chairman and Vice Chairman of the Supervisory Board, the Chairman of the Audit Committee, the Chairman of the Risk Committee, and the CEO and CFO who sit on the company's Executive Board.

Meetings of the Committees of the Supervisory Board were usually held before the meetings of the full Supervisory Board. No Supervisory Board members were frequently absent from Committee meetings. Members of Aegon's Executive and Management Boards attended the Supervisory Board meetings held in 2013. At the request of the Supervisory Board, other company executives also attended the meetings to provide updates. Representatives from Aegon's external auditors EY attended the discussions on the Company's 2013 results.

**Activities**

In 2013, discussions by Aegon's Supervisory Board included the following issues:

- ⌚ Strategy, including Aegon's sustainability program, and business reviews;
- ⌚ Acquisitions, divestments and restructuring of businesses;
- ⌚ Preferred Share Amendment Plan;
- ⌚ Executive Board and senior management succession planning;
- ⌚ Executive remuneration;
- ⌚ Governance and composition of the Supervisory Board;
- ⌚ New product development;
- ⌚ Customer centricity;
- ⌚ Human resources, including talent development and results of the employee survey;
- ⌚ Annual and quarterly results, dividend and Group Plan 2014-2016, including the 2014 budget, and the capital plan;

- ⌄ Capital position and Solvency II;
- ⌄ Enterprise risk management;
- ⌄ Investor relations;
- ⌄ Legal, regulatory and compliance issues;
- ⌄ Accounting changes.

## Highlights

A key development in 2013 was the cancellation of the preferred shares owned by Vereniging Aegon, which was announced on February 15, 2013, and approved by shareholders at the annual General Meeting of Shareholders on May 15, 2013. This transaction resulted in a simplified capital structure, while enabling the Company to maintain a high-quality capital base under expected upcoming European solvency requirements. In 2012 and early 2013 the Board discussed the merits of the transaction extensively, taking into account the interests of both Aegon and its shareholders.

In 2013, the Board focused on the continued execution of the strategic objectives, most notably the shift from spread to fee income, and the growth of the at-retirement business in the company's established markets, and the protection and savings business in its developing markets. The Board discussed with management the company's progress toward customer centricity, supported by investments in digital capabilities and the extension of its distribution reach through partnerships with several trusted financial and non-financial brands. Another key topic was the refinement of the financial strategy presented to investors and analysts in June 2013, which supports a balanced capital deployment strategy and a sustainable dividend.

The Board supported the appointment of Mrs. Brenda Clancy as Global Chief Technology Officer, further strengthening Aegon's long-term strategic commitment to a culture of innovation and the use of technology to improve customer relationships and pursue operational excellence. She is also entrusted with ensuring the suitability and quality of the Aegon's IT infrastructure and cyber security.

In the quarterly meetings, the Board discussed the business units' business initiatives, use of technology, mergers and acquisitions activity, and regulatory issues, and studied relevant developments at competitors in a peer group review. The Board also expressed its support for launching an Aegon Corporate Venture Fund, which was presented by management. The Aegon Corporate Venture Fund is designed to accelerate Aegon's

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digital transformation by tracking digital and technological innovation and market movements and trends, and generate solid investment returns.

The Board closely followed developments in the Solvency II Directive, a European Union Directive governing capital requirements, supervisory review and disclosures. On November 13, 2013, the European Parliament, the Council of the European Union and the European Commission reached an agreement on the Omnibus II Directive that amends the Solvency II Framework agreed in 2009. The starting date for the application of Solvency II is January 1, 2016. More detail on Solvency II can be found on page 11 of this annual report.

**Strategy sessions**

The Supervisory Board's annual strategy offsite meeting was held in Baltimore and Washington in June. The Board reviewed progress on the execution of the strategy for the three business units in the Americas – Life & Protection, Employee Services & Pensions and Individual Savings & Retirement – and the Enterprise Business Services unit. The Board and management also discussed consolidation developments in Aegon's main markets, and the Board approved the updated financial strategy.

In December, the Board reviewed Aegon's Sustainability Program and noted the significant advances made in areas such as integrated reporting, responsible investing and employee volunteering. The Board also stated the need for further sustainability efforts, and its support and desire for management to develop an updated Sustainability Program in 2014.

Throughout 2013, the Board regularly discussed aspects of Aegon's approach to sustainability for various business issues. Further details of Aegon's sustainability vision and progress are in the Aegon Review 2013.

**Results and budget**

In its meeting of February 14, 2013, the Supervisory Board convened to discuss the results of the fourth quarter of 2012. In March 2013, the Supervisory Board reviewed and adopted Aegon's 2012 Annual Report, the consolidated financial statements of Aegon N.V., and the financial statements of Aegon N.V. In May, August and November, the Supervisory Board reviewed Aegon's first, second and third quarter 2013 results.

In December, the Board and management reviewed the Group Plan 2014-2016, including the budget for 2014. The plan protects the company's strategy execution, strong capital position and disciplined cost management, and gives a key role to technology and innovation to increase the frequency and quality of contact with customers. The Board supported the Group Plan and approved the budget for 2014. The Board also approved the 2014 Capital Plan and authorized the Executive Board to support Aegon's budgeted funding needs.

**Legal and compliance**

In 2013, the Supervisory Board and the Audit Committee discussed with management, the General Counsel and the Group Compliance Officer a number of compliance, regulatory and legal issues from Europe, the United States and

Asia. In particular, the Board discussed the judgment of the Supreme Court of the Netherlands in the so-called Koersplan case.

In the year under review, the Chairman of the Board and the chairs of the Audit Committee and Risk Committee held discussions with officials of Aegon's lead regulator, De Nederlandsche Bank N.V. and monitored management interface with regulators in the United States, the United Kingdom and elsewhere.

### **Educational sessions and Board review**

The Board received presentations from internal and external experts on International Financial Reporting Standards (IFRS) and other accounting topics, hedging programs, information security and re-insurance.

As in previous years the Supervisory Board carried out an extensive Board self-evaluation, following an external evaluation in 2012. The Chairman, supported by the Company Secretary, interviewed each member of the Board on the basis of a completed written questionnaire. The review assessed the collective performance of the Board and its Committees, and the performance of the Chairman. The Supervisory Board met to review the results in the absence of management. The Board concluded that the Board and its individual members had functioned well and fulfilled their duties and responsibilities in a satisfactory manner in 2013, and had addressed the recommendations of the 2012 self-evaluation. The Board agreed further improvements relating to agenda-setting and focus areas in 2014.

The performance of the members of the Executive Board was discussed regularly in 2013 at Executive Sessions, and at a dedicated meeting of the Board in December, at which the Board also reviewed the performance of the members of the Management Board.

No transaction with a potential or actual conflict of interest was reported by members of the Board in 2013.

### **Supervisory Board Committees**

The Supervisory Board requires its four Supervisory Board Committees to prepare items requiring a Board decision. Each Committee's members are drawn from the Supervisory Board. The Committees report their findings to the Supervisory Board at Supervisory Board meetings.

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96 Governance **Report of the Supervisory Board**

The four Committees are the:

- ⌚ Audit Committee;
- ⌚ Risk Committee;
- ⌚ Nominating Committee;
- ⌚ Compensation Committee.

As per December 31, 2013, the composition of the Committees is as follows:

**Audit Committee:** Shemaya Levy (Chair); Antony Burgmans; Ben van der Veer; Dirk P.M. Verbeek; Dona D. Young.

**Risk Committee:** Irving W. Bailey, II (Chair); Kornelis J. Storm; Ben van der Veer; Dirk P.M. Verbeek; Dona D. Young.

**Nominating Committee:** Robert J. Routs (Chair); Shemaya Levy; Kornelis J. Storm; Leo M. van Wijk.

**Compensation Committee:** Leo M. van Wijk (Chair); Irving W. Bailey II; Robert J. Routs.

Committees meetings are open to all members of the Board, regardless of membership of the Committees. The Chairman attends all meetings in whole or in part.

**The Audit Committee**

The Audit Committee held seven meetings in 2013, one of which was a combined meeting with the Risk Committee of the Supervisory Board. A meeting held at the headquarters of Aegon United Kingdom in Edinburgh focused on the United Kingdom insurance market, and Aegon's position and financial performance in that market. Aegon business leaders reviewed industry developments and the response of Aegon's United Kingdom businesses, principally the adoption of online platform technology.

The Audit Committee meetings were attended by Aegon's CFO, the Corporate Controller, the Chief Risk Officer and the Internal Auditor. Representatives from Aegon's external auditor EY also attended these meetings. Members of Aegon's Group Risk, Group Legal and actuarial departments were present at some of these meetings.

In 2013, Audit Committee discussions focused on the quarterly results, the annual accounts and the audit process, actuarial analyses, accounting principles defined by IFRS, financial reports filed with the Securities and Exchange Commission, capital updates, internal control systems and compliance, the external auditor's engagement letter and the audit plan for 2013, tax matters, and information technology. The latter two topics were discussed in the aforementioned combined meeting of the Risk and Audit committees. Throughout 2013, business unit managers provided various topic updates to the Audit Committee. At various meetings the Audit Committee and the full Board also reviewed the proposed changes to Aegon's

accounting policies related to deferred policy acquisition costs and longevity reserves as part of the execution of the financial strategy, as announced in January 2014, together with the redemption of USD 550 million in perpetual

capital securities.

As announced at the Annual General Meeting of Shareholders in 2012, the audit of Aegon's accounts from 2014 was put to tender in 2012. In February 2013, after a thorough process the Audit Committee and the Board decided to propose to shareholders to appoint EY as the company's independent auditor for the annual accounts of 2013 and PwC as the company's independent auditor for the annual accounts of 2014 through 2016. These proposals were approved at the Annual General Meeting of Shareholders on May 15, 2013.

The internal auditor attended the meetings of the Audit Committee in 2013 and provided quarterly updates on the activities of the internal audit function and provided details of progress on internal audits. The Audit Committee approved the internal audit plan. The Audit Committee also held private sessions with the internal auditor and the external auditor to discuss the findings. Members of the Executive Board were not present at these sessions.

The Audit Committee also discussed Aegon's compliance with the Sarbanes Oxley Act of the United States, regular reports from the Group Compliance Officer on operational risk issues such as fraud and general compliance issues. In addition, the Committee reviewed quarterly legal updates.

The Committee confirmed that Mr. Shemaya Levy and Mr. Ben van der Veer qualify as financial experts within the terms and conditions of both the Dutch Corporate Governance Code and the Sarbanes Oxley Act in the United States.

### **The Risk Committee**

The Risk Committee assists the Supervisory Board and Audit Committee in overseeing the activities of Aegon's Enterprise Risk Management (ERM) framework. The Committee also advises the Supervisory Board on the company's risk management strategy and policies. Consequently, the Committee regularly reviews the company's ERM framework, risk exposures and compliance with company risk policies.

In 2013 the Risk Committee convened five times, including one meeting in Washington with the Chief Risk Officer of Aegon Americas. The company's Chief Risk Officer attended all meetings, while the members of Aegon's Executive Board attended most of the meetings. Representatives of other businesses or functional areas presented on specific topics. For example, Aegon Asset Management provided insight into developments in Aegon's general account investment portfolio. Recurring items on the agenda in 2013 were the quarterly risk dashboard and the Board risk list. The Risk Committee also discussed risk priorities for 2013 and Aegon's risk strategy

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and regulatory issues. The Committee examined in depth the company's Pricing and Product Development Policy, model validation, use of derivatives, and identification of hedging and emerging risk. At the meeting in Washington, the Committee specifically discussed Aegon Realty, which advises clients on investments in real estate asset classes, and the United States private placement business.

**The Nominating Committee**

Aegon's Nominating Committee held six meetings in 2013. The CEO and Global Head of Human Resources attended of these meetings in whole or in part.

The Nominating Committee discussed the composition of the Supervisory Board and its Committees, and current and upcoming vacancies. The Committee prepared decision-making on the proposal to appoint Mrs. Dona D. Young to the Supervisory Board, as approved by the shareholders on May 15, 2013. The Committee also advised the Supervisory Board on the nomination for the reappointment of Mr. Shemaya Levy to the Supervisory Board in 2013 for a third and final term of four years. When making these recommendations for (re)appointments, the Nominating Committee determined that they were in line with the Supervisory Board profile as set by the Board and published on Aegon's corporate web site.

The Board aims to have a balanced composition in terms of professional background, geography and gender. This is taken into account when selecting suitable candidates for the Board. In 2013, the members of the Committee reviewed and interviewed a number of candidates for upcoming vacancies. In accordance with the aim to have a balanced composition, the Board expects to propose to shareholders the appointment of two new members for a term of four years at the annual General Meeting of Shareholders in 2014. The Board is of the opinion that with these proposed appointments its composition continues to meet the requirements of the Supervisory Board profile.

During the year, the Committee reviewed the composition of the Executive Board and Management Board and the functioning of their members. Acknowledging the importance of good succession planning, the Committee also discussed with the CEO and Aegon's Global Head of Human Resources the extent to which sufficient internal candidates are available to fill positions at EB, MB and senior management level in cases of emergency and when positions open up in the future. The CEO also discussed with the Nominating Committee changes in the global senior management team during the year. The Committee was kept apprised of developments in employee engagement, talent management and international mobility. In February 2014, the full Board discussed these topics extensively with the Global Head of HR. The Board felt that the right steps are taken to ensure proper succession planning is in place and was pleased to see that Aegon is continuing to make further progress in the area of employee engagement and talent management.

Aegon's Executive Board consists of two members. As a result gender diversity is not easy to achieve. Moreover, selection and appointment of members of the Executive Board is based on expertise, skills and relevant experience. The Supervisory Board will also consider gender diversity in view of the aim of balanced Executive Board composition.

**The Compensation Committee**



The Compensation Committee held six meetings in 2013, which were attended by the CEO. The scope of the Compensation Committee has increased in recent years as a result of new regulations promulgated by the European Union – the Capital Requirements Directive III and IV (CRD III and IV), and the Guidelines on Remuneration Policies and Practices issued by the Committee of European Banking Supervisors/European Banking Authority. CRD III and IV have been implemented by way of the Decree on Sound Remuneration Policy (Regeling Beheerst Beloningsbeleid Wft 2011-Rbb) issued by De Nederlandsche Bank.

In 2013, the Compensation Committee oversaw the application and implementation of Aegon’s Global Remuneration Framework and the various policies and related procedures, including the Remuneration Policy for Identified Staff. This included setting the 2013 targets, establishing the 2012 variable compensation amounts, the scenario analysis of pay-out levels under the Executive Board Remuneration Policy, reviewing and/or approving the ex-ante assessments and ex-post assessments, any exemption requests under the remuneration policies and changes to the list of Identified Staff. In addition, the Committee discussed the results of reviews by De Nederlandsche Bank and the Internal Audit Department on the implementation process of the remuneration policies.

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

A recurring topic was executive remuneration, particularly in the context of the draft legislation applicable to remuneration in the financial services sector in the Netherlands ( Wet beloningsbeleid financiële ondernemingen ) announced at the end of 2013. The Dutch government intends to use this new legislation to introduce a broad set of rules to ensure that financial services companies conduct sound remuneration policies and avoid payment of excessive variable remuneration. In addition, the legislation intends to harmonize existing remuneration rules applicable to financial services companies in the Netherlands. The most striking feature of the proposal is the introduction of a bonus cap of 20% of fixed pay on variable remuneration across the financial industry in the Netherlands. The Compensation Committee will study the proposal and its consequences for Aegon’s remuneration practices.



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**Annual accounts**

This Annual Report includes the annual accounts for 2013, prepared by the Executive Board, discussed by both the Audit Committee and the Supervisory Board, signed by the members of the Executive Board and the Supervisory Board, and submitted for adoption to the shareholders. The Supervisory Board recommends that the shareholders adopt the annual accounts.

**Acknowledgement**

The members of the Supervisory Board express their appreciation to the Executive and Management Boards for their contributions to the achievement of Aegon's strategic goals. Additionally, the Board members wish to thank Aegon's employees for their dedication in putting our customers first and serving them with integrity and transparency in everything they do.

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

Finally, the Board thanks Aegon's investors for their confidence and trust in Aegon.

The Hague, the Netherlands, March 19, 2014

Robert J. Routs

Chairman of the Supervisory Board of Aegon N.V.

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**Members of the Supervisory Board****Robert J. Routs (1946, Dutch)**

Chairman of the Supervisory Board

Chairman of the Nominating Committee

Member of the Compensation Committee

Robert J. Routs is a former Executive Director for Downstream at the energy company Royal Dutch Shell. He was appointed to Aegon's Supervisory Board in 2008 and became Chairman in 2010. His current term as a member of the Aegon Supervisory Board ends in 2016. Mr. Routs is also Chairman of the Supervisory Board of Royal DSM N.V. and Vice-Chairman of the Supervisory Board of Royal KPN N.V. (membership ends in April 2014). He also sits on the Board of Directors at ATCO Ltd., A.P. Møller - Mærsk A/S and AECOM Technology Corporation.

**Irving W. Bailey II (1941, American)**

Vice-Chairman of the Supervisory Board

Chairman of the Risk Committee

Member of the Compensation Committee

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

**Antony Burgmans (1947, Dutch)**

Member of the Audit Committee

Antony Burgmans is retired Chairman and CEO of Unilever N.V. and Unilever PLC. He was appointed to Aegon's Supervisory Board in 2007. Mr. Burgmans will step down from Aegon's Supervisory Board on April 1, 2014. Mr. Burgmans is also Chairman of the Supervisory Board of TNT Express N.V. and a member of the Supervisory Board of Akzo Nobel N.V. as well as a member of the Board of Directors of BP p.l.c. Furthermore, he is Chairman of the Supervisory Board of Intergamma B.V. (not listed) and a member of the Supervisory Boards of SHV Holdings N.V. (not listed) and Jumbo Supermarkten B.V. (not listed).

**Shemaya Levy (1947, French)**

[Chairman of the Audit Committee](#)

[Member of the Nominating Committee](#)

Shemaya Levy is retired Executive Vice President and Chief Financial Officer of the Renault Group. He was appointed to Aegon's Supervisory Board in 2005 and his current and final term will end in 2017. He is also a member of the Supervisory Board of TNT Express N.V. and the Board of Directors of PKC Group Oyj and Segula Technologies Group S.A. (not listed).

**Kornelis J. Storm (1942, Dutch)**

[Member of the Risk Committee](#)

[Member of the Nominating Committee](#)

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

**Ben van der Veer (1951, Dutch)**

[Member of the Audit Committee](#)

[Member of the Risk Committee](#)

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

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**100 Governance [Members of the Supervisory Board](#)**

**[Dirk P.M. Verbeek \(1950, Dutch\)](#)**

[Member of the Audit Committee](#)

[Member of the Risk Committee](#)

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

**[Leo M. van Wijk \(1946, Dutch\)](#)**

[Chairman of the Compensation Committee](#)

[Member of the Nominating Committee](#)

Leo M. van Wijk is former President and CEO of KLM Royal Dutch Airlines N.V. He was first appointed to Aegon's Supervisory Board in 2003, and his current and final term will end in 2015. He is also a member of the Board of Directors of Air France-KLM S.A. Furthermore, he is Vice-Chairman of the Supervisory Board of Randstad Holding N.V. (this membership ends in April 2014) and Ajax N.V. as well as Chairman of the Governing Board of Skyteam.

**[Dona D. Young \(1954, American\)](#)**

[Member of the Audit Committee](#)

[Member of the Risk Committee](#)

Dona Young is an executive/board consultant and retired Chairman, President and Chief Executive Officer of The Phoenix Companies, an insurance and asset management company during her tenure. She was appointed to Aegon's Supervisory Board in 2013. Her current term will end in 2017. Mrs. Young is also member of the Board of Directors of Foot Locker, Inc. and a member of the Board of Trustees of Save the Children.

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**Remuneration Report****Global Remuneration Principles**

The Aegon Group Global Remuneration Principles provide the foundation for remuneration policies and practices throughout the Aegon Group. They are applied regionally and/or locally.

The key pillars of the Aegon Group Global Remuneration Principles are as follows:

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

The above key pillars have been documented in Aegon's Global Remuneration Framework (GRF). The GRF, which covers all staff of the Aegon Group, contains the guiding principles to support sound and effective remuneration policies and practices by ensuring consistency in remuneration policies and practices throughout the Aegon Group. The GRF is designed in accordance

with relevant rules, guidelines and interpretations. Of these, the 2010 Guidelines on Remuneration Policies and Practices by the Committee of European Banking Supervisors, CEBS – now the European Banking Authority (EBA) and the Decree on Sound Remuneration Policy (Regeling beheerst belongingsbeleid WfT 2011 - Rbb) by the Dutch Central Bank (DNB) are prominent examples.

Aegon's Remuneration Policies are derived from the GRF, among which is the Remuneration Policy for the Executive Board. The policies define specific terms and conditions for the employment of various groups of staff. In addition, all

steps in the remuneration process, as well as the involvement of Human Resources, Risk, Compliance and Audit, are governed by the GRF and its underlying policies.

### **Role of Risk Management and Compliance**

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

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

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

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

**General compensation practices**

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

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

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

**Supervisory Board Remuneration Policy 2013**

Aegon's Remuneration Policy with regard to members of its Supervisory Board is aimed at ensuring fair compensation, and protecting the independence of the Board's members. Terms and conditions for members of the Supervisory Board are part of Aegon's broader Remuneration Policy, and are the responsibility of the company's Compensation Committee<sup>1</sup>. Given the significant rise in the Supervisory Boards activities in combination with the results from a peer review amongst comparable Dutch and European companies, the General Meeting of Shareholders on May 15, 2013, approved amendments to the Supervisory Board Remuneration Policy as per January 2013.

**Fees and entitlements**

Members of the Supervisory Board are entitled to the following:

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

- ⓘ An attendance fee for each Committee meeting attended in person or through video and/or telephone conference;
- ⓘ An additional fee for attending meetings that require intercontinental travel between the Supervisory Board member's home location and the meeting location.

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

Under the current policy, approved by shareholders on May 15, 2013, members of the Supervisory Board are entitled to the following fees:

**Base fee for membership of the Supervisory Board**

	<b>EUR / year</b>
Chairman	80,000
Vice-Chairman	50,000
Member	40,000

**Fee for membership of a Supervisory Board committee**

	<b>EUR / year</b>
Chairman of the Audit Committee	13,000
Member of the Audit Committee	8,000
Chairman of other committees	10,000
Member of other committees	5,000

<sup>1</sup> Members of the Compensation Committee are as follows: Leo M. van Wijk (Chair); Irving W. Bailey II; Robert J. Routs.

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<b>Attendance fees</b>	<b>EUR / year</b>
Extra Supervisory Board meeting	3,000
Audit Committee	3,000
Other committees	2,000

Information on members of the Supervisory Board and the composition of Aegon's four committees, Audit, Nominating, Compensation and Risk, may be found on pages 95 to 97.

**Supervisory Board Remuneration Report 2013**

Members of Aegon's Supervisory Board received the following payments (in EUR) in 2013:

in EUR	<b>2013</b>	2012
Robert J. Routs	169,400	109,250
Irving W. Bailey. II	151,250	98,000
Antony Burgmans	105,270	87,000
Shemaya Levy	135,520	104,500
Kornelis J. Storm	110,110	83,000
Ben van der Veer	127,050	101,250
Dirk P.M. Verbeek	127,050	101,250
Leo M. van Wijk	117,370	86,250
Dona D. Young (as of May 15, 2013)	93,321	-
<b>Total for active members</b>	<b>1,136,341</b>	<b>770,500</b>
Karla M.H. Peijs (up to September 30, 2013)	86,515	78,250
<b>Total</b>	<b>1,222,856</b>	<b>848,750</b>

Not included in the table above is a premium for state health insurance paid on behalf of Dutch Supervisory Board members.

The Remuneration for Supervisory Board members is as of 2013 Dutch VAT liability compliant. The amounts 2013 include the VAT paid by Aegon.

## **Executive Board Remuneration Policy 2013**

### **Executive Board remuneration**

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

The Executive Board Remuneration Policy was prepared in accordance with the Dutch Corporate Governance Code and the Decree on Sound Remuneration Policy (Regeling beheerst belongingsbeleid WFt 2011-Rbb) by DNB. It was adopted at the General Meeting of Shareholders on May 12, 2011. The Policy will remain in force until such time as the Supervisory Board proposes changes or amendments.

### **Role of the Compensation Committee**

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

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

The Compensation Committee may recommend changes to the policies to the Supervisory Board. Any material changes in the

Executive Board Remuneration Policy must also be referred to the General Meeting of Shareholders for adoption.

### **Review of the Remuneration Policy**

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

### **Ensuring pay remains competitive**

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

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

In 2013, the peer group comprised Aviva, Axa, CNP Assurances, Generali, ING Group, Legal & General, Münchener Rückversicherung, Old Mutual, Prudential plc., Standard Life, Swiss Re, and Zurich Financial Services.

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

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#### **Total compensation**

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

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

The Supervisory Board conducts regular scenario analyses to determine the long-term effect of level and structure of compensation granted to members of the Executive Board. The Supervisory Board (Compensation Committee) has discussed and endorsed the 2013 total compensation for the Executive Board.

#### **Fixed compensation**

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

#### **Variable compensation**

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

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

For 2013, the performance period for variable compensation was one year. By implementing deferral and additional holding periods, Aegon believes that the long-term interests of Executive Board members are aligned with the interests of Aegon and its stakeholders

Variable compensation, comprising both cash and shares, is conditionally granted at the beginning of each performance period. The number of conditionally granted shares is calculated using the fair value of one Aegon share at the beginning of that period. This fair value is equal to the average price on the NYSE Euronext Amsterdam stock

exchange for the period December 15 through January 15. After the performance year, the company will assess the realized performance against the performance indicators and compare the minimum, target and maximum levels of the performance indicators with the realized performance. The amount of conditional variable compensation that can be allocated will then be established. Variable compensation will be allocated once accounts for the financial year in question have been adopted by the company's shareholders and after an ex-ante assessment.

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

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

The payout of the variable compensation can be illustrated with an example as follows. For every 1,000 variable compensation, 400 will be paid out/vest following the performance year. This part will be paid 50% in cash (=200) and 50% in shares vesting immediately ( $=200 / 1 = 40$  shares). The remaining 600 will be deferred. The deferred part will vest in three equal parts, after the end of each of the following performance periods. The three deferred parts will each be paid 50% in cash (=100) and 50% in shares vesting ( $=100 / 4.917 = 20$  shares). For all vested shares there is an additional holding period of three years after vesting. The compensation schedule can be illustrated by the following overview.

<sup>1</sup> Based on VWAP December 15, 2012 – January 15, 2013.

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**Variable compensation schedule****Variable compensation 2013**

Variable compensation is initially granted based on performance, as measured against Aegon group targets and personal objectives. These objectives represent a mix of financial and non-financial measures, providing an accurate and reliable reflection of corporate and individual performance. The mix of group measures versus personal performance measures is 75%-25%.

<b>Objectives</b>	Maximum % of variable compensation	Performance indicator
Group financial IFRS based	30%	Group underlying earnings after tax, return on equity
Group financial risk adjusted based	30%	Group market consistent value of new business 2013, group pre-tax return on required capital 2013
Group sustainability	15%	Objective measuring corporate responsibility
Personal objectives	25%	Individual basket of strategic and personal objectives related to Aegon's strategy

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

At an aggregate level, payments are made as follows:

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

**Risk adjustment methodology (ex-ante)**

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

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

**Ex-post assessment and discretionary adjustments**

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

In addition, the Supervisory Board will apply an ex-post risk assessment to deferred payouts of variable compensation to determine whether allocated (that is, unvested) variable compensation should become unconditional (meaning it will vest) or should be adjusted. This ex-post assessment will be

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based on informed judgment by the Supervisory Board, taking into account significant and exceptional circumstances that are not (sufficiently) reflected in the initially applied performance indicators.

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

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

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

#### **[Circuit breaker](#)**

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

#### **[Claw-back provision](#)**

Where variable compensation is based upon incorrect data (including non-achievement of performance indicators in hindsight), or in the case of material financial restatements or individual gross misconduct, Aegon's Supervisory Board will have the right to reclaim variable compensation that has already been paid out or vested.

#### **[Pension arrangements](#)**

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

#### **[Terms of employment](#)**

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



Mr. Wynaendts has a contract of employment with Aegon NV. Mr. Button has been appointed after the new law on supervision ( Wet Bestuur en Toezicht ) came in to force in January 2013. Therefore a Board Agreement was agreed between him and Aegon NV, rather than a contract of employment. Separately, his employment by Transamerica Life Insurance continues, whilst he is seconded on an expatriate assignment to the Netherlands

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

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

### **Executive Board Remuneration Report<sup>1</sup>**

At the end of December 2013, Aegon's Executive Board had two members:

- ⌚ Alexander R. Wynaendts, Chief Executive Officer and Chairman of the Executive Board. Mr. Wynaendts was appointed member of the Executive Board in 2003 for four years, and re-appointed in 2007. At the General Meeting of Shareholders in 2011, Mr. Wynaendts was re-appointed for another four years.
- ⌚ Darryl D. Button, Chief Financial Officer and member of the Executive Board. Mr. Button was appointed member of the Executive Board for four years at the annual General Meeting of shareholders on May 15, 2013. Mr. Button succeeded Mr. Nooitgedagt as Chief Financial Officer and member of Aegon's Executive Board.

#### **Fixed compensation**

The fixed compensation of the Executive Board members remained unchanged in 2013.

<sup>1</sup> For complete disclosures on Executive Board Remuneration see pages 283 to 286.

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<b>Member</b>	<b>2013</b>	2012
Alexander R. Wynaendts CEO & Chairman EB	1,049,156	1,049,156
Darryl D. Button CFO & Member EB <sup>1)</sup>	474,789	-
Jan J. Nooitgedagt CFO & Member EB (retired) <sup>2)</sup>	433,959	743,930

<sup>1</sup> Mr. Button was appointed as CFO and member of Aegon's Executive Board per May 15, 2013. Fixed compensation is disclosed for the period that Mr. Button has been part of the Executive Board

<sup>2</sup> Mr. Nooitgedagt's fixed compensation is reflective of his time with Aegon till retirement as per August 1, 2013

**Conditional variable compensation awards 2013**

Subject to the adoption of the annual accounts at the General Meeting of Shareholders on May 21, 2014, variable compensation for Executive Board members is set in cash and shares, based on both their individual and the company's performance. Targets for the performance indicators have been set in line with the agreed variable compensation targets and 2013 company budgets. Actual performance is being measured over 2013. Under the Executive Board Remuneration Policy 2011, the variable compensation Executive Board members are entitled to, will be paid out over a number of years.

Over the performance year 2013, Mr. Wynaendts was awarded EUR 1,031,635 in total conditional variable compensation. Mr. Button was awarded EUR 467,665<sup>3</sup>. Mr. Nooitgedagt was awarded EUR 433,959<sup>4</sup> total conditional variable compensation<sup>5</sup>.

Forty percent of variable compensation related to performance year 2013 is payable in 2014. This will be split 50/50 in a cash payment and in an allocation of shares.

Mr. Wynaendts and Mr. Button are eligible to receive in 2014 a cash payment of EUR 206,327 and EUR 93,533 respectively.

The number of shares to be made available in 2014 is 41,961 for Mr. Wynaendts and 19,146 for Mr. Button. With regard to vested shares (with the exception of shares sold to meet income tax obligations), a retention (holding) period is applicable for a further three years, before they are at the disposal of the Executive Board members.

The remaining part of variable compensation for the performance year 2013 (60% of the total, which for Mr. Wynaendts equates to EUR 309,489 and 62,943 shares and for Mr. Button equates to EUR 140,300 and 28,716 shares) is to be paid out in future years, subject to ex-post assessments which may result in downward adjustments and be subject to meeting additional conditions. In each of the years 2015, 2016 and 2017, 20% of the total variable compensation may be made available. Any payout will be split 50/50 in a cash payment and an allocation of shares (vesting). After vesting (with the exception of shares sold to meet income tax obligations), a retention (holding) period is applicable for a further three years, before shares are at the disposal of the Executive Board members.

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

No variable compensation from previous performance years payable in 2013 has been adjusted downwards in 2013.

No circumstances have been identified to lower payout of the deferred payment from prior performance years that vests in 2014 (the so called ex post assessment ) or to lower the payout of the up-front payment of the 2013 performance year variable compensation that vests in 2014 (the so called ex-ante 3 assessment ).

3 Mr. Button was appointed as CFO and member of Aegon's Executive Board per May 15, 2013. Conditional variable compensation is disclosed for the period that Mr. Button has been part of the Executive Board.

4 Mr. Nooitgedagt's conditional variable compensation is reflective of his time with Aegon till retirement as per August 1, 2013.

5 Mr. Nooitgedagt's variable compensation is paid out as follows. 40% equally split in cash (EUR 86,792) and shares (17,650) both vesting in 2014. The remaining part (60%, EUR 130,188 and 26,478 shares) will be split in three equal parts and will vest in cash and shares in 2015, 2016 and 2017. The vested shares (with the exception of shares sold to meet income tax obligations) are subject to a three year retention (holding) period before they are at the disposal of Mr. Nooitgedagt.

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### **108 Governance [Corporate governance](#)**

#### **[Corporate governance](#)**

[Aegon is incorporated and based in the Netherlands. As a company established in the Netherlands, Aegon is to comply with the Dutch law and is subject to the Dutch Corporate Governance Code<sup>1</sup>.](#)

#### **[The shareholders](#)**

##### **[Listing and shareholder base](#)**

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

##### **[General Meeting of Shareholders](#)**

A General Meeting of Shareholders is held at least once a year and, when deemed necessary, the Supervisory or Executive Board of the company has the authority to convene an Extraordinary General Meeting of Shareholders. The main function of the General Meeting of Shareholders is to decide matters such as the adoption of annual accounts, the approval of dividend payments and (re) appointments to the Supervisory Board and Executive Board of Aegon.

##### **[Convocation](#)**

Meetings are convened by public notice at least 42 days before the meeting. The convocation mentions the time and location of the meeting, the record date, the agenda items, and the procedures for admittance to the meeting and representation at the meeting by means of a written proxy. Those shareholders who alone or jointly represent at least 1% of Aegon's issued capital or a block of shares worth at least EUR 100 million may request items be added to the agenda of a General Meeting of Shareholders meeting. In accordance with Aegon's Articles of Association, such a request will be granted if it is received in writing at least 60 days before the meeting, and if there are no important interests of the company that dictate otherwise.

##### **[Record date](#)**

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

##### **[Attendance](#)**

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

## **Voting at the General Meeting**

At the General Meeting, each common share carries one vote. In the absence of a Special Cause, Vereniging Aegon will also cast one vote for every 40 common shares B it holds<sup>2</sup>.

## **Supervisory Board**

Aegon's Supervisory Board oversees the management of the Executive Board, as well as the company's business and corporate strategy. The Supervisory Board must take into account the interests of all Aegon stakeholders. The Supervisory Board operates according to the principles of collective responsibility and accountability.

## **Composition of the Board**

Members of the Supervisory Board are appointed by the General Meeting of Shareholders, following nomination by the Board itself. Aegon aims to ensure that the composition of the company's Supervisory Board is well balanced in terms of professional background, geography and gender. A profile exists, outlining the required qualifications of its members. Supervisory Board members are no longer eligible for appointment after the age of 70, unless the Supervisory Board decides to make an exception. Remuneration of the members of the Supervisory Board members is determined by the General Meeting of Shareholders. At present, Aegon's Supervisory Board consists of nine non-executive members, one of whom is a former member of Aegon's Executive Board.

1 For further details on how Aegon's corporate governance practices differ from those required of US companies under New York Stock Exchange standards, please refer to the NYSE Listing standards in the Governance section of Aegon's website at [aegon.com](http://aegon.com).

2 For more details, please see Major Shareholders on pages 307-309.

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**Committees**

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

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

**Executive Board**

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

Aegon's Articles of Association determine that for certain decisions the Executive Board must seek prior approval from the Supervisory Board and/or the approval of the General Meeting of Shareholders. In addition hereto, the Supervisory Board may also subject other Executive Board decisions to its prior approval.

**Composition of the Executive Board**

The Executive Board of Aegon has two members: Alex Wynaendts, who is Chairman of the Executive Board and Chief Executive Officer, and Darryl Button, who is member of the Executive Board and Aegon's Chief Financial Officer.

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

The employment contracts with current members of the Executive Board contain provisions entitling them to severance payments, should their employment be terminated as a result of a merger or takeover. The company's remuneration policy for the Executive Board limits exit arrangements to a maximum of one year of salary.

**Management Board**

Aegon's Executive Board is assisted in its work by the company's Management Board, which has seven members, including the members of the Executive Board<sup>1</sup>. Aegon's Management Board is composed of Alex Wynaendts, Darryl Button, Mark Mullin, Marco Keim, Adrian Grace, Gábor Kepecs and Tom Grondin.

**Capital, significant shareholders and exercise of control**

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

### **The capital of the company**

Aegon has authorized capital of EUR 1,080 million, divided into 3 billion common shares and 6 billion common shares B, each with a par value of EUR 0.12. At the end of 2013, a total of 2,131,458,863 common shares and 579,005,440 common shares B had been issued.

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

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

All common shares B are held by Vereniging Aegon, the company's largest shareholder. Their nominal value being equal to the nominal par value of a common share implies that common shares B also carry one vote per share. The voting rights attached to common shares B are subject to restrictions, however, under which Vereniging Aegon may cast one vote for every 40 common shares B it holds in the absence of a Special Cause<sup>2</sup>.

The financial rights attached to a common share B are one-fortieth (1/40th) of the financial rights attached to a common share. The financial right attached to the shares of both classes are otherwise identical. For the purpose of issuance of shares, reduction of issued capital and the transfer of common shares B, the value or the price of a common share B will be determined as one-fortieth (1/40th) of the value of a common share. For such purposes, no account will be taken of the difference between common shares and common shares B in terms of the proportion between financial rights and voting rights.

<sup>1</sup> For an overview of the members of the Executive Board and of the Management Board, please refer to pages 6 and 7.

<sup>2</sup> For further information, please see here under for the description of special control rights.

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### **110 Governance Corporate governance**

#### **Significant shareholdings**

On December 31, 2013, Vereniging Aegon, Aegon's largest shareholder, held a total of 292,687,444 common shares and 579,005,440 common shares B.

Under the terms of the 1983 Merger Agreement<sup>1</sup> as amended in May 2013, Vereniging Aegon has the option to acquire additional common shares B. Vereniging Aegon may exercise its call option to keep or restore its total stake to 32.6% of the voting rights, irrespective of the circumstances which caused the total shareholding to be or become lower than 32.6%.

To Aegon's knowledge based on the filings made with the Netherlands Authority for Financial Markets, the AFM, the US-based investment management firm Dodge & Cox and the US-based investment management firm FMR LLC each hold a capital and voting interest in Aegon N.V. in excess of 3%.

#### **Special control rights**

As a matter of Dutch corporate law, the common shares and the common shares B offer equal<sup>2</sup> full voting rights, as they have equal nominal value (EUR 0.12). The Voting Rights Agreement entered into between Vereniging Aegon and Aegon ensures that under normal circumstances, i.e. except in the event of a Special Cause, Vereniging Aegon will no longer be allowed to exercise more votes than is proportionate to the financial rights represented by its shares. This means that in the absence of a Special Cause Vereniging Aegon may cast one vote for every common share it holds and one vote only for every 40 common shares B it holds. In the event of a Special Cause Vereniging Aegon may cast one vote for every common share and one vote for every common share B. A Special Cause may include:

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

If Vereniging Aegon, acting at its sole discretion, determines that a Special Cause has arisen, it must notify the General Meeting of Shareholders. In this event, Vereniging Aegon retains full voting rights on its common shares B for a period limited to six months. Based on its current shareholding, Vereniging Aegon would, for that limited period, command 32.6% of the votes at a General Meeting of Shareholders.

#### **Issue and repurchase of shares**

New shares may be issued up to the maximum of the company's authorized capital, following a resolution adopted by the General

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



Aegon is entitled to acquire its own fully paid-up shares, providing it acts within existing statutory restrictions. Shareholders usually authorize the Executive Board to purchase the company's shares under terms and conditions determined by the General Meeting.

### **Transfer of shares**

There are no restrictions on the transfer of common shares. Common shares B can only be transferred with the prior approval of Aegon's Supervisory Board<sup>1</sup>

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

### **Significant agreements and potential change of control**

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

### **Exercise of option rights**

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

### **Appointing, suspending or dismissing Board members**

The General Meeting of Shareholders appoints members of both the Supervisory and Executive Boards, following nominations by the Supervisory Board. Providing at least two candidates are nominated, these nominations are binding. The General Meeting of Shareholders may cancel the binding nature of these nominations with a majority of two-thirds of votes cast, representing at least one half of Aegon's issued capital. The General Meeting may, in addition, bring forward a resolution to appoint someone not nominated by the Supervisory Board. Such a resolution also requires a two-thirds majority of votes cast representing at least one half of Aegon's issued capital.

<sup>1</sup> The 1983 Merger Agreement, as amended in May 2013, is published on Aegon's corporate website (aegon.com)

<sup>2</sup> The Voting Rights Agreement is published on Aegon's corporate website (aegon.com).

<sup>3</sup> For more details, please refer to clause 14A of Aegon's Articles of Association or clause 10.6 of the 1983 Amended Merger Agreement.

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

**Amending the Articles of Association**

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

**Dutch Corporate Governance Code**

Aegon, as a company based in the Netherlands, adheres to the Dutch Corporate Governance Code and supports its principles for sound and responsible corporate governance. Aegon regards the Code as an effective means of helping ensure that the interests of all stakeholders are duly represented and taken into account. The most recent version of the Code came into force on January 1, 2009. It is the responsibility of both the Supervisory Board and the Executive Board to oversee Aegon's overall corporate governance structure. Any substantial change to this structure is submitted to the General Meeting of Shareholders for discussion.

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

**Code II.2.8**

**For members of the Executive Board, the Dutch Corporate Governance Code requires that the maximum compensation in the event of dismissal is one year's salary. If the maximum of one year's salary is manifestly unreasonable for a member of the Executive Board who is dismissed during the first term of office, the board member will be eligible for severance pay not exceeding twice the annual salary.**

**Aegon's position on Code II.2.8**

Aegon is committed to applying this best practice provision to all new Executive Board appointments. This best practice provision is also embedded in the company's remuneration policy for the Executive Board. Employment contracts with Executive Board members that existed prior to the code coming into force in 2003 will be respected. The employment agreement of Aegon's CEO Alex Wynaendts contains more favorable severance payment

terms should his employment be terminated as a result of a merger or takeover. The Board Agreement between Mr. Button and Aegon NV does not entitle him to any special terms under these circumstances. Should these occur he will repatriate to the USA, where equivalent employment will be sought. Details of Executive Board members

employment contracts may be found on Aegon's corporate website, [aegon.com](http://aegon.com).

### **Code II.3.3**

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

#### **Aegon's position on Code II.3.3**

Aegon's CEO and CFO are also members of the Executive Committee of the company's largest shareholder, Vereniging Aegon. This may be construed as a conflict of interest. However, under Vereniging Aegon's Articles of Association, Aegon's CEO and CFO are specifically excluded from voting on issues directly related to Aegon or their position within it. Aegon's Supervisory Board holds the view that, given the historic relationship between Aegon and Vereniging Aegon, it is not in the company's best interests to prevent Aegon's CEO and CFO from participating in discussions and decision-making related to Vereniging Aegon. For this reason, a protocol authorizes the CEO and CFO to continue their activities regarding Vereniging Aegon. The text of this protocol is available on Aegon's website, [aegon.com](http://aegon.com).

### **Code IV.1.1**

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

#### **Aegon's position on Code IV.1.1**

Aegon's Articles of Association provide for a larger majority and a higher quorum than those advocated by the Code. Given that the company has no specific anti-takeover measures, the current system is deemed appropriate within the context of the 1983 Merger Agreement under which Aegon was formed. However, to mitigate any possible negative effects from this, the Supervisory Board has decided that, in the absence of any hostile action, it will only make nominations for appointment of members to the Executive and Supervisory Boards that are non-binding in nature.

### **Corporate Governance Statement**

For an extensive review of Aegon's compliance with the Dutch Corporate Governance Code, please refer to the Corporate Governance Statement on Aegon's corporate website, [aegon.com](http://aegon.com).

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**Differences between Dutch and**

**US company laws**

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

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

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

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**Code of ethics**

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

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

**Table of Contents****114 Governance [Controls and procedures](#)****[Controls and procedures](#)****[A. Disclosure controls and procedures](#)**

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

**[B. Management's Annual Report on internal control over financial reporting](#)**

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

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

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

Management assessed the effectiveness of Aegon's internal control over financial reporting as of December 31, 2013.

In making its assessment management used the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 1992 framework)

Based on the assessment, management has concluded that, in all material aspects, the internal control over financial reporting was effective as at December 31, 2013. They have reviewed the results of its work with the Audit Committee of the Supervisory Board.

The effectiveness of internal control over financial reporting as of December 31, 2013, was audited by EY, an independent registered public accounting firm, as stated in their report included under item C below.

**C. Attestation report of the independent registered public accounting firm**

**Report of independent registered public accounting firm**

The Supervisory Board, the Executive Board and Shareholders of Aegon N.V.

We have audited Aegon N.V.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria).

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

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

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods

are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Aegon N.V. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Aegon N.V., which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, the related consolidated income statements, statements of comprehensive income, statements of changes in equity, and cash flow statements for each of the three years in the period ended December 31, 2013 of Aegon N.V., and our report dated March 19, 2014 expressed an unqualified opinion thereon.

The Hague, the Netherlands, March 19, 2014

[Ernst & Young Accountants LLP](#)

**D. Changes in internal controls over financial reporting**

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





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**Table of Contents****120 Exchange rates****Exchange rates****Exchange rates at December 31, 2013**

	<b>EUR</b>	<b>USD</b>	<b>GBP</b>	<b>CAD</b>	<b>CNY</b>	<b>PLN</b>	<b>RON</b>	<b>TRY</b>	<b>UAH</b>	<b>CZK</b>	<b>HUF</b>
EUR	-	1.3780	0.8320	1.4641	8.3420	4.1579	4.4640	2.9605	11.3543	27.3725	297.0751
USD	0.726	-	0.604	1.062	6.054	3.017	3.239	2.148	8.240	19.864	215.584
GBP	1.202	1.656	-	1.760	10.026	4.997	5.365	3.558	13.647	32.900	357.061
CAD	0.683	0.941	0.568	-	5.698	2.840	3.049	2.022	7.755	18.696	202.906
CNY	0.120	0.165	0.100	0.176	-	0.498	0.535	0.355	1.361	3.281	35.612
PLN	0.241	0.331	0.200	0.352	2.006	-	1.074	0.712	2.731	6.583	71.448
RON	0.224	0.309	0.186	0.328	1.869	0.931	-	0.663	2.544	6.132	66.549
TRY	0.338	0.465	0.281	0.495	2.818	1.404	1.508	-	3.835	9.246	100.346
UAH	0.088	0.121	0.073	0.129	0.735	0.366	0.393	0.261	-	2.411	26.164
CZK	3.653	5.034	3.040	5.349	30.476	15.190	16.308	10.816	41.481	-	1,085.305
HUF	0.337	0.464	0.280	0.493	2.808	1.400	1.503	0.997	3.822	9.214	-

**Exchange rates at December 31, 2012**

	<b>EUR</b>	<b>USD</b>	<b>GBP</b>	<b>CAD</b>	<b>CNY</b>	<b>PLN</b>	<b>RON</b>	<b>TRY</b>	<b>UAH</b>	<b>CZK</b>	<b>HUF</b>
EUR	-	1.3184	0.8111	1.3127	8.2140	4.0803	4.4455	2.3530	10.6131	25.0956	291.2151
USD	0.758	-	0.615	0.996	6.230	3.095	3.372	1.785	8.050	19.035	220.885
GBP	1.233	1.625	-	1.618	10.127	5.031	5.481	2.901	13.085	30.940	359.037
CAD	0.762	1.004	0.618	-	6.257	3.108	3.387	1.792	8.085	19.118	221.844
CNY	0.122	0.161	0.099	0.160	-	0.497	0.541	0.286	1.292	3.055	35.454
PLN	0.245	0.323	0.199	0.322	2.013	-	1.090	0.577	2.601	6.150	71.371
RON	0.225	0.297	0.182	0.295	1.848	0.918	-	0.529	2.387	5.645	65.508
TRY	0.425	0.560	0.345	0.558	3.491	1.734	1.889	-	4.510	10.665	123.763
UAH	0.094	0.124	0.076	0.124	0.774	0.384	0.419	0.222	-	2.365	27.439
CZK	3.985	5.254	3.232	5.231	32.731	16.259	17.714	9.376	42.291	-	1,160.423
HUF	0.343	0.453	0.279	0.451	2.821	1.401	1.527	0.808	3.644	8.618	-

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**Weighted average exchange rates 2013**

	EUR	USD	GBP	CAD	CNY	PLN	RON	TRY	UAH	CZK	HUF
EUR	-	1.3272	0.8484	1.3674	8.1637	4.1940	4.4167	2.5305	10.8249	25.9238	296.3309
USD	0.753	-	0.639	1.030	6.151	3.160	3.328	1.907	8.156	19.533	223.275
GBP	1.179	1.564	-	1.612	9.622	4.943	5.206	2.983	12.759	30.556	349.282
CAD	0.731	0.971	0.620	-	5.970	3.067	3.230	1.851	7.916	18.958	216.711
CNY	0.122	0.163	0.104	0.167	-	0.514	0.541	0.310	1.326	3.175	36.299
PLN	0.238	0.316	0.202	0.326	1.947	-	1.053	0.603	2.581	6.181	70.656
RON	0.226	0.300	0.192	0.310	1.848	0.950	-	0.573	2.451	5.869	67.093
TRY	0.395	0.524	0.335	0.540	3.226	1.657	1.745	-	4.278	10.245	117.104
UAH	0.092	0.123	0.078	0.126	0.754	0.387	0.408	0.234	-	2.395	27.375
CZK	3.857	5.120	3.273	5.275	31.491	16.178	17.037	9.761	41.757	-	1,143.084
HUF	0.337	0.448	0.286	0.461	2.755	1.415	1.490	0.854	3.653	8.748	-

**Weighted average exchange rates 2012**

	EUR	USD	GBP	CAD	CNY	PLN	RON	TRY	UAH	CZK	HUF
EUR	-	1.2849	0.8103	1.2839	8.1377	4.1809	4.4548	2.3132	10.4363	25.1140	288.8606
USD	0.778	-	0.631	0.999	6.333	3.254	3.467	1.800	8.122	19.545	224.812
GBP	1.234	1.586	-	1.584	10.043	5.160	5.498	2.855	12.880	30.993	356.486
CAD	0.779	1.001	0.631	-	6.338	3.256	3.470	1.802	8.129	19.561	224.987
CNY	0.123	0.158	0.100	0.158	-	0.514	0.547	0.284	1.282	3.086	35.497
PLN	0.239	0.307	0.194	0.307	1.946	-	1.066	0.553	2.496	6.007	69.091
RON	0.224	0.288	0.182	0.288	1.827	0.939	-	0.519	2.343	5.638	64.843
TRY	0.432	0.555	0.350	0.555	3.518	1.807	1.926	-	4.512	10.857	124.875
UAH	0.096	0.123	0.078	0.123	0.780	0.401	0.427	0.222	-	2.406	27.678
CZK	3.982	5.116	3.226	5.112	32.403	16.648	17.738	9.211	41.556	-	1,150.197
HUF	0.346	0.445	0.281	0.444	2.817	1.447	1.542	0.801	3.613	8.694	-

**Weighted average exchange rates 2011**

	EUR	USD	GBP	CAD	CNY	PLN	RON	TRY	CZK	HUF
1 EUR	-	1.3909	0.8667	1.3744	9.0576	4.1154	4.2353	2.3333	24.5636	278.9417
1 USD	0.719	-	0.623	0.988	6.512	2.959	3.045	1.678	17.660	200.548
1 GBP	1.154	1.605	-	1.586	10.451	4.748	4.887	2.692	28.342	321.843
1 CAD	0.728	1.012	0.631	-	6.590	2.994	3.082	1.698	17.872	202.955
1 CNY	0.110	0.154	0.096	0.152	-	0.454	0.468	0.258	2.712	30.796
1 PLN	0.243	0.338	0.211	0.334	2.201	-	1.029	0.567	5.969	67.780
1 RON	0.236	0.328	0.205	0.325	2.139	0.972	-	0.551	5.800	65.861

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1	TRY	0.429	0.596	0.371	0.589	3.882	1.764	1.815	-	10.527	119.548
100	CZK	4.071	5.662	3.528	5.595	36.874	16.754	17.242	9.499	-	1,135.590
100	HUF	0.358	0.499	0.311	0.493	3.247	1.475	1.518	0.836	8.806	-

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**Table of Contents****122 Consolidated financial statements of Aegon N.V.****Consolidated income statement of Aegon N.V.**

For the year ended December 31

Amounts in EUR million (except per share data)	Note	2013	2012 <sup>1)</sup>	2011 <sup>1)</sup>
Premium income	6	19,939	19,049	19,521
Investment income	7	7,909	8,413	8,167
Fee and commission income	8	1,950	1,856	1,465
Other revenues		6	9	6
<b>Total revenues</b>		<b>29,805</b>	<b>29,327</b>	<b>29,159</b>
Income from reinsurance ceded	9	2,838	4,096	2,775
Results from financial transactions	10	15,393	13,008	(187)
Other income	11	393	149	39
<b>Total income</b>		<b>48,430</b>	<b>46,580</b>	<b>31,786</b>
Premiums to reinsurers	6	3,108	3,702	3,407
Policyholder claims and benefits	12	37,793	34,665	20,230
Profit sharing and rebates	13	28	33	55
Commissions and expenses	14	5,593	5,559	6,142
Impairment charges / (reversals)	15	294	199	483
	16	355	519	491

Interest charges and related fees				
Other charges	17	134	52	69
<b>Total charges</b>		<b>47,304</b>	<b>44,729</b>	<b>30,877</b>
<b>Income before share in profit / (loss) of joint ventures, associates and tax</b>		<b>1,126</b>	<b>1,851</b>	<b>909</b>
Share in profit / (loss) of joint ventures		-	(13)	-
Share in profit / (loss) of associates		21	28	29
<b>Income / (loss) before tax</b>		<b>1,147</b>	<b>1,866</b>	<b>938</b>
Income tax	18	(166)	(323)	(51)
<b>Net income / (loss)</b>		<b>980</b>	<b>1,543</b>	<b>887</b>
<b>Net income / (loss) attributable to:</b>				
Equity holders of Aegon N.V.		978	1,542	884
Non-controlling interests		3	1	3
<b>Earnings per share (EUR per share)</b>	<b>19</b>			
Basic earnings per common share		0.36	0.68	(0.05)
Basic earnings per common share B		0.01	-	-
Diluted earnings per common share		0.36	0.68	(0.05)
Diluted earnings per common share B		0.01	-	-

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<sup>1</sup> Amounts for 2012 and 2011 have been restated for the changes in accounting policies IFRS 10, 11 and IAS 19. Refer to note 2 for details about these changes.

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**Consolidated statement of comprehensive income****of Aegon N.V.**

For the year ended December 31

Amounts in EUR million	2013	2012 <sup>1)</sup>	2011 <sup>1)</sup>
Net income	980	1,543	887
<b>Items that will not be reclassified to profit or loss:</b>			
Changes in revaluation reserve real estate held for own use	(6)	(5)	3
Remeasurements of defined benefit plans	562	(149)	(583)
Income tax relating to items that will not be reclassified	(201)	38	179
<b>Items that may be reclassified to profit or loss:</b>			
Gains / (losses) on revaluation of available-for-sale investments	(3,349)	4,176	3,113
(Gains) / losses transferred to income statement on disposal and impairment of available-for-sale investments	(435)	(465)	(513)
Changes in cash flow hedging reserve	(555)	(86)	1,058
Movement in foreign currency translation and net foreign investment hedging reserves	(784)	(110)	380
Equity movements of joint ventures	(4)	27	-
	54	22	(18)

Equity movements of associates			
Income tax relating to items that may be reclassified	1,286	(1,051)	(1,166)
Other	(6)	(2)	4
<b>Total other comprehensive income</b>	<b>(3,437)</b>	<b>2,395</b>	<b>2,457</b>
<b>Total comprehensive income</b>	<b>(2,456)</b>	<b>3,938</b>	<b>3,344</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of Aegon N.V.	(2,454)	3,939	3,341
Non-controlling interests	(3)	(1)	3

<sup>1</sup> Amounts for 2012 and 2011 have been restated for the changes in accounting policies IFRS 10, 11 and IAS 19. Refer to note 2 for details about these changes.

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**Table of Contents****124 Consolidated financial statements of Aegon N.V.****Consolidated statement of financial position of Aegon N.V.**

As at December 31

Amounts in EUR million	Note	2013	2012 <sup>1)</sup>	January 1, 2012 <sup>1)</sup>
<b>Assets</b>				
Intangible assets	<b>21</b>	2,246	2,485	2,695
Investments	<b>22</b>	135,533	144,969	142,705
Investments for account of policyholders	<b>23</b>	165,032	152,968	141,663
Derivatives	<b>24</b>	13,531	21,134	15,478
Investments in joint ventures	<b>25</b>	1,427	1,568	1,224
Investments in associates	<b>26</b>	470	771	713
Reinsurance assets	<b>28</b>	10,345	11,965	11,510
Defined benefit assets	<b>43</b>	34	22	18
Deferred tax assets	<b>45</b>	37	93	318
Deferred expenses	<b>29</b>	12,040	11,644	11,394
	<b>30</b>	7,357	7,623	8,063



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Other assets and receivables				
Cash and cash equivalents	<b>31</b>	5,691	9,590	7,995
<b>Total assets</b>		<b>353,745</b>	<b>364,832</b>	<b>343,776</b>
<b>Equity and liabilities</b>				
Shareholders' equity	<b>32</b>	20,059	23,449	19,914
Other equity instruments	<b>34</b>	5,015	5,018	4,720
<b>Issued capital and reserves attributable to equity holders of Aegon N.V.</b>		<b>25,074</b>	<b>28,467</b>	<b>24,634</b>
Non-controlling interests		10	13	14
<b>Group equity</b>		<b>25,084</b>	<b>28,480</b>	<b>24,648</b>
Trust pass-through securities	<b>35</b>	135	155	159
Subordinated borrowings	<b>36</b>	44	42	-
Insurance contracts	<b>37</b>	100,642	104,004	103,522
Insurance contracts for account of policyholders	<b>38</b>	84,311	76,169	72,559
Investment contracts	<b>39</b>	14,545	17,767	20,846
Investment contracts for account of policyholders	<b>40</b>	82,608	78,418	71,433
Derivatives	<b>24</b>	11,838	18,052	12,900
Borrowings	<b>41</b>	12,020	13,742	11,216
	<b>42</b>	182	330	444

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Provisions				
Defined benefit liabilities	<b>43</b>	3,060	3,550	3,331
Deferred revenue liabilities	<b>44</b>	88	104	103
Deferred tax liabilities	<b>45</b>	2,304	3,096	2,004
Other liabilities	<b>46</b>	16,625	20,594	19,431
Accruals	<b>47</b>	259	329	1,180
<b>Total liabilities</b>		<b>328,661</b>	<b>336,352</b>	<b>319,128</b>
<b>Total equity and liabilities</b>		<b>353,745</b>	<b>364,832</b>	<b>343,776</b>

<sup>1</sup> Amounts for 2012 and January 1, 2012 have been restated for the changes in accounting policies IFRS 10, 11 and IAS 19. Refer to note 2 for details about these changes.

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

For the year ended December 31, 2013

Million	Note	Share capital	Retained earnings	Revaluation reserves	Re-measurement of defined benefit plans	Other reserves	Other equity instruments	Issued capital and reserves <sup>1)</sup>	Non-controlling interests	Total
		9,099	10,407	6,073	(1,085)	(1,045)	5,018	28,467	13	28,480
Income		-	978	-	-	-	-	978	3	980
Dividends		-	-	-	-	-	-	-	-	-
Share repurchases		-	-	-	-	-	-	-	-	-
Share-based compensation		-	-	(6)	-	-	-	(6)	-	(6)
Other		-	-	-	562	-	-	562	-	562
Other		-	-	1	(202)	-	-	(201)	-	(201)

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-	<b>(4)</b>	<b>(3,075)</b>	<b>379</b>	<b>(732)</b>	-	<b>(3,431)</b>	<b>(5)</b>	<b>(3,437)</b>

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-	(77)	-	-	-	-	(77)	-	(77)
-	(240)	-	-	-	-	(240)	-	(240)
-	(83)	-	-	-	-	(83)	-	(83)
-	(146)	-	-	-	-	(146)	-	(146)
-	(21)	-	-	-	-	(21)	-	(21)
-	30	-	-	-	(3)	27	-	27

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