

AEGON NV  
Form 20-F  
March 29, 2010

**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, 2009**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**Commission file number 1-10882**

# **AEGON N.V.**

(Exact name of Registrant as specified in its charter)

**Not Applicable**

(Translation of Registrant's name into English)

**The Netherlands**

(Jurisdiction of incorporation or organization)

**AEGONplein 50, PO Box 85, 2501 CB The Hague, The Netherlands**

(Address of principal executive offices)

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**Executive Vice-President Group Finance**

**AEGON N.V.**

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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: 1,736,049,139 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

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 check mark 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  Other

International Accounting Standards Board

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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**PRESENTATION OF CERTAIN INFORMATION**

AEGON N.V. is referred to in this Annual Report on Form 20-F as "AEGON," "we," "us" or "the Company" and AEGON N.V. together with its member companies are together referred to as the "AEGON Group." For such purposes, "member companies" means, in relation to AEGON N.V., those companies that are required to be consolidated in accordance with legislative requirements of the Netherlands relating to consolidating accounts. References to the "NYSE" are to the New York Stock Exchange. References to the "SEC" are to the Securities and Exchange Commission.

In this Annual Report on Form 20-F, references to "EUR" and "euro" are to the lawful currency of the member states of the European Monetary Union that have adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union. References to "\$," "USD," "US\$" and "US dollars" are to the lawful currency of the United States of America, references to "GBP," "pound sterling" and the "UK pound" are to the lawful currency of the United Kingdom, references to "CAD" and "Canadian dollars" are to the lawful currency of Canada and references to "CNY" are to the lawful currency of the People's Republic of China.

## FORWARD LOOKING STATEMENTS

The statements contained in this Report that are not historical facts are forward-looking statements as defined in the US Private Securities Litigation Reform Act of 1995. The following are words that identify such forward-looking statements: aim, believe, estimate, target, intend, may, expect, anticipate, predict, project, counting on, plan, continue, want, forecast, goal, should, would, is confident, will, and similar expressions as they relate to our company. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. We undertake no obligation to publicly update or revise any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which merely reflect company expectations at the time of writing. Actual results may differ materially from expectations conveyed in forward-looking statements due to changes caused by various risks and uncertainties. Such risks and uncertainties include but are not limited to the following:

Changes in general economic conditions, particularly in the United States, the Netherlands and the United Kingdom;

Changes in the performance of financial markets, including emerging markets, such as with regard to:

The frequency and severity of defaults by issuers in our fixed income investment portfolios; and

The effects of corporate bankruptcies and/or accounting restatements on the financial markets and the resulting decline in the value of equity and debt securities we hold;

The frequency and severity of insured loss events;

Changes affecting mortality, morbidity and other factors that may impact the profitability of our insurance products;

Changes affecting interest rate levels and continuing low interest rate levels and rapidly changing interest rate levels;

Changes affecting currency exchange rates, in particular the EUR/USD and EUR/GBP exchange rates;

Increasing levels of competition in the United States, the Netherlands, the United Kingdom and emerging markets;

Changes in laws and regulations, particularly those affecting our operations, the products we sell, and the attractiveness of certain products to our consumers;

Regulatory changes relating to the insurance industry in the jurisdictions in which we operate;

Acts of God, acts of terrorism, acts of war and pandemics;

Effects of deliberations of the European Commission regarding the aid we received from the Dutch State in December 2008;

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Changes in the policies of central banks and/or governments;

Lowering of one or more of our debt ratings issued by recognized rating organizations and the adverse impact such action may have on our ability to raise capital and on our liquidity and financial condition;

Lowering of one or more of insurer financial strength ratings of our insurance subsidiaries and the adverse impact such action may have on the premium writings, policy retention, profitability of its insurance subsidiaries and liquidity;

Litigation or regulatory action that could require us to pay significant damages or change the way we do business;

Customer responsiveness to both new products and distribution channels;

Competitive, legal, regulatory, or tax changes that affect the distribution cost of or demand for our products;

The impact of acquisitions and divestitures, restructurings, product withdrawals and other unusual items, including our ability to integrate acquisitions and to obtain the anticipated results and synergies from acquisitions;

Our failure to achieve anticipated levels of earnings or operational efficiencies as well as other cost saving initiatives;

The impact our adoption of the International Financial Reporting Standards may have on our reported financial results and financial condition; and

The effect of the European Union's Solvency II requirements and other regulations in other jurisdictions affecting the capital we are required to maintain.

These forward-looking statements speak only as of the date of this document. Except as required by any applicable law or regulation, the company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS**

Not applicable

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable



**ITEM 3. KEY INFORMATION****3A Selected financial data**

A summary of historical financial data is found in the table below. Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

It is important to read this summary in conjunction with the consolidated financial statements and related notes included elsewhere in this Report.

All per share amounts have been calculated based on the weighted average number of common shares outstanding after giving effect to all stock dividends through December 31, 2009.

**Consolidated income statement information**

In million EUR (except per share amount)	Years ended December 31,				
	2009	2008	2007	2006	2005
<b>Amounts based upon IFRS <sup>1</sup></b>					
Premium income	19,473	22,409	26,900	24,570	18,882
Investment income	8,681	9,965	10,457	10,376	9,937
Total revenues <sup>2</sup>	29,751	34,082	39,271	36,615	30,336
Income/(loss) before tax	(464)	(1,061)	3,077	3,971	2,796
Net income/(loss)	204	(1,082)	2,551	3,169	2,147
Net income per common share <sup>3</sup>					
Basic	(0.16)	(0.92)	1.47	1.87	1.25
Diluted	(0.16)	(0.92)	1.47	1.86	1.25

<sup>1</sup> Our consolidated financial statements are prepared in accordance with IFRS.

<sup>2</sup> Excluded from the income statements prepared in accordance with IFRS are receipts related to investment-type annuity products and investment contracts.

<sup>3</sup> Per share data has been calculated based on the weighted average number of common shares outstanding after giving effect to all stock dividends, stock splits and share repurchases through December 31, 2009. Diluted per share data gives effect to all dilutive securities.

**Consolidated balance sheet information**

In million EUR (except per share amount)	as at December 31,				
	2009	2008	2007	2006	2005
<b>Amounts based upon IFRS <sup>1</sup></b>					
Total assets	298,634	289,041	314,120	314,813	311,215
Insurance and investment contracts	248,903	240,030	266,735	262,052	264,334
Trust pass-through securities and (subordinated) borrowings <sup>2</sup>	7,314	4,824	5,152	4,395	5,014
Shareholders' equity	12,164	6,055	15,151	18,605	18,715

<sup>1</sup> Our consolidated financial statements are prepared in accordance with IFRS.

<sup>2</sup> Excludes bank overdrafts.

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In thousand	2009	2008	2007	2006	2005
<b>Number of common shares</b>					
Balance at January 1	1,578,227	1,636,545	1,622,927	1,598,977	1,552,685
Share issuance	157,822				
Stock dividends		41,452	25,218	23,950	46,292
Share withdrawal		(99,770)	(11,600)		
Balance at end of period	1,736,049	1,578,227	1,636,545	1,622,927	1,598,977

**Dividends**

AEGON has declared interim and final dividends for the years 2005 through 2009 in the amounts set forth in the table below. Dividends in US dollars are calculated based on the foreign exchange reference rate (the rate based on the daily concentration procedure between central banks 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 shareholder meeting approving the relevant final dividend.

Year	EUR per common share <sup>1</sup>			USD per common share <sup>1</sup>		
	Interim	Final	Total	Interim	Final	Total
2005	0.22	0.23	0.45	0.27	0.29	0.56
2006	0.24	0.31	0.55	0.31	0.42	0.73
2007	0.30	0.32	0.62	0.41	0.50	0.91
2008	0.30		0.30	0.45		0.45
2009						

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

On August 13, 2009, AEGON announced that no interim dividend for 2009 will be paid. On February 25, 2010, AEGON announced that they have decided to forego a final dividend for 2009. Therefore, AEGON will not declare a dividend to common shareholders over the fiscal year 2009. AEGON's dividend policy remains unchanged and is based on its capital position and cash flows.

Annual dividends on AEGON's preferred shares are calculated as a percentage 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 the first Euronext Amsterdam working day of the financial year to which the dividend relates) resulting in a rate of 4.25% for 2009. Applying this rate to the weighted average paid-in capital of our preferred shares during 2009, the annual dividend on our preferred shares payable for 2009 is EUR 90 million. The rate for annual dividends on preferred shares in 2010, as determined on January 4, 2010, is 2.75% and the annual dividend on preferred shares for 2010, based on the paid-in capital on the preferred shares on January 4, 2010, will be EUR 59 million.

**Exchange rates**

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

As of March 1, 2010 the USD exchange rate <sup>1</sup> was EUR 1 = USD 1.3524.

The high and low exchange rates<sup>1</sup> for the US dollar per euro for each of the last six months through February 2010 are set forth below:

	Sept. 2009	Oct. 2009	Nov. 2009	Dec. 2009	Jan. 2010	Feb. 2010
High (USD per EUR)	1.4795	1.5029	1.5085	1.5100	1.4536	1.3955
Low (USD per EUR)	1.4235	1.4532	1.4658	1.4243	1.3870	1.3476

The average exchange rates<sup>1</sup> for the US dollar per euro for the five years ended December 31, 2009, calculated by using the average of the exchange rates on the last day of each month during the period, are set forth below:

Year ended December 31,	Average rate
2005	1.2400
2006	1.2661
2007	1.3797
2008	1.4695
<b>2009</b>	<b>1.3955</b>

<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.

### 3B Capitalization and indebtedness

Not applicable

### 3C Reasons for the offer and use of proceeds

Not applicable

### 3D Risk factors

#### i Risks relating to our business

The following discusses some of the key risk factors that could affect AEGON's business and operations, as well as other risk factors that are particularly relevant to us in the current period of significant economic and market disruption. Additional risks to which we are subject include, but are not limited to, the factors mentioned under Forward-Looking Statements above and the risks of our businesses described elsewhere in this Annual Report on Form 20-F. Other factors besides those discussed below or elsewhere in this Annual Report also could adversely affect our business and operations, and the following risk factors should not be considered a complete list of potential risks that may affect AEGON and our subsidiaries.

#### *i Risks related to the global financial markets and general economic conditions*

*Disruptions in the global financial markets and general economic conditions have affected, and could have material adverse effects on, AEGON's business, results of operations and financial condition.*

Global financial markets have been experiencing extreme and unprecedented volatility and disruption, which may have a material adverse effect on our results of operations, financial condition and liquidity. Our results of operations and financial condition may be materially affected from time to time by general economic conditions, such as levels of employment, consumer lending or inflation in the countries in which we operate. The slowdown in world economies that started in 2008 continued into 2009 although there was some recovery later in the year. The large numbers of redundancies in developed countries continued through the year. Bank lending has been reduced from the levels seen before the crisis began and the housing markets in Europe and North America remain depressed. In addition to the other risks described in this section, these conditions have resulted and may continue to result in a reduction in demand for our products as well as a reduction in the value of the assets in our general account. We also may experience a higher incidence of claims and lapses or surrenders of policies. Our policyholders may choose to defer or stop paying insurance premiums. We cannot predict definitively whether or when such actions, which could impact our business, results of operations, cash flows and financial condition, may occur.



In view of ongoing uncertainty with respect to the financial and economic environment, on December 1, 2008, AEGON's core capital was increased through a special transaction with Vereniging AEGON and the State of The Netherlands (see Item 10C Material Contracts of this Form 20-F). As part of this arrangement, the State of the Netherlands nominated two representatives to AEGON's Supervisory Board. Governmental action in The Netherlands and elsewhere to address the financial crisis could further impact our business. We cannot predict with any certainty whether these actions will be effective or the effect they may have on the financial markets or on our business, results of operations, cash flows and financial condition.

### ***Credit risk***

*Defaults in our debt securities, private placements and mortgage loan portfolios may adversely affect profitability and shareholders' equity.*

As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For general account products, AEGON typically bears the risk for investment performance equaling the return of principal and interest. AEGON is exposed to credit risk on its general account fixed-income portfolio (debt securities, mortgages and private placements), OTC derivatives and reinsurance contracts. Some issuers have defaulted on their financial obligations for various reasons, including bankruptcy, lack of liquidity, downturns in the economy, downturns in real estate values, operational failure and fraud. In the current weak economic environment AEGON incurred significant investment impairments on AEGON's investment assets due to defaults and overall declines in the capital markets. Further excessive defaults or other reductions in the value of these securities and loans could have a materially adverse effect on AEGON's business, results of operations and financial condition.

### ***Equity market risk***

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

Fluctuations in the equity markets have affected our profitability, capital position and sales of equity related products in the past and continue to do so. Exposure to equity markets exists in both assets and liabilities. Asset exposure exists through direct equity investment where we bear all or most of the volatility in returns and investment performance risk. Equity market exposure is also present in insurance and investment contracts for account of policyholders where funds are invested in equities (such as variable annuities, unit-linked products and mutual funds). Although most of the risk remains with the policyholder, lower investment returns can reduce the asset management fee that we earn on the asset balance in these products. In addition, some of this business has minimum return or accumulation guarantees, which requires AEGON to establish reserves to fund these future guaranteed benefits when equity market returns do not meet or exceed these guarantee levels. Our reported results under IFRS are also at risk if returns are not sufficient to allow amortization of deferred policyholder acquisition costs (DPAC), which could impact our reported net income as well as shareholders' equity. Volatile or poor market conditions may also significantly reduce the demand for some of our savings and investment products, which could lead to lower sales and net income. Deteriorating general economic conditions may again result in significant decreases in the value of our equity investments. The equity market conditions experienced in 2009 led to a recognized impairment loss on equity securities held in general account of EUR 96 million (2008: EUR 203 million; 2007: EUR 45 million).

### ***Interest rate risk***

*Interest rate volatility or sustained low interest rate levels may adversely affect our profitability and shareholders' equity.*

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

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



If interest rates rise there may be unrealized losses on some of our assets that will be recorded as negative income under IFRS. This is inconsistent with the IFRS accounting on much of our liabilities, where corresponding unrealized gains when interest rates rise do not affect income in the shorter term. Over time, the short-term reduction in income due to rising interest rates would be offset by higher income in later years, all else being equal.

Base interest rates set by central banks and government treasuries remained at the historically low levels set at the end of 2008 in response to the worldwide recession. Management believes these rates are likely to remain low for the remainder of 2010. Although credit spreads reduced in 2009 they still remain at historically high levels.

The profitability of spread-based business depends in large part upon the ability to manage interest rate spreads, credit risk and other risks inherent in the investment portfolio. We may not be able to successfully manage interest rate spreads, credit risk and other risks in the investment portfolio or the potential negative impact of those risks. Investment income from general account fixed income investments for the years 2007, 2008 and 2009 was EUR 7.1 billion, EUR 6.7 billion and EUR 5.8 billion, respectively. The value of the related general account fixed income investment portfolio at the end of the years 2007, 2008 and 2009 was EUR 126 billion, EUR 125 billion and EUR 130 billion, respectively.

See Item 18.4, Quantitative and Qualitative Disclosure about Market Risk, of this Annual Report for detailed sensitivity analyses.

### ***Currency exchange rate risk***

*Fluctuations in currency exchange rates may affect our reported results of operations.*

As an international group, we are subject to foreign currency translation risk. Foreign currency exposure also exists when policies are denominated in currencies other than the issuer's functional currency. Currency risk in the investment portfolios backing insurance and investment liabilities are managed using asset liability matching principles. Assets allocated to equity are kept in local currencies to the extent shareholders' equity is required to satisfy regulatory and our self-imposed capital requirements. Therefore, currency exchange rate fluctuations may affect the level of our consolidated shareholders' equity as a result of translation of the equity of our subsidiaries into euro, our reporting currency. We hold the remainder of our capital base (capital securities, subordinated and senior debt) in various currencies in amounts that are targeted to correspond to the book value of our operating units. This balancing is intended to mitigate currency translation impacts on equity and leverage ratios. We may also hedge the expected dividends from our principal operating units that maintain their equity in currencies other than the euro. To the extent these expected dividends are not hedged or actual dividends vary from expected, our net income and shareholders' equity may fluctuate. As we have significant business segments in the Americas and in the United Kingdom, the principal sources of exposure from currency fluctuations are from the differences between the US dollar and the euro and between the UK pound and the euro. We may experience significant changes in net income and shareholders' equity because of these fluctuations.

Direct currency speculation or program trading is not permitted at our operating units unless explicit approval is granted by appropriately authorized senior management.

The exchange rates between our primary operating currencies (US dollar, euro and UK pound) continued to fluctuate widely during 2009. The US dollar ranged by as much as 20% against the euro over the year, finishing around 10% down on the year. The UK pound fluctuated by around 10% against the euro but ended the year largely unchanged.

For the Americas segment, which primarily conducts its business in US dollars, total revenues and net income in 2009 amounted to EUR 12 billion and EUR 496 million, respectively. For the United Kingdom segment, which primarily conducts its business in UK pounds, total revenues and net income in 2009 amounted to EUR 10 billion and EUR 5 million, respectively. On a consolidated basis, these two segments represented 74% of the total revenues and 246% of the net income for the year 2009. Additionally, we borrow in various currencies to hedge the currency exposure arising from our operations. On December 31, 2009 we have borrowed or swapped amounts in proportion to the currency mix of capital in units, which was denominated approximately 56% in US dollars, 27% in euro, 12% in UK pounds and 5% in Canadian dollars.

### ***Liquidity risk***

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

Liquidity risk is inherent in much of our business. Each asset purchased and liability sold has liquidity characteristics that are unique. Some liabilities are surrenderable while some assets, such as privately placed loans, mortgage loans, real estate and limited partnership interests, have low liquidity. AEGON built up its reserves of cash and liquid assets in 2009. In depressed markets we may be unable to sell or buy significant volumes of assets at quoted prices. In addition, any securities we issue of significant volume may be issued at higher financing costs due to these current impaired liquidity conditions. Although AEGON manages its liquidity position for extreme events, including greatly reduced liquidity in

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capital markets, if these conditions were to persist for an extended period of time, we may need to sell assets to meet our insurance obligations while still in this impaired liquidity market.

Approximately 35% of our general account investments are not highly liquid.



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***Underwriting risk***

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

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

Sources of underwriting risk include policy lapses, policy claims (such as mortality and morbidity) and expenses. In general, we are at risk if policy lapses increase as sometimes we are unable to fully recover up front expenses in selling a product despite the presence of commission recoveries or surrender charges and fees. We sell certain types of policies that are at risk if mortality or morbidity increases, such as term life insurance and accident insurance. We also sell certain other types of policies that are at risk if mortality decreases (longevity risk) such as annuity products. We are also at risk if expenses are higher than assumed by our management.

***ii Other risks***

*We may be required to increase our statutory reserves for certain of our products.*

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

In response to these regulations, we have implemented reinsurance and capital management actions to mitigate their impact. However, we may not be able to implement actions to mitigate the impact of Regulation XXX and AXXX on future sales of term or universal life insurance products, potentially resulting in an adverse impact on these products and our market position in the life insurance market. Additionally, any change to or repeal of Regulation XXX or AXXX could also reduce the effectiveness of our reinsurance and capital management actions, adversely affecting our life insurance operations.

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

In addition, we may not be able to comply fully with, or obtain appropriate exemptions from, the wide variety of laws and regulations applicable to insurance companies and insurance holding companies. Failure to comply with or to obtain appropriate exemptions under any applicable laws could result in restrictions on our ability to do business in one or more of the jurisdictions in which we operate and could result in fines and other sanctions, which may have a material adverse effect on our business or results of operations.

It is possible that there will be heightened oversight of insurers by regulatory authorities in the jurisdictions in which our subsidiaries are domiciled and operate. We cannot predict specific proposals that might be adopted, or what impact, if any, such proposals or, if enacted, such laws, could have on our business, results of operations, or financial condition. The NAIC or state regulators may adopt revisions to applicable risk based capital formulas, the FSA may revise its capital adequacy requirements and minimum solvency margins, other jurisdictions in which our subsidiaries operate may increase their capital requirements, or rating agencies may incorporate higher capital thresholds into their quantitative analyses, thus requiring additional capital for our insurance subsidiaries. Increased financial services regulation, such as the European Commission's Solvency II directive, may impose greater quantitative requirements, supervisory review, and disclosure requirements and may impact the structure, business strategies, capital requirements, and profitability of our insurance subsidiaries.



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

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

In addition, a downgrade may adversely affect relationships with broker-dealers, banks, agents, wholesalers and other distributors of our products and services, which may negatively impact new sales and adversely affect our ability to compete. This would have a materially adverse effect on our business, results of operations and financial condition.

At the end of December 2009, the Fitch, Moody's and Standard & Poor's (S&P) insurance financial strength ratings (IFSR) and ratings outlook for AEGON's primary life insurance companies in its leading country units were as follows:

	AEGON USA IFSR	AEGON The Netherlands IFSR	AEGON Scottish Equitable IFSR	AEGON N.V. Senior Debt Rating
S&P rating	AA-	AA-	AA-	A-
S&P outlook	Negative	Negative	Negative	Negative
Moody's rating	A1	NR <sup>1</sup>	NR <sup>1</sup>	A3
Moody's outlook	Negative	Negative	Negative	Negative
Fitch rating	AA	NR <sup>1</sup>	NR <sup>1</sup>	A
Fitch outlook	Negative	Negative	Negative	Negative

<sup>1</sup> NR - not rated

During 2009, Moody's lowered its senior debt rating for AEGON N.V. to A3 with a negative outlook, Fitch lowered its senior debt rating to A with a negative outlook, while Standard & Poor's lowered its senior debt rating to A-. The outlook for all three credit ratings remained negative. At the same time, Moody's, Fitch and S&P also lowered the insurance financial strength ratings of AEGON USA by one notch, to A1, AA and AA-, respectively.

These downgrades were in line with similar actions taken by credit rating agencies affecting many of AEGON's direct peers as well as other companies in the broader insurance industry. Because of this and the decision, taken earlier in the year, to scale back AEGON's institutional spread-based business in the United States, the downgrades had only a limited effect on the company's business.

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

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

Our insurance business is subject to comprehensive regulation and supervision in all countries in which we operate. The primary purpose of such regulation is to protect policyholders, not holders of securities. Changes in existing insurance laws and regulations may affect the way in which we conduct business and the products offered. Changes in pension and employee benefit regulation, social security regulation, financial services regulation, taxation and the regulation of securities products and transactions may adversely affect our ability to sell new policies or claims exposure on existing policies. Additionally, the insurance laws or regulations adopted or amended from time to time may be more restrictive or may result in higher costs than current requirements. The continuing financial markets dislocation may lead to extensive changes in existing laws and regulations, and regulatory frameworks, applicable to our businesses in the countries in which we operate. Changes in these laws and regulations may materially increase our direct and indirect compliance and other expenses of doing business thus having a material adverse effect on our financial condition or results of operations.

*Litigation and regulatory investigations may adversely affect our business, results of operations and financial condition.*

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We face significant risks of litigation and regulatory investigations and actions in connection with activities as an insurer, securities issuer, employer, investment advisor, investor and taxpayer. In recent years, the insurance industry has increasingly been the subject of litigation, investigation and regulatory activity by various governmental and enforcement authorities concerning common industry practices such as the disclosure of contingent commissions and the accounting treatment of finite reinsurance or other non-traditional insurance products. We cannot predict at this time the effect this current trend towards litigation and investigation will have on the insurance industry or our business. Lawsuits, including class actions and regulatory actions, may be difficult to assess or quantify, may seek recovery of very large and/or indeterminate amounts, including punitive and treble damages, and their existence and magnitude may remain unknown for substantial periods of time. A substantial legal liability or a significant regulatory action could have a materially adverse effect on our business, results of operations and financial condition.

*AEGON may be unable to manage our risks successfully through derivatives.*

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

*State statutes and foreign country regulators may limit the aggregate amount of dividends payable by subsidiaries of AEGON, thereby limiting the Company's ability to make payments on debt obligations.*

Our ability to make payments on debt obligations and pay certain operating expenses is dependent upon the receipt of dividends from subsidiaries. Certain of these subsidiaries have regulatory restrictions that can limit the payment of dividends.

*Changes in accounting policies may affect our reported results and shareholders' equity.*

Since 2005, our financial statements have been prepared and presented in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and adopted by the European Union. Any future change in these accounting principles may have a significant impact on our reported results, financial condition and shareholders' equity. This includes the level and volatility of reported results and shareholders' equity.

*Tax law changes may adversely affect our profitability, as well as the sale and ownership of AEGON's products.*

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

The US Congress has, from time to time, considered possible legislation that could make our products less attractive to consumers, including legislation that would reduce or eliminate the deferral of taxation on the accretion of value within certain annuities and life insurance products. In addition, the US Congress passed legislation in 2001 that provided for reductions in the estate tax and the possibility of permanent repeal of the estate tax continues to be discussed. This could have an impact on insurance products and sales in the United States.

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

Changes to tax laws in the Netherlands at the end of 2005 have reduced the attractiveness of early retirement plans, but tax advantages have been granted from January 1, 2006 for savings products known as Levensloop.

Any changes in United States or Dutch tax law affecting similar products could have a materially adverse effect on our business, results of operations and financial condition.

*Competitive factors may adversely affect our market share.*

Competition in our business segments is based on service, product features, price, commission structure, financial strength, claims paying ability, ratings and name recognition. We face intense competition from a large number of other insurers, as well as non-insurance financial services companies such as banks, broker-dealers and asset managers, for individual customers, employers, other group customers, agents and other distributors of insurance and investment products. Consolidation in the global financial services industry can enhance the competitive position of some of our competitors by broadening the range of their products and services, increasing their distribution channels and their access to capital. In addition, development of alternative distribution channels for certain types of insurance and securities products, including through the internet, may result in increasing competition as well as pressure on margins for certain types of products. These competitive

pressures could result in increased pricing pressures on a number of products and services, particularly as competitors seek to win market share. This may harm our ability to maintain or increase profitability.

The adverse market and economic conditions that began in the second half of 2007 and that have continued and worsened since then can be expected to result in changes in the competitive landscape. For example, the financial distress experienced by certain financial services industry participants as a result of such conditions may lead to acquisition opportunities. Our ability or that of our competitors to pursue such opportunities may be limited due to lower earnings, reserve increases or a lack of access to debt capital markets and other sources of financing and limitations placed on companies that received state aid by the European Commission. Such conditions may also lead to changes by us or our competitors in product offerings and product pricing that could affect our and their relative sales volumes, market shares and profitability. Additionally, the competitive landscape in which we operate may be further affected by government sponsored programs or actions in response to the severe dislocations in financial markets.

AEGON USA ranked fourth in individual term life sales, sixth in individual universal life sales (source: LIMRA for the nine months ended September 30, 2009) and fourteenth in variable life sales (source: Towers Watson survey for nine months ended September 30, 2009). AEGON USA ranked second in sales of fixed annuities sold through banks, tenth in variable annuities sold through banks and second overall in annuity sales through banks (source: Kehler-LIMRA for the nine months ended September 30, 2009). Our major insurance competitors in the United States include American International Group (AIG), Hartford, ING, Manulife, Metropolitan Life, Nationwide, New York Life and Prudential.

In the Netherlands, AEGON is the fourth largest life insurer (source: Yearly Report Assurantie Magazine 2008). AEGON is one of the two largest pension insurers and fifth largest individual life insurer based on gross life premium income (source: Yearly Report Assurantie Magazine 2008). AEGON also owns the second largest insurance broker in the Netherlands (source: Yearly Report Assurantie Magazine 2008). AEGON's major competitors in the Netherlands include ING, Delta Lloyd, Eureko, ASR Verzekering (formerly known as Fortis) and SNS Reaal.

AEGON UK ranks in the top five among competitors in its main market, the United Kingdom Life and Pensions market. Key competitors include Aviva, AXA, Friends Provident, Legal and General, Prudential UK and Standard Life. AEGON's main competitors in the UK retail investment market are typically the investment management houses (e.g., Fidelity, Henderson, Merrill Lynch etc). The independent financial advisor market is fragmented, with a large number of relatively small firms.

In Canada, AEGON ranks sixth in overall individual life insurance sales (new business premiums) and fifth in the universal life market, (source: LIMRA's Canadian Individual Life Insurance Sales Third Quarter 2009). AEGON's primary competitors in Canada are: Manulife Financial, Sun Life Financial, Industrial-Alliance, RBC Life, Canada Life, BMO Life, Equitable and Desjardins Financial.

AEGON Spain's main competitors are Santander Seguros, Mapfre, Bansabadell Vida, Vidacaixa, Zurich, Grupo Caixa and Adeslas. The main competitors of AEGON-CNOOC in China are Aviva Cofco, Allianz China, Citic Prudential, Manulife Sinochem, Sunlife Everbright and Heng An Standard.

In Hungary, AEGON ranked second in life insurance and fourth in non-life insurance for premium income at September 2009 (source: Hungarian Insurance Association) and ranked second in mandatory pension funds and third in voluntary pension funds for managed assets at June 2009 (source: [www.pszaf.hu](http://www.pszaf.hu)). AEGON Poland was placed fifth in unit-linked products for gross written premium and seventh for pension funds by managed assets at September 2009 (source: [www.knf.gov.pl](http://www.knf.gov.pl)).

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

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

The experience suffered by AIG in the aftermath of the bankruptcy of Lehman Brothers in September 2008 is an example of this type of risk. Management believes that despite increased attention recently systemic risk to the markets in which we operate continues to exist, and dislocations caused by the interdependency of financial market participants continues to be a potential source of material adverse changes to our business, results of operations and financial condition.

*We may be unable to retain personnel who are key to the business.*

As a global financial services enterprise with a decentralized management structure, we rely, to a considerable extent on the quality of local management in the various countries in which we operate. The success of our operations is dependent, among other things, on our ability to attract and retain highly qualified professional personnel. Competition for key personnel in most countries in which we operate is intense. Our ability to attract and retain key personnel, in particular senior officers, experienced portfolio managers, mutual fund managers and sales executives, is dependent on a number of factors, including prevailing market conditions and compensation packages offered by companies competing for the same talent. In connection with the special transaction dated December 1, 2008, among AEGON, Vereniging AEGON and the State of the Netherlands securing the provision of capital to AEGON by the State of the Netherlands, AEGON agreed to develop a sustainable

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remuneration policy for the Executive Board that is aligned to new international standards. AEGON agreed with the members of the Executive Board that no member will be entitled to any performance-related remuneration for the year 2008 and no member will upon termination of his employment be entitled to any severance payment in



excess of one year's fixed salary. Likewise, AEGON agreed not to enter into new employment agreements with new or existing Executive Board members that are not in line with the foregoing, as long as the loan provided by the State of the Netherlands to Vereniging AEGON has not been redeemed. These restrictions, alone or in combination with the other factors described above, could adversely affect our ability to hire and retain qualified employees.

*Judgments of US courts are not enforceable against AEGON in Dutch courts.*

The United States and the Netherlands do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Judgments of US courts, including those predicated on the civil liability provisions of the federal securities laws of the United States, may not be enforceable in Dutch courts. Therefore, our shareholders that obtain a judgment against us in the United States may not be able to require us to pay the amount of the judgment unless a competent court in the Netherlands gives binding effect to the judgment. It may, however, be possible for a US investor to bring an original action in a Dutch court to enforce liabilities against us, our affiliates, directors, officers or any expert named therein who reside outside the United States, based upon the US federal securities laws.

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

Our insurance subsidiaries cede premiums to other insurers under various agreements that cover individual risks, group risks or defined blocks of business, on a co-insurance, yearly renewable term, excess or catastrophe excess basis. These reinsurance agreements spread the risk and minimize the effect of losses. The amount of each risk retained depends on evaluation of the specific risk, which is subject, in certain circumstances, to maximum limits based on the characteristics of coverage. Under the terms of the reinsurance agreements the reinsurer agrees to reimburse for the ceded amount in the event the claim is paid. However, our insurance subsidiaries remain liable to their policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations assumed by it. See Item 18, Financial Statements Schedule to Financial Statements Reinsurance of this Annual Report for a table showing life insurance in force amounts on a direct, assumed and ceded basis for 2007, 2008 and 2009. See also Item 18, Financial Statements, Note 18.11 of this Annual Report for the amount of reinsurance assets at each balance sheet date for reinsurance ceded.

In accordance with industry practices, we reinsure a portion of our life insurance exposure with unaffiliated insurance companies under traditional indemnity reinsurance arrangements. Approximately 33% of our total direct and assumed (for which we act as a reinsurer for others) life insurance in force is ceded to other insurers. In the United States, Transamerica Reinsurance retrocedes a significant portion of the risk it assumes. The major reinsurers of AEGON USA and AEGON Canada are Munich Re, RGA and Swiss Re. The major reinsurers of AEGON UK are Swiss Re and XL Re. The major reinsurer for life insurance for AEGON The Netherlands is Swiss Re while the non-life reinsurance is diversified across several providers including Lloyds market syndicates. The major reinsurers of AEGON Hungary for non-life are Swiss Re, Munich Re and Hannover Re and for life insurance are Munich Re and RGA. AEGON Spain's major reinsurers are General Re, Nacional de Reaseguros, Munich Re and Swiss Re. AEGON China's major reinsurers are General Re, Munich Re and Swiss Re.

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

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

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

In recent years we have made a number of acquisitions and divestitures around the world and may make further acquisitions and divestitures in the future. Growth by acquisition involves risks that could adversely affect our operating results and financial condition. These include: the potential diversion of financial and management resources from existing operations; difficulties in assimilating the operations, technologies, products and personnel of the acquired company; significant delays in completing the integration of acquired companies; the potential loss of key employees or customers of the acquired company; potential losses from unanticipated litigation; and tax and accounting issues.

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

once negotiations have commenced.

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

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

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

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

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

While systems and processes are designed to support complex transactions and to avoid systems failure, fraud, information security failures, processing errors and breaches of regulation, any failure could lead to a materially adverse effect on our results of operations and corporate reputation. In addition, we must commit significant resources to maintain and enhance our existing systems in order to keep pace with industry standards and customer preferences. If we fail to keep up-to-date information systems, we may not be able to rely on accurate information for product pricing, risk management and underwriting decisions.

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

Operational risk is inherent in our business and can manifest itself in many ways including business interruption, poor vendor performance, information systems malfunctions or failures, regulatory breaches, human errors, employee misconduct, and/or internal and external fraud. These events can potentially result in financial loss, harm to our reputation and hinder our operational effectiveness. Management attempts to control these risks and keep operational risk at appropriate levels by maintaining a well-controlled environment and sound policies and practices. Notwithstanding these control measures, however, operational risk is part of the business environment in which we operate and is inherent in our size as well as our geographic diversity and the scope of the businesses we operate. Our risk management activities cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. We may incur losses from time to time due to these types of risks.

*Proceedings with and a decision of the European Commission with respect to the measures notified under the EU state aid provisions may have a material adverse affect on our business, results of operations and financial condition.*

As required under European Union state aid rules, the Dutch State notified the European Commission of the issuance by us in December 2008 of EUR 3 billion of non-voting convertible core capital securities to Vereniging AEGON, which was funded by the Dutch State. Last year, the European Commission found the aid provided by the Dutch State to be compatible with the common market, raised no objection against the notified aid and authorized it as emergency intervention in the face of the financial crisis for a period of six months. Emergency intervention is required to be re-evaluated after six months on the basis of a credible and substantiated plan for the long term viability of AEGON. Provided a credible plan is submitted, the authorization of the emergency intervention is automatically prolonged until the European Commission reaches its decision on this viability plan. The European Commission distinguishes between institutions which are fundamentally sound and institutions suffering from more structural solvency problems. Should the European Commission conclude that we do not qualify as a fundamentally sound institution, the European Commission might expect us to take other and additional (restructuring) measures than those currently foreseen in order to find the Dutch State aid compatible with the common market. Should the European Commission conclude that, on the basis of the viability plan or at any time as long as the Dutch State loan to Vereniging AEGON is in place, the Dutch State aid ceases to be compatible with the common market, the European Commission might ultimately oblige the Dutch State to unwind the December 2008 transaction, which would require the EUR 2 billion remaining outstanding to be repaid to the Dutch State. The Dutch State recently submitted a viability plan regarding AEGON to the European Commission, which is evaluating the plan. Due to a lack of sufficient certainty about the application of state aid

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provided to financial institutions in the context of the current global financial crisis, it is not possible to provide additional specificity on either the timing or likelihood of outcome of the European Commission's evaluation. A failure by the European Commission to reach a final decision on the acceptability of this viability plan within a reasonable timeframe could have a material adverse effect on our business, results of operations and financial condition, primarily due to uncertainty regarding the possible consequences of such a decision.

## II RISKS RELATING TO AEGON S COMMON SHARES

*Our share price could be volatile and could drop unexpectedly making it difficult for investors to resell our common shares at or above the price paid.*

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

Investor perception of AEGON as a company;

Actual or anticipated fluctuations in AEGON s revenues or operating results;

Announcement of intended acquisitions, disposals or financings, speculation about such acquisitions, disposals or financings;

Changes in AEGON s dividend policy, which could result from changes in AEGON s cash flow and capital position;

Sales of blocks of AEGON s shares by significant shareholders, including Vereniging AEGON;

Price and timing of any refinancing or conversion of AEGON s convertible core capital securities;

A downgrade or rumored downgrade of AEGON s credit or financial strength ratings, including placement on credit watch;

Potential litigation involving AEGON or the insurance industry in general;

Changes in financial estimates and recommendations by securities research analysts;

Fluctuations in capital markets including foreign exchange rates, interest rates and equity markets;

The performance of other companies in the insurance sector;

Regulatory developments in the Netherlands, the United States, Canada, the United Kingdom and Other Countries;

International political and economic conditions, including the effects of terrorist attacks, military operations and other developments stemming from such events and the uncertainty related to these developments;

News or analyst reports related to markets or industries in which AEGON operates; and

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General insurance market conditions.

The high and low prices of AEGON's common shares on Euronext Amsterdam were EUR 11.98 and EUR 2.68 respectively in 2008 and EUR 6.17 and EUR 1.85 respectively in 2009. The high and low sales prices of our common shares on the NYSE were USD 16.75 and USD 3.50 respectively in 2008 and USD 9.23 and USD 2.30 respectively in 2009. All share prices are closing prices.

*AEGON and its significant shareholders may offer (additional) common shares in the future, and these and other sales may adversely affect the market price of the outstanding common shares.*

It is possible that AEGON may decide to offer additional common shares in the future, for example, to effect an acquisition.

In connection with Vereniging AEGON's refinancing in September 2002, it entered into an equity repurchase facility and a back-up credit facility. On February 9, 2010 both facilities were replaced by a three year term and revolving facilities agreement with a consortium of banks that can be extended until 2014. Under the new agreement AEGON common shares in the possession of Vereniging AEGON are pledged to the consortium of banks. If Vereniging AEGON is in default under the facilities agreement, the lenders may dispose of our common shares held by them as collateral in order to satisfy amounts outstanding.

An additional offering of common shares by us, sales of common shares by significant shareholders or by lenders to Vereniging AEGON, or the public perception that an offering or such sales may occur, could have an adverse effect on the market price of our common shares. As of December 31, 2009, the total authorized share capital of AEGON consisted of 3,000,000,000 common shares, par value euro 0.12 per share, and 1,000,000,000 preferred shares A and B, par value euro 0.25 per share. All our outstanding common shares are freely tradable, and all shareholders, including large shareholders such as Vereniging AEGON, are free to resell their shares at any time.

*The convertible core capital securities issued to Vereniging AEGON may be converted into common shares and dilute existing common shareholders.*

On December 1, 2008, AEGON issued new convertible core capital securities to Vereniging AEGON as part of the special transaction securing the provision of capital to AEGON by the State of the Netherlands via Vereniging AEGON. The terms of the convertible core capital securities permit AEGON, on or after December 1, 2011, to convert any or all of the convertible core capital securities into common shares on a one-for-one basis. Any conversion to common shares would dilute existing common shareholders. If AEGON exercises its conversion right, Vereniging AEGON may opt to require AEGON to redeem the convertible core capital securities on the conversion date.

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

Prior to September 2002, Vereniging AEGON, beneficially owned approximately 52% of the voting shares and thus held voting control over AEGON. In September 2002, Vereniging AEGON reduced its beneficial ownership to approximately 33% of the voting shares (excluding issued common shares held in treasury by AEGON). Pursuant to the 1983 Merger Agreement between AEGON and Vereniging AEGON, as amended, in case of an issuance of shares by AEGON, Vereniging AEGON may purchase as many class B preferred shares as would enable it to prevent or correct a dilution to below its actual percentage of the voting shares, unless Vereniging AEGON as a result of exercising these option rights would increase its voting power to more than 33%. The option granted to Vereniging AEGON permits it to purchase class B preferred shares up to a maximum of the non-issued part of the class B preferred shares included from time to time in AEGON's authorized capital if necessary to prevent or correct such dilution. The class B preferred shares would then be issued at par value (euro 0.25), unless a higher price is agreed. In the years 2003 through 2007, 35,170,000 class B preferred shares were issued under these option rights. In 2008, no option rights existed. In 2009, Vereniging AEGON exercised its option rights to purchase in aggregate 33,860,000 class B preferred shares at par value to correct dilution caused by AEGON's EUR 1 billion equity issue as completed in August 2009.

In addition, we have implemented certain changes to our corporate governance structure and the relationship with Vereniging AEGON pursuant to which Vereniging AEGON has voluntarily waived its right to cast 25/12 vote per class A or class B preferred share. Consequently, under normal circumstances Vereniging AEGON's voting power, based on the current numbers of outstanding and voting shares, is reduced to approximately 22.76% of the votes exercisable in the General Meeting of Shareholders. However, this reduction in voting percentage is not applicable in all circumstances. In certain limited circumstances at the sole discretion of Vereniging AEGON (such as the acquisition of 15% of the voting shares, a tender offer for shares or a proposed business combination, each by any person or group of persons whether individually or acting as a group, other than in a transaction approved by the Executive Board and Supervisory Board), Vereniging AEGON's voting rights for a limited period of 6 months, will increase to a percentage that currently amounts to 33.0%. Consequently, Vereniging AEGON may have substantial influence on the outcome of corporate actions requiring shareholder approval, including:

Adopting amendments to the Articles of Incorporation;

Adopting the annual accounts;

Approving a consolidation or liquidation;

Approving a tender offer, merger, sale of all or substantially all of the assets or other business combination;

In particular during the periods when Vereniging AEGON is entitled to exercise its increased voting rights, it will generally have sufficient voting power to veto certain decisions presented to the General Meeting of Shareholders, including any proposal relating to the following matters:

- (1) Rejecting binding Supervisory Board nominations for membership on the Supervisory Board and Executive Board;
- (2) Appointing an Executive Board or Supervisory Board member other than pursuant to Supervisory Board nomination; and
- (3) Suspending or removing an Executive Board or Supervisory Board member other than pursuant to a Supervisory Board proposal.

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

Because our common shares listed on Euronext Amsterdam are quoted in euros and our common shares listed on the New York Stock Exchange (NYSE) are quoted in US dollars, fluctuations in exchange rates between the euro and the US dollar may affect the value of AEGON shares. In addition, we declare cash dividends in euros, but pay cash dividends, if any, on our New York shares in US dollars based on an exchange rate set

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the business day following the shareholder meeting approving the dividend. As a result, fluctuations in exchange rates may affect the value of any cash dividends paid.

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

Any market that develops for convertible securities or other securities that permit or require us to satisfy obligations by issuing common shares that we have issued or may issue in the future would be likely to influence, and be influenced by, the market for AEGON's common shares. For example, the price of AEGON's common shares could become more volatile and could be depressed by investors' anticipation of the potential resale in the market of substantial amounts of AEGON's common shares received at maturity. Our common shares could also be depressed by the acceleration of any convertible securities (or other such securities) that AEGON has issued by investors who view such convertible securities (or other such securities) as a more attractive means of participation in AEGON's equity. Negative results could also be produced by hedging or arbitrage trading activity that may develop involving such convertible securities (or other such securities) and AEGON's common shares. Any such developments could negatively affect the value of AEGON's common shares.



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**ITEM 4. INFORMATION ON THE COMPANY**

**4A History and development of AEGON**

**i General**

AEGON N.V., domiciled in the Netherlands, is a public limited liability share 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 1800 s.

AEGON N.V., through its member companies that are collectively referred to as AEGON or the AEGON Group, is a leading provider of life insurance, pensions and asset management. AEGON is headquartered in the Netherlands and employs, through its subsidiaries, approximately 28,000 people worldwide. AEGON s common shares are listed on stock exchanges in Amsterdam (Euronext), New York (NYSE), London and Tokyo. AEGON expects to delist from the Tokyo stock exchange on March 27, 2010.

AEGON s businesses focus on life insurance, pensions and investment products. AEGON is also active in accident, supplemental health, general insurance, and some limited banking activities. AEGON N.V. is a holding company. The operations described above are conducted through operating subsidiaries.

AEGON s established markets are the United States, the Netherlands and the United Kingdom. In addition, AEGON is present in over more than 15 markets in the Americas, Europe and Asia.

AEGON 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 cost control. AEGON uses a multi-brand, multi-channel distribution approach to meet its customers needs.

The AEGON Group has the following reportable geographic segments: the Americas (which include the United States, Canada, Mexico and Brazil), the Netherlands, the United Kingdom and Other Countries, which includes Hungary, Spain, China, Poland, India and a number of other countries.

For information on our business segments, see Note 5 Segment Information , to our financial statements in Item 18 of this Annual Report. The business activities of our principal subsidiaries are more fully described within the country sections that follow.

Our headquarters are located at:

AEGONplein 50

PO Box 85

2501 CB The Hague

The Netherlands

Telephone number: +31.70.344.8305

Internet site: [www.aegon.com](http://www.aegon.com)

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**iii Recent developments and capital expenditures and divestments****Acquisitions****2009**

In June 2009, AEGON acquired a 50% stake in BT-AEGON (Romania), a pension fund management company earlier run as a 50%-50% joint venture with Banca Transilvania. The total purchase price amounted to EUR 11 million. Acquired assets included EUR 1 million cash positions. Goodwill of EUR 3 million was recognized. Since the acquisition date, the company has attributed EUR 0 million to net income. If the acquisition had been as of January 1, 2009, contribution to net income and total revenues would amount to EUR 0.3 million and EUR 0.6 million respectively. Goodwill of EUR 3 million reflects the future new business and synergies with existing business.

In May 2009, AEGON completed the acquisition of a 50% (non-controlling) interest in Mongeral SA Seguros e Previdência (Brazil). The total consideration paid amounted to EUR 44 million. An additional earn-out payment of EUR 11 million will be payable if certain targets are met in the future.

**2008**

In December 2008, AEGON acquired an additional 40% stake in the Spanish Caja Cantabria Vida y Pensiones, of which already 10% was acquired in 2007. As a result, AEGON holds a 50% stake as of December 31, 2008. The total purchase price amounted to EUR 27 million for the 40% stake. Acquired assets included EUR 2 million cash positions. Goodwill of EUR 63 million was recognized. Since the acquisition date, the company has attributed EUR 0 million to net income in 2008. If the acquisition had been as of January 1, 2008, contribution to net income and total revenues would amount to EUR 0 million and EUR 12 million respectively.

In October 2008, AEGON acquired a 50% stake in Caixa Terrassa Vida y Pensiones, a Spanish life insurance, pension and health company. The total purchase price amounted to EUR 186 million. Acquired assets included EUR 11 million cash positions. Goodwill of EUR 167 million was recognized. Since the acquisition date, the company has attributed EUR 0 million to net income in 2008. If the acquisition had been as of January 1, 2008, contribution to net income and total revenues would amount to EUR 4 million and EUR 109 million respectively.

In July 2008, AEGON finalized the acquisition of 100% of the shares of the Turkish life insurance and pension company Ankara Emeklilik Anonim Şirketi. The total purchase price amounted to EUR 34 million. Since the acquisition date, the company has attributed EUR (3) million (loss) to net income in 2008. If the acquisition had been as of January 1, 2008, contribution to net income and total revenues would amount to respectively EUR (7) million (loss) and EUR 11 million. As a result of the acquisition, assets and liabilities were recognized for EUR 54 million and EUR 20 million respectively, including a cash position of EUR 5 million. Goodwill of EUR 30 million reflects the future new business and synergies with existing business.

In June 2008, AEGON acquired 100% of the shares of the Polish pension fund company PTE Skarbiec-Emerytura SA. The total purchase price amounted to EUR 139 million. Since the acquisition date, the company has attributed EUR 1 million to net income in 2008. If the acquisition had been as of January 1, 2008, contribution to net income and total revenues would amount to respectively EUR 4 million and EUR 14 million. As a result of the acquisition, assets and liabilities were recognized for EUR 156 million and EUR 17 million respectively, including a cash position of EUR 4 million. Goodwill of EUR 39 million reflects the future new business and potential synergies with existing business.

In June 2008, AEGON completed the acquisition of 100% of the shares of Heller-Saldo 2000 Pension Fund Management Co., UNIQA Investment Service Co. and UNIQA Financial Service Co. in Hungary for a total purchase price of EUR 21 million. The companies merged subsequently. Since the acquisition date, the company has attributed EUR 1 million to net income in 2008. If the acquisition had been as of January 1, 2008, contribution to net income and total revenues would amount to respectively EUR 2 million and EUR 4 million. As a result of the acquisition, assets and liabilities were recognized for EUR 24 million and EUR 3 million respectively, including cash position of EUR 1 million. Goodwill of EUR 6 million reflects the future new business and potential synergies with existing business.

In April 2008, AEGON acquired a 49% stake in Industrial Fund Management Co., Ltd, a Chinese mutual fund manager. The company is renamed AEGON Industrial Fund Management Co. The total purchase consideration amounted EUR 22 million. As a result of the acquisition, assets and liabilities were recognized for EUR 28 million and EUR 6 million respectively, including EUR 6 million of goodwill and EUR 15 million cash and cash equivalents. The company is accounted for as a joint venture.

**2007**

In December 2007, AEGON USA acquired 100% of the shares of Merrill Lynch Life Insurance Company and ML Life Insurance Company of New York, companies that sell non-participation life insurance and annuity products such as variable life insurance, variable annuities, market

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value adjusted annuities and immediate annuities. The total purchase price amounted to EUR 849 million cash consideration. The opening balance sheet of the acquired business was recorded provisionally at December 31, 2007, as the acquisition occurred within a few days of year end. The provisionally determined opening balance sheet includes total assets of EUR 10.8 billion, including EUR 8.3 billion separate account assets, EUR 1.8 billion general account investments and EUR 149 million cash

and cash equivalents. Total liabilities are EUR 9.9 billion and comprise separate account liabilities of EUR 8.3 billion and insurance contract liabilities of EUR 1.7 billion. Goodwill amounted to EUR 111 million reflecting the expected profitability of new business. The carrying amount of the assets and liabilities of the acquired companies amounted to EUR 10.8 billion and EUR 9.9 billion respectively, the estimated fair values are subject to adjustment at the initial allocation for a one year period as more information relative to the fair values as of the acquisition date become available. As the acquisition was completed at the end of December, the net income of the acquired operations was not material to the AEGON's consolidated net income. Had the acquisition taken place on 1 January 2007, the contribution of these companies to the Group's net income is estimated at EUR 75 million; contribution to revenues would have been approximately EUR 271 million.

In June 2007 AEGON acquired OPTAS N.V., a Dutch life insurance company specializing in employee benefit products and services within the Dutch group pension market for EUR 1.5 billion. OPTAS N.V., the successor of Stichting Pensioenfonds voor de

Vervoer- en Havenbedrijven (a pension fund for companies active in the transport and port industries) was converted into a public company in 1997. At the end of 2006, OPTAS had 60,000 policyholders and reported total gross written premiums of EUR 86 million, with total assets of EUR 4.5 billion. Assets held as investment amounted to EUR 3.4 billion, the insurance liabilities were EUR 2.9 billion. A portion of the shareholders' equity of OPTAS is subject to restrictions as set out in the articles of association of the company. These restrictions assure continued fulfillment of existing policy obligations and will remain in force after the acquisition. Since the acquisition, OPTAS has contributed EUR 11 million to AEGON's income before tax in 2007. Had the acquisition taken place on 1 January 2007, OPTAS' contribution to the Group's net income is estimated at EUR 22 million, contribution to revenues would have been approximately EUR 251 million.

In March 2007, AEGON USA completed the acquisition of 100% of the shares of Clark Inc., a public company specializing in the sale of corporate-owned life insurance, bank-owned life insurance and other benefit programs. The total purchase price was EUR 263 million, consisting of EUR 207 million cash consideration, EUR 36 million of Clark debt assumed by AEGON and EUR 20 million cost basis of Clark common stock already owned by AEGON and transaction costs. Since the acquisition date, Clark has contributed EUR 4.6 million to the net income of AEGON in 2007. If the acquisition had taken place as of January 1, 2007, Clark should have contributed an amount of EUR 90 million to total revenues and EUR 4.7 million to net income of AEGON USA. AEGON has disposed operations for an amount of EUR 42 million regarding Clark business, not considered to be core to AEGON, to Clark's former management after the acquisition. As a result of the acquisition, assets and liabilities were recognized for EUR 549 million and EUR 325 million respectively, which included a cash position of EUR 14 million. Goodwill was recognized for an amount of EUR 84 million, reflecting the future commission revenue from inforce contracts. In addition an intangible asset was established for the present value of future commission receivables in the amount of EUR 365 million.

In March 2007, AEGON completed the acquisition of the Polish pension fund management company PTE Ergo Hestia S.A. The company was renamed to PTE AEGON Poland. The cost of the acquisition amounted to EUR 72 million, which was paid in cash. Since the acquisition date, the company has contributed EUR 2 million to net income in 2007. If the acquisition had been as of January 1, 2007, contribution to net income and total revenues would amount to respectively EUR 3 million and EUR 12 million. Assets of EUR 81 million and liabilities of EUR 9 million were recognized due to the acquisition. Goodwill amounting to EUR 23 million reflects the future new business to be generated and potential synergies with existing businesses.

## **Disposals**

On August 31, 2009 AEGON completed the sale of its Taiwanese life insurance business to Zhongwie Company Ltd, announced on April 22, 2009 for an amount of EUR 11 million. The result on the disposal presented under other charges was a loss of EUR 385 million.

## **4B Business overview**

### **i Supervision**

Individual companies in the AEGON Group are each subject to solvency supervision in their respective home countries. Based on European Union legislation (Directive 98/79/EC) adopted in 1998, the supervisory authority in the Netherlands (De Nederlandsche Bank, or DNB) is required, as a lead supervisor, to carry out supplementary supervision. The supplementary supervision of insurance companies in an insurance group enables the lead supervisors to make a detailed assessment of the financial position of the insurance companies that are part of that group. The Directive requires DNB to take into account the relevant financial affiliations between the insurance companies and other entities in the group. In this respect, AEGON is required to submit reports to DNB twice a year setting out all the significant transactions and positions between insurance and non-insurance companies in the AEGON Group.

Since the beginning of October 2009, AEGON has been subject to supplemental group supervision by the Dutch Central Bank in accordance with the requirements of the European Union's Financial Conglomerate Directive.

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Both the insurance and banking companies in the AEGON Group are required to maintain a minimum solvency margin based on local requirements. The required solvency margin is the sum of the margins of each of AEGON's insurance and banking subsidiaries, based on the local requirements. Available liability capital includes shareholders' equity, convertible core capital securities, perpetual capital securities, and dated subordinated debt and senior debt.

## **The Americas**

### **1.1 Background**

AEGON Americas comprises AEGON USA, AEGON Canada as well as the Group's operations in Mexico and Brazil.

#### ***AEGON USA***

AEGON USA<sup>1</sup> is one of the leading life insurance organizations in the United States and the largest of AEGON's country units. AEGON USA has more than thirty million customers and employs over 12,000 people. AEGON USA companies can trace their roots back as far as the mid-nineteenth century. AEGON USA includes some of the best known names in the US insurance business, including Transamerica and Monumental Life. AEGON USA's main offices are in Cedar Rapids, Iowa, with many 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, investment, and life-reinsurance products. In addition, AEGON USA has a significant asset management business, with almost USD 118 billion invested in bonds, equities, home loans, cash and treasuries.

Like other AEGON companies around the world, AEGON USA uses a variety of distribution channels to ensure customers can access the group's products in a way that best suits them. For many years, AEGON USA has had close relations with banks across the United States, but the group also distributes products and services via agents, broker-dealers and specialized financial advisors, online as well as through direct and worksite marketing.

#### ***AEGON Canada***

Based in Toronto, AEGON Canada offers a range of insurance products and financial services, primarily through its Transamerica Life Canada subsidiary, first established in 1927. Total employment of AEGON Canada on December 31, 2009 was 692.

#### ***AEGON Mexico***

In 2006, AEGON acquired a 49% interest in Seguros Argos, a Mexican life insurance company.

#### ***AEGON Brazil***

In 2009, AEGON acquired a 50% interest in Mongeral S.A. Seguros e Previdência, Brazil's sixth largest independent life insurer.

### **1.2 Organizational structure**

#### ***AEGON USA***

AEGON USA, LLC, is a principal holding company of AEGON USA. AEGON USA was founded in 1989 when AEGON decided to bring all its operating companies in the United States under a single financial services holding company. Business is conducted through subsidiaries of two holding companies – AEGON USA, LLC and Commonwealth General. AEGON has operating licenses in every US state, the District of Columbia, Puerto Rico, the Virgin Islands and Guam.

AEGON USA's primary insurance subsidiaries are:

Transamerica Life Insurance Company

Transamerica Financial Life Insurance Company

Merrill Lynch Life Insurance Company

ML 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

<sup>1</sup> Throughout this report, "AEGON USA" refers to AEGON companies managed from the United States. Similarly, "AEGON Canada" refers to all AEGON companies operating in Canada. AEGON's operations in North America (the United States, Canada and Mexico) and in Latin America (Brazil) are referred to collectively as AEGON Americas.

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

Life and Protection,

Individual Savings and Retirement,

Employer Solutions and Pensions,

Life Reinsurance;

#### Canada & Latin America

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

#### ***AEGON Canada***

In Canada, AEGON is organized into three main operating subsidiaries:

Transamerica Life Canada

AEGON Capital Management Inc.

AEGON Fund Management Inc.

#### ***AEGON Brazil***

In Brazil, AEGON has a 50% interest in Mongeral S.A. Seguros e Previdência.

#### ***AEGON Mexico***

In Mexico, AEGON has a 49% interest in Seguros Argos S.A. de C.V.

### **1.3 Overview sales and distribution channels**

#### ***1.3.1 AEGON USA***

As in other countries, AEGON USA uses a variety of sales and distribution channels in the United States. These include:



independent and career agents

financial planners

registered representatives

independent marketing organizations

banks

regional and independent broker-dealers

benefit consulting firms

wirehouses

affinity groups

institutional partners

In addition, AEGON USA provides a range of products and services online and uses direct and worksite marketing. This approach allows AEGON USA customers to access products and services in a way that best suits them. Generally, AEGON USA companies are focused on particular products or market segments, ranging from lower income to high net worth individuals and large corporations.

AEGON USA has distribution agreements in place with a network of banks across the United States, giving the company access to millions of potential customers, particularly for individual savings, pension and retirement products as well as some institutional products. AEGON USA works closely with banks across the country to ensure its products are tailored to the individual and changing needs of the company's customers.

### ***1.3.2 AEGON Canada***

AEGON Canada uses a variety of sales channels to distribute its products and services, including, most notably, independent financial advisors who work through these channels. These channels are:

independent general agencies

agencies owned by Transamerica Life Canada and operated as separate profit centers

bank-owned national broker-dealers

World Financial Group, part of AEGON Americas

other national, regional or local niche broker-dealers

## 1.4 Overview lines of business

### 1.4.1 United States

#### 1.4.1.1 Life and protection

##### General description

AEGON USA provides permanent life, universal life, term life and variable universal life insurance and protection products. A number of subsidiaries offer life insurance products tailored to a specific segment of the US market.

##### Products

###### *Permanent life*

Permanent life insurance provides life-long financial protection. Most permanent policies have a cash value feature with implicit minimum interest rate guarantees prescribed by statutory requirements. A customer may either withdraw the cash value, subject to withdrawal charges, or receive the benefit upon a predetermined event, such as the death of the insured.

Permanent life insurance is also known as whole life insurance in the United States. It can be participating or non-participating. Premiums are generally fixed and are payable over the life of the policy or for a limited time period. Participating policies allow the policyholder to receive policy dividends, as declared by the insurer's board of directors. These dividends are not guaranteed and are based on the insurer's experience for a given class of policies.

###### *Universal life*

Universal life insurance has a flexible premium. The contract has a feature that allows the customer greater flexibility as to when to pay premiums and with regard to the amount of the premiums, subject to a minimum and a maximum. The interest rate at which the cash value accumulates is adjusted periodically.

Minimum interest rate guarantees exist in all generations of fixed universal life products, as they are required by non-forfeiture regulations. These are mostly at 4%, with newer products at 3%. No lapse guarantees were introduced in recent universal life products. The no lapse guarantee feature provides a policyholder the guarantee that the universal life policy will stay in force, even if the cash value becomes zero or less than zero, provided that a specified minimum premium payment is made when due or a shadow account remains positive. The guarantee period can vary from five years to the entire contract term.

Equity indexed universal life products have both interest rate guarantees of between 1 and 2% and equity index return guarantees, with a cap currently around 12%.

###### *Term life insurance*

Term life insurance provides protection for a certain period of time and allows the customer to select the duration of coverage and the amount of protection. The policy pays death benefits only if the customer dies during the specified term. Most term life policies do not accumulate a cash value. The policies can usually be renewed upon expiration and premiums normally increase upon renewal. Certain term life insurance products sold in the United States, such as mortgage insurance and credit life insurance, provide a death benefit that decreases over the term period, based on a stated method. The rate of decrease usually corresponds with the decrease in the principal balance of the loan. Some term life insurance products include a cash value feature designed to return premiums after a specified number of years.

###### *Variable universal life*

Variable universal life products in the United States are similar to universal life products, but include investment options and maintenance of investments for the account of policyholders. Some products contain minimum death benefit guarantees and the risk is that poor market performance may erode the policyholder account value to the extent that available cost of insurance charges prove inadequate. The fixed account has a minimum guaranteed interest rate of either 3% or 4% depending on the product. Newer products have a 2% guarantee. This product also contains a no lapse guarantee. Under the no lapse guarantee, the contract is guaranteed to remain in force regardless of the level of underlying account value, provided the policyholder continues to meet minimum premium requirements. The value of this guarantee increases with higher cost of insurance charges and with lower minimum required premiums. This product is not sensitive to equity returns until the no lapse

guarantee threshold is breached.

### *Other life*

Life products also include life insurance sold as part of defined benefit pension plans, endowment policies, post-retirement annuity products and group risk products.

### *Health*

AEGON USA offers accident, critical illness, cancer treatment, hospital indemnity and short-term disability policies. Some of these plans provide lump sum or specified income payments when hospitalized, disabled or diagnosed with a critical illness. Others pay scheduled benefits for specific hospital or surgical expenses and cancer treatments, hospice care and cover deductible, as well as co-payment amounts not covered by other health insurance.

Long Term Care (LTC) insurance products offered through Transamerica Long Term Care 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.

### *Structured Settlements*

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

### **Sales and distribution**

The Monumental Division targets the middle-income market through two primary distribution channels: a career agency sales force that provides face-to-face sales and service to policyholders, and through an Independent Marketing Organization (IMO) First Command who primarily services the military market.

During 2008 and 2009, the Monumental Division implemented a new "Grow Premium, Grow Profit" strategy to streamline Career Agency operations in 22 states to reduce fixed costs and improve productivity and earnings. Over the last 15 months one third or 700 agencies (primarily smaller and marginal producers) were eliminated. The supporting administration was also reengineered with expanded agency systems and web-based tools and training. Over the past year, the organization continued the recruiting of part-time, non-employee producers through a twin-career opportunity for independent agents assigned to Career Agency managers. The ultimate goal of this initiative is to better align Career Agency with AEGON's middle-market strategies and help agents migrate into higher income (USD 50,000 to USD 75,000) homes.

In the IMO-First Command sales channel, general agents sell Monumental Life products and services – predominantly life insurance – to military families living on or near US military bases both in the United States and abroad. Typically, agents have served in the US armed forces. With Monumental's expanded commitment to support First Command's distribution system, the IMO-First Command channel is well-positioned to grow while continuing to produce highly profitable and persistent business.

Transamerica Insurance & Investment Group, a marketing unit for Transamerica Life Insurance Company (TLIC) and its affiliates, focuses on the middle and affluent markets and offers an array of term life insurance, universal life insurance, variable universal life insurance, and fixed annuities to help individuals, families and businesses build, protect, and preserve their assets.

Similarly, career agents sell primarily interest-sensitive and ordinary life insurance to the middle to upper income segments of the US market.

World Financial Group (WFG) targets the middle-income market in the United States. Its more than 18,000 independent licensed associates are located throughout the United States and Canada, and distribute and market the products and services offered through its affiliated companies. Securities are available through WFG's affiliate broker-dealer World Group Securities, Inc. in the United States and, in Canada, through WFG Securities of Canada Inc. Investment advisory services are offered through WFG's affiliate investment advisor firm Investment Advisors International (IAI). Through partnerships with leading third-party money managers, IAI brings active money management to middle-income families. The US middle income market continues to offer substantial growth opportunities. Typically, middle-income households earn between USD 25,000 and USD 100,000 a year. Approximately 40 percent of such households do not currently have life insurance cover. This is largely because, over the past several years, insurance brokers have focused on higher net worth individuals while many US companies have switched money out of employee life insurance contributions and into healthcare to meet rapidly climbing medical bills.



Western Reserve Life has been part of AEGON Group since 1991. Western Reserve Life provides a range of life insurance products and variable annuities, chiefly to individual savers and investors.

AEGON Direct Marketing Services, Inc. ( ADMS ) is a direct marketer of life, supplemental health, and specialty insurance products as well as fee-based programs. Using a variety of direct response techniques such as inbound and outbound telemarketing, point-of-sale, direct mail, television, statement inserts, internet, and more, ADMS offers consumers convenient alternatives for purchasing insurance.

With operations in North America, Europe, Asia Pacific, and Latin America, ADMS currently services nearly 17.5 million policies worldwide. ADMS offers its products through sponsoring organizations as well as directly to consumers.

Using the endorsement of sponsoring organizations, ADMS develops and executes co-branded marketing. ADMS works through brokers, agents, and third party administrators as well as directly with business partners, partnering with many of the leading financial institutions, associations, retailers, credit unions, catalogers, and employer groups. Customized programs range from a full package of product development, administrative, technology, and marketing services, to providing only products or a single service such as product underwriting.

ADMS affiliated insurance underwriting companies have an extensive insurance product portfolio which includes whole and term life, accidental death, supplemental health and specialty products such as travel, student health, and credit life & disability. ADMS also offers a variety of membership and fee-based products and debt cancellation administration - to complement its insurance products.

Transamerica Long Term Care offers various products and services aimed at meeting the long-term care insurance needs of its customers, an increasingly important concern as life expectancy rates in the United States continue to rise. Sales are focused on the affluent and mass affluent markets as well as the pre-retiree and retiree markets. Distribution includes independent brokerage and other AEGON USA companies and divisions selling to individuals, employer-sponsored groups and associations.

#### **1.4.1.2 Individual savings and Retirement**

##### **General description**

AEGON USA offers a wide range of savings and retirement products, including mutual funds, fixed and variable annuities, as well as investment advice. Individual savings and Retirement focuses on distributing these products through a variety of channels, including wirehouse firms, banks, regional broker dealers, and independent financial planners.

As elsewhere in the developed world, people in the United States are, generally, living longer, healthier lives. As a result, more people are managing their pension assets for longer periods of time. As the baby boomer generation – those people born at the end or shortly after the Second World War – enters retirement, a fundamental shift in the US pension market is occurring. Previously, people focused on asset accumulation. Now, with more people over the age of 65, there is a dual focus – on both asset accumulation and on decumulation, in other words managing those assets productively and efficiently to maintain a regular income during retirement.

On February 17, 2009, AEGON announced its plan to reduce its institutional spread-based balances by EUR 14 billion (USD 20 billion) by the end of 2010 to reduce capital requirements in the current stressed financial environment. The current expectation is that this type of business will run off and not be replaced. AEGON USA continues to be a market participant and has a leading market position in synthetic GICs, an institutional fee-based product.

##### **Products**

###### *Fixed annuities*

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

In the United States, AEGON USA sells group and individual fixed annuities and retirement plan contracts to large financial institutions. Group fixed annuities are purchased with a single premium that funds the annuities for a group of employees. The single premium includes a fee for the administrative services, which are provided by AEGON USA after the annuities are sold.

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An immediate annuity is purchased with a single lump sum premium payment and the benefit payments generally begin within a year after the purchase. The benefit payment period can be for a fixed period, for as long as the beneficiary is alive, or a combination of the two. Some immediate annuities and payout options under deferred annuities may also offer the owner or beneficiaries the option to surrender the annuity to have access to the account value if needed for unexpected events.



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

Minimum interest rate guarantees exist in all generations of deferred annuity products, as they are required by state non-forfeiture regulations. Approximately 42% of the in-force business has minimum interest rate guarantees of less than 3%. In general, products issued in 2003 and after offer 1.5% minimum interest rate guarantees. Equity indexed annuities offer additional returns that are indexed to S&P 500, with a minimum cash value equal to a percentage of the premium increased at a minimum rate that varies, and a cap on the return. The cap is reset periodically based on the cost of hedging instruments and is currently between 6.5% and 8%.

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

#### *Variable annuities*

Variable annuities are sold to individuals and pension funds in the United States.

Variable annuities allow a policyholder to provide for the future on a tax-deferred basis and to participate in equity or bond market performance. Variable annuities allow a policyholder to select payout options designed to help meet the policyholder's need for income upon maturity, including lump sum payment or income for life or for a period of time.

Premiums paid on variable annuity contracts are invested in underlying funds chosen by the policyholder, including bond and equity funds. A fixed account is available on most products. In most products, the investment options are selected by a policyholder 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. Various riders are available on variable annuity contracts, providing guaranteed minimum death, maturity, withdrawal or income benefits.

The account value of variable annuities reflects the performance of the underlying funds. AEGON USA earns mortality and expense charges as well as various types of rider fees for providing guarantees and benefits. This category includes segregated fund products offered by AEGON Canada. Surrender charges are generally not a large form of revenue as policyholder surrender rates are typically lower when a surrender charge penalty is still present. Any surrender charges collected are typically used to recoup unamortized deferred acquisition costs.

A guaranteed minimum withdrawal benefit is offered on some variable annuity products AEGON USA either issued or assumed from a ceding company. This benefit guarantees a policyholder can withdraw a certain percentage of the account value, starting at a certain age or duration, for either a fixed period or the life of the policyholder.

Certain variable insurance contracts also provide guaranteed minimum death benefits and guaranteed minimum income benefits. Under a guaranteed minimum death benefit, the beneficiaries receive the greater of the account balance or the guaranteed amount upon the death of the insured. The guaranteed minimum income benefit feature 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 benefits subject the company to equity market risk, since poor market performance can cause the guaranteed benefits to exceed the policyholder account value.

AEGON USA undertakes to address equity market risk through product design and by using hedging strategies. Variable products also contain a degree of interest rate risk and policyholder behavior risk, which are handled similarly to those in fixed annuities.

### *Retail mutual funds*

AEGON's fee business comprises products that generate fee income by providing management, administrative or risk services related to off balance sheet assets (i.e., equity or bond funds, third party managed assets and collective investment trusts). Fee income is mainly sensitive to shareholder withdrawals and equity market movements.

AEGON's operations in the United States provide various investment products and administrative services, individual and group variable annuities, mutual funds, collective investment trusts and asset allocation (retirement planning) services.

The operations in the United States provide the fund manager oversight for the Transamerica Funds. AEGON USA selects, manages, and retains affiliated and non-affiliated managers from a variety of investment firms based on performance. The manager remains with the investment company and acts as a sub-adviser for AEGON USA's mutual funds. AEGON USA earns investment management fees on these investment products. AEGON USA also earns direct investment management fees through affiliated managers acting as sub-advisers, which are reported in the pensions and asset management line of business.

### **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 fixed and variable annuities, mutual funds and simplified life insurance products through major wirehouse firms, regional broker dealers, independent financial planners and the large bank network. TCI serves these distribution channels through company-owned and external wholesalers.

Transamerica Financial Advisors, part of AEGON USA, provides a range of financial and investment products, operating as a broker-dealer. These products include mutual funds, fixed and variable life insurance annuities and other securities.

To help the millions of baby boomers who are approaching or transitioning into retirement, AEGON USA formed Transamerica Retirement Management, Inc. in 2006. This division, which adopted the consumer-facing brand known as SecurePath<sup>SM</sup> by Transamerica, is focused on providing consumers with personalized financial advice and guidance to help them transition successfully to and through retirement. SecurePath by Transamerica helps pre-retirees develop an individual retirement plan that is tailored to be as simple or as detailed as necessary, depending on the growth or retirement income goals and needs of the individual. IRA rollover products and services are also available.

### **Former institutional business**

#### *Guaranteed Investment Contracts (GICs) and Funding Agreements (FAs)*

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

These spread-based products were issued on a fixed-rate or floating-rate basis and 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 fixed-rate contracts were swapped to floating-rate via swap agreements and contracts issued in foreign currencies were swapped at issuance to US dollars to eliminate currency risk. Credited interest on floating-rate contracts predominately resets on a monthly basis to various market indices. The term of the contract can be fixed, generally from six months up to ten years, or it can have an indefinite maturity. Market-indexed contracts provide a return based on the market performance of a designated index, such as the S&P 500. Futures or swap contracts are used to hedge the market risk on market-indexed contracts and effectively convert such contracts to a floating-rate. Indeterminate-maturity contracts allowed a customer to withdraw funds without penalty by providing the customer with a put option whereby the contract would terminate with advance written notice of 12 months. All holders of indeterminate-maturity contracts exercised their put notice in 2008 and none of those contracts are still in-force. Other contracts offer benefit-responsive withdrawal rights to the customer, but these withdrawals cannot be for economic reasons. The account balances at December 31, 2009 consisted of fixed-rate, fixed-maturity contracts (46.5%); floating-rate, fixed-maturity contracts (52.8%); and market-indexed, fixed-maturity contracts (0.7%).

#### *Medium-term notes*

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

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AEGON Global Institutional Markets plc ( AGIM ) is domiciled in Ireland and was set up for the purpose of issuing medium-term notes to non-US investors and investing in a diversified portfolio of eligible assets with the proceeds of the issued notes. AEGON Financial Assurance Ireland Limited ( AFA ), another AEGON Ireland entity, provides a financial guarantee for the medium-term notes issued by AGIM.

### 1.4.1.3 Employer Solutions and Pensions

#### General description

AEGON USA offers pension plans, pension-related products and services, life and supplemental health insurance products through employers.

AEGON USA covers a range of different pension plans, including:

401 (k)

403 (b)

457 (b)

Non-qualified deferred compensation

Money purchase

Defined benefit

Defined contribution

Profit-sharing

AEGON USA offers through the Extraordinary Markets division both fixed and variable products to the bank and corporate owned life insurance ( BOLI-COLI ) market in the United States. BOLI-COLI is marketed to institutional customers to help them fund long-term employee benefits such as executive compensation and post-retirement medical plans. AEGON USA has provided insurance products to the BOLI-COLI market since 1993.

#### Products

##### *Pension Plans*

At Diversified Investment Advisors, the emphasis is on choice. A wide array of investment options is offered to create a fully customized investment lineup for clients and a personalized retirement funding strategy for their retirement plan participants. Diversified Investment Advisors' open architecture investment platform provides its clients access to a broad investment universe, including institutional and retail mutual funds, registered or non-registered variable annuities, or a collective investment trust. The investment options offered in each plan are selected by the client and/or the client's financial advisor.

Transamerica Retirement Services offers fully bundled and partially bundled retirement plan solutions to small and medium size 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 advisor.

##### *Single Premium Group Annuities*

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

### *Life and Supplemental Health*

Transamerica Worksite Marketing offers life and supplemental health products. Life products include universal life insurance, whole life insurance and term life insurance.

Supplemental health products include dental, accident, critical illness, cancer treatment, hospital indemnity and short-term disability policies. Some of these plans provide lump sum or specified income payments when hospitalized, disabled or diagnosed with a critical illness. Others pay scheduled benefits for specific hospital or surgical expenses and cancer treatments, hospice care and cover deductible, as well as co-payment amounts not covered by other health insurance.

### *Synthetic GICs*

AEGON Stable Value Solutions provides synthetic GICs in the United States primarily to tax-qualified institutional entities such as 401(k) plans and other retirement plans. AEGON 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 is cancelable by the plan sponsor 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 in the event that qualified plan benefit requests exceed plan asset values.

### *BOLI-COLI*

Fixed and variable life insurance products are sold to banks and corporations as a method of funding employee benefit liabilities. The corporation insures key employees and is the owner and beneficiary of the policies.

### **Sales and distribution**

Diversified Investment Advisors provides a comprehensive and customized approach to retirement plan management, catering to the mid- to large-sized defined contribution, defined benefit and non qualified deferred compensation retirement plans market. Diversified Investment Advisors clients are generally organizations with 250 to 100,000 employees and between USD 10 million and USD 2 billion in retirement assets.

Transamerica Retirement Services serves more than 15,000 small to mid-sized companies across the United States. Transamerica Retirement Services offers a number of specialized services, including innovative plan design, a wide array of investment choices, extensive education programs and online investment guidance.

Transamerica Retirement Services is also a leading provider of single premium group annuities (Terminal Funding) in the United States, which is used by companies to decrease the liability of their defined benefit plans. This is a growing market segment as more employers look to reduce the cost and complexity of their pension liabilities, often driven by widespread economic and sector restructuring.

Through Transamerica Worksite Marketing, AEGON offers voluntary payroll deduction life and supplemental health insurance for companies ranging in size from just five employees to more than 100,000. Products and services are marketed to employees at their place of work and are designed to supplement employees existing benefit plans.

BOLI-COLI products are distributed through a select number of niche brokers (including an affiliate, Clark) who specialize in sales and administration of the bank and corporate products.

#### **1.4.1.4 Life Reinsurance**

##### **General description**

The Transamerica Reinsurance (TARe), a unit of Transamerica Life Insurance Company, has provided reinsurance products and solutions to life insurance and financial services companies for forty years.

In the United States, TARe provides reinsurance solutions to primary insurers to support their risk management, financing and capital needs. TARe provides mortality risk reinsurance for term, universal, variable universal and whole life portfolios. Reinsurance products include coinsurance as well as yearly renewable term and modified coinsurance agreements. TARe also offers traditional and modified coinsurance programs for the annuity market, as well as reinsurance of general account guarantees on variable annuity products.

TARe also provides reinsurance solutions in Europe, Asia Pacific and Latin America and offers risk and capital management solutions similar to those in the United States.

##### **Products**

The core life reinsurance offering, mortality risk transfer, is provided primarily through coinsurance and yearly renewable term arrangements. Under a coinsurance arrangement, reinsurance is ceded and assumed in the same form as the direct policy and the reinsurer shares proportionately in the product risks, including mortality, morbidity, persistency, investment, and capital requirements. Yearly renewable term reinsurance has premium rates that are not related to the original insurance product type and the ceding company only reinsures the mortality or morbidity risk.

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TARe also has assumed fixed annuity business on a coinsurance basis. Under a coinsurance arrangement, risk is ceded in the same form as the direct policy and the client company typically pays the reinsurer premiums equal to its share of the premiums that the client company receives on the underlying policies. The reinsurer will pay the client death or surrender benefits upon death or surrender of the policyholder and will reimburse the client specific allowances which are generally intended to cover its share of expenses.

TARe reinsures fixed and variable annuity business on a modified coinsurance basis. Like coinsurance, modified coinsurance is ceded and assumed in the same form as the direct policy however, the reserves and assets backing the transaction remain with the ceding company in its accounts. In a typical variable annuity reinsurance transaction, TARe pays a ceding commission to finance the ceding company's policy acquisition costs and receives a reinsurance premium that is based upon the account value over the life of the business. The reinsurer thereby assumes the lapse risk on the variable annuities.

TARe assumes certain guaranteed living and death benefits associated with variable annuity policies in exchange for a premium, typically expressed as a fixed percentage of the account value. With this type of cover, the reinsurer pays its share of the minimum benefits the policyholder's account value is unable to fund due to its underlying performance. Minimum underlying fund performance is a primary risk assumed by the reinsurer.

TARe also works with primary life insurers and TPA business partners to develop, underwrite and administer specifically tailored products, as well as provide back-office services such as underwriting and product development where some or all of the insurance risks in the products are reinsured.

Outside of the United States, TARe offers risk and capital management solutions similar to those in the United States. Primarily, these consist of risk premium (yearly renewable term) cover for mortality, accidental death, critical illness and group life and disability. Additionally, coinsurance structures are used to help finance acquisition costs as well as transferring other underwriting risks.

### **Sales and distribution**

TARe writes business through various AEGON companies in the United States and through its own affiliates in Bermuda and Ireland:

Transamerica International Reinsurance Bermuda Ltd.

Transamerica International Reinsurance Ireland Ltd.

Additionally TARe writes some of its European business through AEGON Levensverzekering N.V. through branch offices in Spain and France.

Outside the United States, TARe has established local offices in a number of different countries, including France, Spain, Japan, Taiwan, South Korea, Hong Kong, Mexico, Chile and Brazil. In these countries and many proximate countries Transamerica Reinsurance Division offers customized solutions, including coinsurance financing, product development with related quota share programs as well as traditional life reinsurance.

### **1.4.1.5 Asset Management**

#### **General description**

The USD 22 trillion asset management industry in the United States is considered by many to be in a state of significant change. Asset managers are facing increased pressure to provide products addressing the evolving needs of both institutional and retail investors ranging from increased pension liabilities and other risk-management strategies to the search for higher and more consistent returns. Transamerica Investment Management, LLC (TIM) offers a wide range of investment strategies to meet the changing needs of both retail and institutional clients. TIM manages assets in mutual funds, funds of funds, retirement plans, separately managed accounts, institutional accounts, pension funds and variable insurance accounts.

In addition, AEGON USA entered into structured product transactions, such as credit default swaps, synthetic collateralized debt obligations, affordable housing tax credit guarantees and hedge fund principal protection. Going forward, AEGON USA will only continue to offer affordable housing tax credit guarantees.

#### **Products**

TIM's products include growth and value equity, fixed income, balanced, and convertible securities portfolios.

#### *Structured products*



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AEGON USA's Structured Products group leveraged existing strengths in investments, product structuring and risk management, as well as strong institutional relationships. Structured products were generally synthetic transactions that exist to provide guarantees for the client. In these transactions, AEGON USA would undertake contingent purchases/payments in return for a premium.

### **Sales and distribution**

TIM offers its extensive range of investment management services through multiple channels, including retail broker-dealers; investment consultants that serve foundations/endowments, public funds, union and corporate organizations; defined contribution plan providers; mutual fund and separately managed account (SMA) wrap platforms of major broker-dealers; and independent investment advisors serving high-net-worth private clients.

## 1.4.2 Overview Canada

### 1.4.2.1 Life and protection

Transamerica Life Canada ( TLC ) is AEGON Canada's principal operating company. It offers a variety of universal and traditional life insurance products, predominantly term life insurance, serving both individual and corporate customers.

### 1.4.2.2 Individual savings and retirement

AEGON Canada's current product offerings comprise the following: segregated funds, mutual funds, segregated funds offered through strategic alliances with investment management companies, guaranteed investment accounts and single premium immediate annuities.

## 1.5 Competition

AEGON USA faces significant competition in all of its businesses. Its competitors 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. Some of these competitors have greater financial strength and resources and have penetrated more markets. Many of AEGON USA's competitors in the mutual fund industry are larger, have been established for a longer period of time, offer less expensive products, have deeper penetration in key distribution channels, and have more resources than AEGON USA.

The United States business units that deliver traditional life products focus on a variety of markets, including the middle, upper-middle and affluent markets. The units face significant competition from a broad range of competitors including Genworth, Pacific Life, Lincoln National, John Hancock, Sun Life, Metropolitan Life, Prudential, AIG, and ING. The result is a highly competitive marketplace and increasing commoditization in many product categories. In this kind of environment, AEGON USA believes the best and most enduring competitive advantages are relationships and service.

AEGON USA's TLIC's Bermuda company, Transamerica Life (Bermuda) Ltd. ( TLB ), has branches in Hong Kong and Singapore, where the focus is on high-net-worth individuals. The recent influx of new entrants in the market has increased TLB's competition in this segment. TLB is diversifying in the mass affluent market in Hong Kong and Singapore. TLB believes there is significant opportunity in this region and is well positioned for growth.

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

AEGON USA's primary competitors in the variable universal life market are IDS, Hartford Financial, John Hancock, Pacific Life, Metropolitan Life, Nationwide, Lincoln National, and AXA/Equitable.

The top five competitors in the mutual fund market are generally considered to be: American Funds, Franklin Templeton, Oppenheimer, Putnam, and Fidelity.

AEGON USA has built long-term relationships with many institutions, and these relationships have enabled AEGON USA to offer many product lines such as fixed annuities, variable annuities, life insurance, mutual funds, and 401(k) products through these institutions. Most fixed annuity sales occur at banks. AEGON USA's primary competitors for fixed annuity sales are AIG, Allstate, New York Life, Principal Financial, Riversource, Jackson National, Western-Southern, and Symetra Financial.

AEGON USA competes in the variable annuity marketplace by maintaining an effective wholesaling force, focusing on strategic business relationships and by developing products with features, benefits and pricing that it believes are attractive in that market place. The market has shown a continued interest in guaranteed lifetime withdrawal products, and there is strong competition among providers. AEGON USA's primary competitors in the variable annuity market are Hartford Financial, AXA/Equitable, Metropolitan Life, John Hancock, Prudential/American Skandia, Lincoln National, and Jackson National.

TARe's major life reinsurance competitors vary based upon solutions and geographical markets. The main competitors are Reinsurance Group of America, Swiss Re, Generali USA Life Re, and Munich Re.



Within the United States, conditions continue to favor large, financially strong reinsurers such as TARE that can gain access to capital markets for reserve credit collateral and provide full-service solutions.

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

In the defined contribution market, AEGON USA's main competitors are Fidelity, T. Rowe Price, Vanguard, Schwab, Principal Financial, Mass Mutual and New York Life. AEGON USA's main competitors in the defined benefit segment are, Mass Mutual, New York Life, Principal Financial, and Prudential. In the small business retirement plan segment and the multiple employer plan segment, AEGON USA's main competitors are Principal Financial, John Hancock, American Funds, Hartford Financial, Fidelity, and ING. In the single premium group annuity market, AEGON USA's main competitors are Mass Mutual, Prudential, John Hancock, Metropolitan Life, and Mutual of Omaha.

AEGON USA has been a leading issuer of synthetic GICs (source: reports from LIMRA International and the Stable Value Investment Association's Stable Value and Funding Agreement Products, 2009 First and Second Quarter Sales, Landmark Strategies' 2007 Stable Value Wrap Issuance Survey). AEGON USA pioneered the use of synthetic GICs in 1991 and competes against banks such as Bank of America, JP Morgan, and State Street Bank as well as insurance companies such as ING, Pacific Life and Prudential.

#### *Canadian life insurance marketplace*

The top ten companies in Canada account for 88% of the life insurance sales (source: LIMRA's Canadian Individual Life Insurance Sales - Third Quarter 2009, issued November 2009). Transamerica Life Canada's primary competitors in Canada are; Manulife Financial, Sun Life Financial, Industrial-Alliance, Canada Life, RBC Life, Empire Life, Equitable Life, BMO Life and Desjardins Financial.

Transamerica Life Canada ranks sixth in overall individual life insurance sales (new business premiums) with a market share of 5.6% down from 7.2% at December 31, 2008. Transamerica Life Canada ranks fourth for universal life sales representing 10.5% of the market and sixth for term sales representing 5.5% of the market (source: LIMRA's Canadian Individual Life Insurance Sales - Third Quarter 2009, issued November 2009).

## **1.6 Regulation**

### **AEGON USA**

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

Insurance companies are subject to a mandatory audit every three to five years by their domestic regulatory authorities and every year by their independent auditors. In addition, examinations by non-domestic state insurance departments are conducted, both on a targeted and 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 and marketing practices. AEGON USA has focused and continues to focus on these compliance issues, and costs can increase as a result of these activities.

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

US federal and state privacy laws and regulations impose restrictions on financial institutions' use and disclosure of customer information. Legislation has been introduced in the US Congress, and in the states from time to time that would either impose additional restrictions on the use and disclosure of customer information or would require financial institutions to enhance the security of personal



information and impose new obligations in the event of data security breaches. States are also considering and the US Congress may again consider legislation that would restrict the ability of insurers to underwrite based in whole or in part on specified risks or practices such as genetic testing. These laws, regulations and legislation, if enacted, could impact AEGON's ability to market or underwrite its products or otherwise limit the nature or scope of AEGON's insurance and financial services operations in the United States.

Federal law and the Federal Trade Commission (FTC) and the Federal Communications Commission (FCC) rules prohibit telephone solicitations to customers who have placed their telephone numbers on the National Do-Not-Call Registry. Additionally, proposals to place restrictions on direct mail are considered by the US Congress and the States from time to time. These restrictions adversely impact AEGON USA company telemarketing efforts and new proposals, if enacted, will likely directly impact AEGON USA company direct mail efforts.

Insurance holding company statutes and the regulations of each insurer's domiciliary state in the United States impose various limitations on investments in affiliates and require prior approval of the payment of dividends above certain threshold levels by the registered insurer to AEGON or certain of its affiliates.

Some of AEGON USA's investment advisory activities are subject to federal and state securities laws and regulations. Mutual Funds managed, issued and distributed by AEGON USA companies are registered under the Securities Act of 1933, as amended (the Securities Act), and the Investment Company Act of 1940 (the Investment Company Act). With the exception of its investment accounts which fund private placement investment options that are exempt from registration, or support fixed rate investment options that are also exempt from registration, all of AEGON USA's separate investment accounts that fund retail variable annuity contracts and retail variable life insurance products issued by AEGON USA companies are registered both under the Securities Act and the Investment Company Act. Institutional products such as group annuity contracts, guaranteed investment contracts, and funding agreements are sold to tax qualified pension plans or to other sophisticated investors and are exempt from registration under both Acts.

The Securities Exchange Commission (SEC) has implemented a rule (Rule 151A) under the Securities Act that requires any annuity to be registered under the Securities Act that makes reference to securities or a securities index and is likely to generate performance greater than the guaranteed amount under the contract. Management expects Rule 151A to significantly complicate and increase the cost of equity indexed annuities, which will likely have an impact on sales of indexed life insurance products in the future.

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 Financial Industry Regulatory Authority (FINRA, formerly known as the National Association of Securities Dealers, Inc. or NASD). A number of AEGON USA companies are also registered as investment advisors under the Investment Advisers Act of 1940. AEGON USA insurance companies and other subsidiaries also own or manage other investment vehicles that are exempt from registration under the Securities Act and the Investment Company Act but may be subject to other requirements of those laws, such as anti-fraud provisions and the terms of applicable exemptions.

The financial services industry, which includes businesses engaged in issuing, administering, and selling variable insurance products, mutual funds, and other securities, as well as broker-dealers, continues to be under heightened scrutiny and increased regulation in various jurisdictions. Such scrutiny and regulations have included matters relating to so-called producer compensation arrangements, suitability of sales, selling practices, 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 companies modified business practices in response to those inquiries or findings. Certain AEGON companies have paid or been informed that the regulators may seek restitution, fines or other monetary penalties or changes in the way we conduct our business. The impact of fines or other monetary penalties is not expected to have a material impact on AEGON's financial position, net income or cash flow. Since 2004, there has been an increase in litigation in the industry, legislation, new regulations, and regulatory initiatives aimed at curbing alleged abuse of annuity sales to seniors. As many of the estimated 77 million baby boomers have or will soon reach the age of sixty, the industry will likely see an increase in senior issues presented in various legal arenas. In addition, certain industry practices in respect of market conduct have been the subject of investigations by various state regulators. With the significant decline in financial markets in late 2008 and early 2009, management expects there will be further regulation and litigation which could increase costs and limit AEGON's ability to operate.

Some of AEGON USA companies offer products and services to pension and welfare benefit plans that are subject to the federal Employment Retirement Income Security Act (ERISA). ERISA is administered by the US Department of Labor (DOL) and Internal Revenue Service (IRS). Accordingly, the DOL and IRS have jurisdiction to regulate the products and services sold by these AEGON USA businesses. DOL has issued regulations requiring increased fee disclosure from defined contribution plan service providers and to plan participants. In addition, legislation has been introduced in Congress that would mandate additional defined contribution plan fee disclosure. Enactment of certain of this legislation could increase the cost and administrative burdens of defined contribution plan administration.



In an attempt to increase the number of workers covered by a retirement savings plan, several states have or are considering legislation that would permit non-governmental workers to join the state government workers retirement plan or a similar governmental plan. If enacted, this legislation could impact the products and services sold by some of AEGON USA companies to private employers in those states.

TARE's reinsurance activities are subject to laws and regulations in those jurisdictions where it does business. In the United States the reinsurance business is subject to the laws of the different states where TARE does business. Transamerica International Re (Bermuda) Ltd. is subject to the laws and regulations governing the reinsurance business in Bermuda, as overseen by the Bermuda Monetary Authority.

Transamerica International Reinsurance Ireland Limited is subject to the laws and regulations governing the reinsurance business in Ireland, as overseen by the Irish Financial Services Regulatory Authority. AEGON Levensverzekering N.V. is subject to the laws and regulations governing insurance in The Netherlands as overseen by the Dutch Central Bank.

Although the insurance business is regulated on the state level, the US federal tax preferences of life insurance and annuity products are governed by the US federal tax code. Proposals to remove or decrease the value of these tax preferences, both in and of themselves and relative to other investment vehicles, are debated periodically in the US Congress. This risk is heightened when Congress seeks additional revenue needed to help fund major reforms, such as healthcare reform, to address widening budget deficits resulting from increased spending by the US government in response to the current economic crisis, or as in the past three years, to follow the pay as you go, or PAYGO, system, which requires any increases in program spending to be offset with increases in taxes or cuts in other programs. In addition, any consideration of either proposals to extend any of the individual tax cuts first enacted in 2001 or broad tax reform will likely increase the pressure to eliminate certain tax preferences or incentives for insurance.

Moreover, legislative proposals which impose restrictions on executive compensation by companies receiving federal funds under US government programs designed to stabilize the financial markets or as part of financial services reform, as well as proposals restricting employment-based savings plans, including restrictions on nonqualified deferred compensation, adversely impacts the sale of life insurance products used in funding those plans and their attractiveness relative to other investment products.

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

The current economic crisis has resulted in proposals for regulatory reform of the financial services industry, both in the US and worldwide. The US Administration has proposed a comprehensive regulatory reform plan, and various proposals based on the Administration plan are being debated in the US Congress. These proposals call for a systemic risk regulator to oversee large financial services conglomerates that are deemed to potentially have a significant impact on the US economy, the creation of a federal insurance office to coordinate reforms with the State insurance regulators, and the development of a resolution authority to help certain failing financial institutions with funds contributed by the financial services industry. AEGON USA and many other insurers have actively supported an optional federal insurance regulator in the name of efficiency and in order to represent the insurance industry in international matters. The creation of an optional federal insurance regulator is considered, in management's view, to be a good first step towards a functioning federal system of insurance regulation. However, the failure either to adequately coordinate regulation of the insurance industry in the absence of a fully functional federal insurance regulator or to adequately coordinate federal systemic risk regulation of the US companies with regulators of the non-US parent company may result in conflicting regulation and increased cost of regulation for the insurance industry in the US.

Financial services regulatory reform proposals in the US also include significant reform of derivatives trading, efforts to harmonize the standard of care for broker dealers and registered investment advisors selling financial services products and the creation of a new federal consumer financial products agency. Restrictions on the ability to trade over the counter customized derivatives would likely significantly impact the ability of insurers to effectively use derivatives for risk management purposes and consequentially, the expense of insurance products. To the extent that harmonization of standards of care for broker dealers and financial advisors increases the standard of care for producers selling insurance products without recognition of differing circumstances in which insurance products are sold, this harmonization would increase the cost of selling these products. Finally, any regulation of insurance products by a new federal consumer protection agency separate and apart from prudential and solvency regulation of the insurer selling such products would potentially result in gaps in regulation and increase the cost of the insurance products.

Finally, both as a part of financial services regulatory reform and otherwise, the current US Congress is considering overturning several US Supreme Court opinions to either relax the pleading standards for bringing a class action case or create a private right of action in certain securities cases. The enactment of any such proposals would potentially increase the number of class actions brought against financial services companies and reduce the predictability of litigating such class actions, resulting in increased litigation costs.

Pension reform legislation enacted in 2006 both increases funding obligations of defined benefit plans and creates opportunities for increased savings through defined contribution plans and other savings vehicles, as well as group annuity products into which an employer or plan sponsor



can transfer defined benefit plan liabilities to guarantee benefits of the pension plan's retired, active, or

deferred vested participants. Relief from these increased funding obligations provided by the US Congress is either temporary or, in management's view, insufficient given the current economic crisis. AEGON USA companies administer and provide both asset management services and products used to fund defined contribution plans, 529 plans and other savings vehicles impacted by the pension reform legislation. AEGON USA companies also provide plans used to administer benefits distributed upon termination of defined benefit plans.

The change in the US Administration has resulted in either the delay of the effective date or finalization of many rules by the DOL under pension reform legislation, including rules prescribing additional disclosure to plan sponsors of plan service provider compensation and disclosure to plan participants of plan fees, as well as rules clarifying the legislative exemption for investment advice to qualified plan participants.

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

Healthcare reform legislative proposals generally do not directly impact the business of life insurance. However, certain proposals either to tax supplemental products or to provide a government program for long-term care, will likely impact the cost and competitiveness of AEGON USA company supplemental or long-term care products, respectively. In addition, restrictions or governmental mandates on employers providing health insurance to employees may impact the manner of delivering other AEGON USA company products through the employer channel.

Many other federal tax laws affect the business in a variety of ways. Legislative proposals to extend the 2009 estate tax rates or substantially reform the estate tax are being considered. Under existing law, the federal estate, gift, and generation skipping taxes are temporarily repealed in 2010. AEGON believes a permanent repeal of the federal estate tax would have an adverse impact on sales and surrenders of life insurance in connection with estate planning; however, failure to permanently reform the estate tax to avoid its total repeal in 2010 and return to pre-2001 rates creates a lack of certainty that adversely impacts efficient estate planning.

## **AEGON Canada**

Transamerica Life Canada (TLC) is organized under and regulated pursuant to the federal Insurance Companies Act (Canada). In addition, TLC is subject to the laws, regulations and insurance commissions of each of Canada's ten provinces and three territories in which it carries on business. The laws of these jurisdictions generally establish supervisory agencies with broad administrative powers that include the following: granting and revoking licenses to transact 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. The primary regulator for TLC is the Office of the Superintendent of Financial Institutions. TLC is required under the Insurance Companies Act (Canada) to have at least seven directors, 50% of whom must be residents of Canada and no more than two-thirds of whom can be affiliated with TLC.

The life insurance and securities operations of AEGON Canada are also governed by policy statements and guidelines established by industry associations such as the Canadian Life & Health Insurance Association, Mutual Fund Dealers Association, and Investment Funds Institute of Canada.

### **1.7 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 obligations, 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 as well as asset diversification and quality considerations on the one hand and the policyholders' guaranteed or reasonably expected excess interest sharing on the other hand. Investment-grade fixed income securities are the main vehicle for asset/liability management, and AEGON USA's investment personnel are highly skilled and experienced in these investments.

The AEGON USA companies manage their asset/liability matching through the work of several committees. These committees review strategies, define risk measures, define and review asset/liability management studies, examine risk-hedging techniques, including the use of derivatives, and analyze the potential use of new asset classes. Cash flow testing analysis is performed using computer simulations, which model assets and liabilities under stochastically projected interest rate scenarios and commonly used stress-test interest rate scenarios. Based on the results of these computer simulations, the investment portfolio is structured to maintain a desired



investment 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 three critical risk measures (cash flows, present value of profits, and interest rate spreads) forms the foundation for modifying investment strategies, adjusting asset duration and mix, and exploring hedging opportunities. On the liability side, AEGON USA has some offsetting risks; some liabilities perform better in rising interest rate environments while others tend to perform well in falling interest rate environments. The amount of offset can vary depending on the absolute level of interest rates and the magnitude and timing of interest rate changes, but it generally provides some level of diversification. On the asset side, hedging instruments are continuously studied to determine whether their cost is commensurate to the risk reduction they offer.

## **1.8 Reinsurance ceded**

### **1.8.1 United States**

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

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

AEGON USA remains contingently liable with respect to the amounts ceded should the reinsurance company fail to meet its obligations. To minimize its exposure to such defaults, AEGON USA regularly monitors the creditworthiness of its reinsurers. AEGON USA has experienced no material reinsurance recoverability problems in recent years. Where appropriate, the company arranges additional cover through letters of credit or trust agreements. Availability of letters of credit or other financing mechanics are scarce in difficult financial markets. For certain agreements, funds are withheld for investment by the ceding company.

The AEGON USA insurance companies also enter into contracts with company-affiliated reinsurers, both within the United States and overseas, including Transamerica Reinsurance Division, a unit of Transamerica Life Insurance Company. These contracts have been excluded from the company's consolidated financial statements.

### **1.8.2 Canada**

In the normal course of business, AEGON Canada reinsures part of its mortality and morbidity risk with outside reinsurance companies. The maximum life insurance exposure retained is CAD 1.25 million per life insured.

Ceding reinsurance does not remove AEGON Canada's liability as the primary insurer. AEGON Canada could incur losses should reinsurance companies fail to meet their obligations. To minimize its exposure to the risk of such defaults, AEGON Canada regularly monitors the creditworthiness of its reinsurers. AEGON Canada only contracts business with reinsurance companies that are registered with Canada's Office of the Superintendent of Financial Institutions.

## 2. The Netherlands

### 2.1. Background

AEGON was created by the merger of two Dutch insurance companies – AGO and Ennia – in 1983. AEGON’s history in the Netherlands, however, goes back more than 150 years. Today, AEGON The Netherlands<sup>1</sup> is one of the country’s leading providers of life insurance and pensions, with millions of customers and more than 6,200 employees. The fully owned Unirobe Meeùs Group is one of the largest intermediaries in the Netherlands. AEGON The Netherlands has its headquarters in The Hague, but also has offices in Leeuwarden, Groningen and Nieuwegein.

### 2.2. Organizational structure

AEGON The Netherlands operates through a number of well-known brands, including TKP Pensioen, OPTAS, Meeùs and Unirobe. In addition, AEGON itself is one of the most widely recognized brand names in the Dutch financial services sector (source Tracking Report Motivation).

AEGON The Netherlands’ primary subsidiaries are:

- AEGON Levensverzekering N.V.
  
- AEGON Schadeverzekering N.V.
  
- AEGON NabestaandenZorg N.V.\*
  
- AEGON Spaarkas N.V.
  
- AEGON Bank N.V.
  
- Unirobe Meeùs Groep B.V.
  
- TKP Pensioen B.V.
  
- TKP Investments B.V.
  
- Nedasco B.V.
  
- OPTAS Pensioenen N.V.

\* in the process of being disposed of.

The business organization of AEGON The Netherlands is based on four service centers (SC’s) and three sales organizations (SO’s).

The SC’s, which are responsible for all back office activities, are the following:

SC Pensions

SC Life insurance

SC Non-life insurance

SC Banking

In recent years, AEGON The Netherlands has taken significant steps to reorganize its businesses as part of broader efforts to improve overall efficiency and customer service. In 2003, the company combined its various business units into a single, more centralized structure. By bringing product knowledge, administration, IT and other back office support under one roof, AEGON The Netherlands has created a more effective and better structured organization. Since 2006 a process of centralizing staff functions including HRM, Marketing and Finance has been effected in order to standardize processes and improve efficiency. As per October 1, 2009 the asset management activities of AEAM have been restructured under AEGON N.V.

AEGON The Netherlands is present in five lines of business:

- Life and protection
- Savings
- Pensions and asset management
- Distribution
- General insurance

<sup>1</sup> Throughout this report, AEGON The Netherlands refers to all AEGON companies operating in the Netherlands.

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### 2.3. Overview sales and distribution channels

AEGON The Netherlands operates through three sales organizations, each focusing on a separate segment of the Dutch market. Corporate & Institutional Clients serves large corporations and financial institutions such as company and industry pension funds. AEGON Bank Bemiddeling sells mainly to individuals both directly and through tied agents. Lastly, AEGON Intermediary focuses on independent agents and retail sales organizations in the Netherlands. In the fourth quarter of 2009 AEGON Intermediary and AEGON Bank Bemiddeling announced a reorganization of their sales organization.

### 2.4. Overview lines of business

#### 2.4.1 Life and protection

##### General description

AEGON The Netherlands provides a range of life insurance and personal protection products and services, including traditional, universal and term life, funeral insurance as well as accident and health cover. Life and protection is AEGON The Netherlands' one of the most important line of business, accounting for 66 percent of the company's overall underlying earnings before tax in 2009.

##### Products

The life products of AEGON The Netherlands consist largely of endowment insurance and annuity insurance.

##### *Endowment insurance*

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

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

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

There are different kinds of profit sharing arrangements. Bonuses are either paid in cash (mainly in pension business, as discussed in the following section) or used to increase the sum assured. For one common form of profit sharing, the bonus levels are set by reference to external indices that are based on predefined portfolios of Dutch government bonds. The bonds included in the portfolio have different remaining durations and interest rates and together are considered an approximation of the long-term rate of return on Dutch high quality financial investments. Another common form of profit sharing is via interest rebates, whereby policyholders receive a discount on single premium business which reflects the expectation that the actual rate of return on the contract will exceed the minimum interest guarantee used to determine the premiums and sums assured. Here too, the expected actual rate of return is based on a portfolio of Dutch government bonds.

##### *Term and whole life insurance*

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

##### *Annuity insurance*

This category includes products in accumulation phase and in 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%.

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Interest rebates are given on both single and regular premium annuity insurance and may be based on a portfolio of Dutch government bonds, although other calculation bases are also applied. There are also profit sharing schemes set by reference to external indices that are based on predefined portfolios of Dutch government bonds.



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*Tontine plans*

Tontine plans in the Netherlands are linked endowment savings contracts with a specific bonus structure. Policyholders can choose from several AEGON funds to invest premiums paid. The main characteristic of a tontine system is that when the policyholder dies, the balance is not paid out to the policyholder's estate, but is distributed at the end of the year to the surviving policyholders of the specific series to which the deceased policyholder belonged. In general, a new series starts at the beginning of each calendar year, but there are also open ended tontine plans in the portfolio. When the policyholder dies before maturity, AEGON The Netherlands pays a death benefit equal to the premiums paid accumulated at a 4% compound interest, subject to a minimum of 110% of the fund value during the first half of the contract term.

*Variable unit linked products*

In the Netherlands, variable unit linked products are sold. These products have a minimum benefit guarantee if premiums are invested in certain funds. The initial guarantee period is 10 years. The 10-year period may be reset at the policyholder's option to lock in market gains. The reset feature cannot be exercised in the final decade of the contract and for many products can only be exercised a limited number of times per year. The management expense ratio (MER) charged to the funds is not guaranteed and can be increased at management's discretion (with a maximum cost ratio of 3.5% due to the Generieke Verbetermaatregelen (product improvements)). In July 2009, a final agreement was reached to reduce charges on unit-linked insurance policies in the Netherlands.

*Accident and health insurance*

AEGON The Netherlands offers sick leave products to employers that cover the sick leave payments to employees that are not covered by social security and where the employers bear the risk. Over the past several years, the Dutch government has gradually shifted responsibility for sick leave and workers' disability from the state to the private sector. This has helped stimulate demand for private health insurance. As a result AEGON The Netherlands introduced a new product providing companies with additional employee disability cover.

**Sales and distribution**

AEGON's traditional life insurance is sold primarily by external agents and AEGON Bank Bemiddeling. The vast majority are standardized financial products.

Accident and health products are sold mainly through AEGON Intermediary, though Corporate & Institutional Clients also provides products for larger corporations in the Netherlands.

**2.4.2 Savings**

**General description**

In addition to life insurance and pensions, AEGON The Netherlands also provides a variety of individual savings and retirement products. In 2009, these products did contribute an amount of EUR (54) million to AEGON The Netherlands' overall pre-tax underlying earnings.

AEGON discontinued selling security lease products in early 2003. At the end of 2005, the Dutch government decided to reform its retirement legislation. As part of a wider policy of reducing state benefits, the government ended a pre-retirement savings plan, known as VUT, and replaced it with Levensloop or Life cycle .

**Products**

Saving products are only sold by AEGON The Netherlands and include savings accounts and investment contracts. Both products generate investment-spread income for AEGON. Savings accounts retain flexibility to withdraw cash with limited restrictions. Banking products also include investment products that offer index-linked returns and generate fee income on the performance of the investments.

Levensloop allows savers to put aside a certain amount each year, tax free, either to fund their retirement, retire early, or even finance a sabbatical. Many companies in the Netherlands have decided to include Levensloop in their overall employee benefit packages.

**Sales and distribution**

Individual savings products are sold through all three sales organizations. AEGON Intermediary and AEGON Bank Bemiddeling sell the majority of the contracts. The Levensloop contracts that large organizations can offer to their employees are sold through our Corporate &

Institutional Clients sales organization.

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### 2.4.3 Pensions and asset management

#### General description

Pensions and asset management is one of the most important lines of business of AEGON The Netherlands. In 2009, it accounted for 44 percent of the AEGON The Netherlands total underlying earnings before tax.

#### Products

For the majority of the company/industry pensions funds and some large companies, AEGON The Netherlands provides full service pension solutions and also administration-only services.

The full service pension products for account of policyholders are separate account group contracts with or without guarantees.

Separate account group contracts of AEGON The Netherlands are large group contracts that have an individually determined asset investment underlying the pension contract. The contracts are written with and without a guarantee. The guarantee given is that the profit sharing is the minimum of the actuarial interest of either 3% or 4% or the realized return (on an amortized cost basis). If there is a negative profit sharing, the minimum is effective, but the loss in any given year is carried forward to be offset against any future surpluses during the contract period. In general, a guarantee is given for the life of the underlying employees so that their pension benefit is guaranteed. Large group contracts also share technical results (mortality risk and disability risk). The contract period is typically five years and the premium tariffs are fixed over this period.

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

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

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

Both AEGON Asset Management (AEAM) and TKP Investments (TKPI, a 100% subsidiary of TKP Pensioen) provide asset management products with AEAM having strengths in in-house managed fixed income and Asian equities and TKPI providing fiduciary management using multi-manager investment pools. In 2009 AEAM was restructured under AEGON N.V. AEAM is the main asset manager for AEGON The Netherlands insurance activities. TKPI is able to tailor products to customers' needs, including hedging of liability risks.

#### Sales and distribution

Most of AEGON The Netherlands' pensions are sold through two sales organizations: Corporate and Institutional Clients and AEGON Intermediary. Customers vary from individuals to company and industry pension funds and large, medium-sized and small corporations. AEGON The Netherlands is one of the country's leading providers of pensions.

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.

Most of AEGON The Netherlands' asset management products are channeled through the Corporate & Institutional Clients sales organization.

#### **2.4.4 Distribution**

AEGON The Netherlands offers financial advice and is involved in intercession activities in real estate. The financial advice activities include selling insurance, pensions, mortgages, financing, savings and investment products. The intercession activities in real estate comprise brokerage activities of residential as well as commercial real estate and real estate management business. In order to focus more on financial advice the brokerage activities of residential real estate were sold in 2009.

#### **2.4.5 General insurance**

AEGON The Netherlands offers a limited range of non-life insurance products through AEGON Intermediary. These are aimed at both the corporate and retail markets. They include house, car and fire insurance. In 2009, general insurance contributed an amount of EUR 1 million to AEGON The Netherlands overall underlying earnings before tax.

#### **2.5 Competition**

AEGON The Netherlands faces strong competition in all of its markets from insurers, banks, and investment management companies. These competitors are nearly all part of international financial conglomerates, such as ING Group, Eureko (Achmea), ASR, SNS Reaal (including Zwitserven) and Delta Lloyd/OHRA.

AEGON The Netherlands has been a key player in the total life market for a long time. The life insurance market in the Netherlands, comprising both pensions and life insurance, is very concentrated. The top 6 companies account for approximately 90% of premium income in The Netherlands (source: DNB Supervision Returns 2008). In the pensions market AEGON The Netherlands ranks second, whereas in the individual life insurance market AEGON The Netherlands takes sixth place behind ING, SNS Reaal, Eureko, ASR and Delta Lloyd/OHRA (based on gross premium income, source: DNB Supervision Returns 2008).

AEGON The Netherlands is one of the smaller players on the non-life market. Achmea, Fortis, Delta Lloyd and ING have substantial market shares, whereas the rest of the market is very fragmented. The P&C market share of AEGON The Netherlands is around 4.0% in premium income (source: DNB Supervision Returns 2008).

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

The pensions business has been affected by an increase in the number of new government regulations (e.g. the Surviving Relative Pension Act, the Non-Discriminatory Pensions Act and the new Pension Law). Timely compliance, flexibility in implementation and execution of these regulations may give AEGON The Netherlands a competitive advantage and distinguish the company in this highly competitive market. IT activities are essential in realizing these goals.

In the non-life segment, opportunities are expected to grow as the Dutch government gradually withdraws from the subject market.

#### **2.6. Supervision**

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

Autoriteit Financiële Markten (the Netherlands Authority for the Financial Markets) or AFM and

De Nederlandsche Bank (the Dutch Central Bank) or DNB.

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

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New regulations pertaining to the supervision of financial institutions referred to as *Wet Financieel Toezicht* (Act on Supervision of the Financial System) took effect in January 2007. The new law pertains equally to banking and insurance operations and introduces a greater degree of consistency in both requirements and supervision.

### 2.6.1 Insurance companies

The European Union Insurance Directives issued in 1992 have been incorporated into Dutch law. The Directives are based on the home country control principle. This means that an insurance company that has a license issued by the regulatory authorities in its home country is allowed to conduct business, either directly or through a branch, in any country of the European Union. Separate licenses are required for each of the insurance company's branches in which it conducts business. The regulatory body that issued the license is responsible for monitoring the solvency of the insurer. However, the local regulatory body is responsible for monitoring market conduct and enforcing consumer protection laws.

Dutch law does not permit a company to conduct both life insurance and non-life insurance business within one legal entity. Nor is the company allowed to carry out both insurance and banking business within the same legal entity.

Insurance companies in the Netherlands are subject to the supervision of DNB. The relevant legal requirements are now comprised in the Wet Financieel Toezicht whereas previously supervision was pursuant to the Act on the Supervision of Insurance Companies 1993. Each and every life and non-life insurance company licensed by and falling under the supervision of DNB must file audited regulatory reports at least annually. 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. As part of the process of modernization brought about by the introduction of IFRS in 2005 and the new supervisory legislation in 2006, DNB has revised the format of regulatory reporting. The new reporting with a single entity focus is designed to highlight risk assessment and risk management, and came into effect in 2008.

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

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

AEGON Levensverzekering N.V.

AEGON Schadeverzekering N.V.

AEGON NabestaandenZorg N.V.\*

AEGON Spaarkas N.V.

OPTAS Pensioenen N.V.

OPTAS Leven en Schade N.V.

\* in the process of being disposed of.

Life insurance companies are required to maintain certain levels of shareholders' equity in accordance with EU directives (approximately 5% of their general account technical provision, or, if no interest guarantees are provided, approximately 1% of the technical provisions with investments for the account of policyholders).

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

### **2.6.2. Banking institutions**

AEGON Bank N.V. falls under the supervision of the DNB, pursuant to the Wet Financieel Toezicht, and must file monthly regulatory reports and an annual report. The annual report and one of the monthly reports must be audited.

Banking institutions are required to maintain solvency and liquidity ratios in line with the requirements of the Wet Financieel Toezicht, which incorporate the requirements of the relevant EU directives.

### **2.6.3. Asset management**

TKP Investments B.V., Meeus Vermogensbeheer B.V. and AEGON Financiële Diensten B.V. also fall under the supervision of the DNB and must file quarterly reports and an annual report.

On a quarterly and a yearly basis asset management companies have to report to AFM.

## 2.7. Asset liability management

The investment strategy of AEGON The Netherlands is determined and monitored by the AEGON NL Risk and Capital Committee (AEGON NL RCC). The AEGON NL RCC meets at least on a quarterly basis. The focus of these meetings is, amongst other things, to ensure an optimal strategic asset allocation, to decide on interest rate hedging strategies to reduce interest rate risks, and to decide on the need for securitizations of residential mortgage portfolios to free funds for further business development.

Most (insurance) liabilities of AEGON The Netherlands are nominal and long-term. Based on their characteristics, a long-term liability-driven benchmark is derived. Scenarios and optimization analyses are conducted with respect to the asset classes fixed income, equities and real estate, but also for various sub-classes, for example commodities, hedge funds and private equity. The result is an optimal asset allocation representing different investment risk-return profiles. Constraints such as the minimum return on equity and the maximum solvency risk also determine alternative strategic asset allocations. Most of AEGON The Netherlands' investments are managed by AEGON Asset Management. For certain specialized investments, such as hedge funds and private equity, AEGON The Netherlands hires external managers. Portfolio managers are allowed to deviate from the benchmark based on their short-term and medium-term investment outlook. Risk-based restrictions are in place to monitor and control the actual portfolio allocations compared to their strategic portfolio allocations. An internal framework limits investment exposure to any single counterparty.

AEGON The Netherlands and pension fund Zorg en Welzijn (PGGM) have a joint venture Amvest Vastgoed B.V. for their combined real estate investments. Furthermore, Amvest Vastgoed B.V. manages a separate real estate portfolio of AEGON Levensverzekering N.V.

## 2.8. 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, quota share, and, in some instances, excess of loss contracts. This is in line with standard practices within the global insurance industry. Reinsurance helps AEGON manage, mitigate and diversify its insurance risks and limit the maximum loss it may incur on risks that exceed policy retention limits.

AEGON The Netherlands remains contingently liable with respect to the amounts ceded, should the reinsurance company fail to meet the obligations it has. To minimize its exposure to such defaults, AEGON The Netherlands regularly monitors the creditworthiness of its primary reinsurers. AEGON The Netherlands has experienced no material reinsurance recoverability problems in recent years. Where appropriate, additional reinsurance protection is contracted either through letters of credit or, alternatively, through trust arrangements. Under certain of these arrangements, funds are withheld for investment by the ceding company.

AEGON The Netherlands reinsures its life exposure through a profit-sharing contract between its subsidiary AEGON Levensverzekering N.V. and Swiss Re. Under this arrangement, AEGON retains exposure of up to a maximum of EUR 1,200,000 per insured person with respect to death risk and EUR 25,000 a year for disability risk (increased by EUR 1,500 a year above the age of 40). Any amount in excess of this is transferred to the reinsurer.

For its fire insurance business, AEGON The Netherlands has in place an excess of loss contract with a retention level of EUR 3 million for each separate risk and EUR 20 million for each event. AEGON The Netherlands has reinsured its motor liability business on a similar basis with a retention level of EUR 2.5 million for each event.



## The United Kingdom

### 3.1. Background

AEGON UK is a leading provider of life insurance and pensions and also has a strong presence in both the asset management and financial advice markets. With offices located in the United Kingdom and Ireland, AEGON UK has some two million customers, around 5,000 employees and GBP 56 billion in revenue-generating investments. AEGON UK's main offices are in three locations: Edinburgh, London and Lytham St Annes.

### 3.2. Organizational structure

AEGON UK plc. (AEGON UK) 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 Scottish Equitable)

AEGON Asset Management UK plc.

Origen Financial Services Ltd.

Positive Solutions (Financial Services) Ltd.

Guardian Assurance plc.

The UK segment of AEGON NV also includes certain business written for UK customers by AEGON Ireland plc., a Dublin based company.

The company is organized into three distinct businesses:

AEGON Life and Pensions, which provides pensions, annuities, investments and protection products for people and companies.

AEGON Asset Management, which provides investment management services for AEGON UK itself, other institutional customers and private investors.

AEGON UK Distribution, which consists of intermediary distribution and advice businesses.

### 3.3. Overview sales and distribution channels

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

In all, there are an estimated 35,000 registered financial advisors in the United Kingdom. These advisors may be classified as single-tied, multi-tied, whole of market or independent, depending on whether they are either restricted in the number of providers they deal with or are free to advise on all available products. AEGON UK maintains strong links with financial advisors in all segments of the market. Single-tie relationships have also been established with some advisors who have selected AEGON UK to be the sole provider of a particular product type.

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

### **3.4. Overview lines of business**

AEGON UK has three lines of business:

Life and protection

Pensions and asset management

Distribution

#### **3.4.1. Life and protection**

##### **General description**

The AEGON UK life business comprises primarily individual protection as well as individual and bulk annuities. The protection business provides insurance on individual or groups of lives for major life events such as death or serious illness. Annuities are used to convert savings accumulated as part of a pension plan into a regular income throughout retirement. In 2009, the Life and protection line of business accounted for approximately 88 percent of AEGON UK's overall underlying earnings before tax.

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## Products

### *Individual protection*

AEGON UK offers a range of products for individual customers, including life cover, critical illness and income protection. In addition, it also provides products for companies wishing to insure key personnel. AEGON UK is now established as one of the United Kingdom's six leading providers of individual financial protection, (according to 2009 figures from the Association of British Insurers).

### *Immediate annuity*

In the United Kingdom, most of the funds in a pension plan must be converted into a source of income by the time the planholder reaches 75, usually through the purchase of an immediate annuity.

### *Bulk annuities*

The group annuity market is growing rapidly as an increasing number of defined benefits plans in the United Kingdom are closed (see Corporate Pensions, below). Bulk annuities are designed specifically for trustees who wish to wind up already closed defined benefit plans. The contract includes a secured benefit product, under which all deferred and immediate pensions are bought out via a trustee policy prior to the plan being wound up. Once the winding-up process is complete, individual deferred and immediate annuity policies are then assigned to the plan's members.

## Sales and distribution

Individual protection and annuity products are widely distributed through intermediated advice channels. Bulk annuities however, are distributed primarily through a smaller number of specialist employee benefit consultancies.

### 3.4.2. Pensions and asset management

#### General description

Pensions and asset management constitute AEGON UK's most important lines of business. In 2009, they accounted for more than 49 percent of AEGON UK's overall underlying earnings before tax.

AEGON UK provides a full range of personal and corporate pensions, as well as related products and services such as third-party administration and employee benefits software. The company also offers investment products, including onshore and offshore bonds, and trusts. AEGON UK's asset management business manages a selection of AEGON UK's own life and pension funds, as well as offering institutional and retail funds.

## Products

### *Individual pensions*

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

Flexible personal pensions

Self-invested personal pensions (SIPPs), which provide a range of pre- and post-retirement investment options for high net worth customers, including insured funds and real estate

Transfers from other retirement plans

Phased retirement options and income drawdown

Stakeholder pensions (a type of personal pension specific to the United Kingdom which has a maximum limit on charges and low minimum contributions)

According to figures from the Association of British Insurers, AEGON UK is one of the top 3 providers of SIPP's and specialist phased income pensions.

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

### *Corporate pensions*

One of AEGON UK's largest businesses is providing pension plans for companies. The trend away from defined benefit (DB) arrangements, which provide a guaranteed percentage of salary on retirement, toward defined contribution (DC) plans has continued to accelerate in recent years. DC plans are similar to personal pensions with contributions being paid into a plan owned by individual employees and then invested. Generally, at retirement, employees can choose to take a predetermined percentage of tax-free cash from their pension plan, using the remainder either to purchase an annuity or else to invest in a separate drawdown policy until they reach the age of 75.

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. There are, however, opportunities for AEGON UK to take on the administration and management of existing plans.

AEGON UK also offers a group self-invested personal pension designed to extend to group pension customers the benefits associated with individual SIPPs, such as greater investment choice.

### *Investment products*

AEGON also offers two types of investment bonds designed for customers residing in the United Kingdom: the onshore bond and offshore contracts<sup>1</sup>

The onshore bond is a type of life contract, aimed primarily at pre- and post-retirement customers looking for either a source of income or a way of growing their savings. The bond offers a wide range of investment options and funds, managed by some of the world's leading asset managers.

While the onshore bond is aimed at a mass affluent market, AEGON's offshore contracts have traditionally been marketed to high net worth individuals. Offshore contracts offer considerable tax advantages and a wide choice of investment options. These contracts tend to form part of a broader retirement strategy, primarily because there are fewer restrictions on how and when benefits may be taken.

There are also a range of trusts designed to support inheritance tax planning. This is an area of growing demand as recent economic growth and rising wealth means more estates are falling under UK Inheritance Tax. Trusts help individuals manage and alleviate potential tax liabilities.

<sup>1</sup> The onshore bond is provided by Scottish Equitable plc. The offshore contracts are offered by AEGON Ireland plc.

### *Asset management*

With some GBP 56 billion in revenue generating investments, AEGON UK is one of the United Kingdom's leading institutional investors. AEGON Asset Management offers:

#### *Institutional funds*

A diverse range of pooled and segregated investment solutions

#### *Retail funds*

A range of fixed income solutions, including corporate bond funds

Equity investments with global market coverage, including a range of UK funds

Ethical funds investing in bonds and equities

Life and pensions

An extensive range of life and pension funds on behalf of AEGON UK

**Sales and distribution**

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

AEGON Asset Management markets its funds to large consultancy firms that advise institutional clients, fund supermarkets and specialist discretionary investment advisors for retail clients.

### 3.4.3. Distribution

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

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

Positive Solutions, meanwhile, brings together nearly 1,700 individual partners in one of the largest and fastest-growing adviser networks in the United Kingdom.

### 3.5. Competition

AEGON UK faces competition in each of its markets from three main sources: life and pension companies, investment management companies, and financial advice firms.

Over the past few years, the life and pension market has been increasingly concentrated among the largest companies and those perceived to be financially strong.

The market for investment management services is more fragmented, but very competitive in certain specific segments and activities.

The financial advisor market in the United Kingdom is fragmented, with a large number of relatively small firms. The removal of polarization rules in the advice market in 2005 has led to advisors choosing to operate on a multi-tied, single-tied, whole of market, or independent basis. More recently, there has been significant consolidation in this market due to financial pressures and preparations for the regulator's Retail Distribution Review, which will radically change the advisory business models. Even so, fragmentation remains high. There are few firms with a genuine nationwide presence or a well-known brand outside specific local areas.

### 3.6. Regulation

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

The Financial Services Authority acts both as a prudential and conduct of business supervisor. As such, it sets minimum standards for capital adequacy and solvency, and regulates the sales and marketing activities of regulated companies. New rules relating to capital requirements for life insurers were implemented in December 2004.

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

The AEGON Ireland business includes the Dublin-based life insurance company, AEGON Ireland plc. (authorized by the Irish Financial Services Regulatory Authority and regulated by the United Kingdom's FSA for conduct of UK business), as well as a Dublin-based service company.

### 3.7. Asset liability management

Asset liability management (ALM) is overseen by the AEGON UK ALM Committee, a sub committee of the AEGON UK Risk and Capital Committee, which meets each month to monitor capital requirements and ensure appropriate matching of assets and liabilities.

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

For its with-profit business, AEGON UK's general philosophy is to match guarantees with appropriate investments. However, the nature of with-profit businesses typically prevents perfect matching, and the role of the committee is therefore to monitor the capital implications of any

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mismatching. On an annual basis, detailed reports are produced for the relevant subsidiary Boards covering the impact of a range of possible investment scenarios on the solvency of each of the funds. These reports allow the central investment strategy for the with-profit funds to be discussed and are summarized for the Board of AEGON UK. In respect of non-profit business, interest rate risk arises substantially on AEGON UK's large book of annuities in payment. Assets are purchased to provide a close expected match to liability outflows, with regular reporting to the ALM Committee on the capital implications of any mismatching.



For unit-linked business, the matching philosophy results in close matching of the unit liabilities with units in the relevant underlying funds. A proportion of the unit-linked assets is invested in funds managed by external investment managers. An investment committee, which reports to the relevant subsidiary Boards, meets regularly to monitor the performance of the investment managers against fund benchmarks.

### **With-profit funds**

The invested assets, insurance and investment contract liabilities of AEGON UK's with-profit funds are included in for account of policyholder assets and liabilities. Assets and liabilities are always equal as any excess of assets over liabilities in respect of guaranteed benefits and constructive obligations are classified as an insurance or investment contract liability. The Scottish Equitable with-profit fund is a 100:0 fund, where all benefits are held for participating policyholders. The Guardian Assurance plc with-profit fund is a 90:10 fund where AEGON UK receives 10% of the surpluses distributed to policyholders. The amount of profit AEGON UK derives from the Guardian fund is driven by the level of declared bonuses.

The operation of with-profit funds is complex. What is set out below is a brief summary of our overall approach:

#### *Guarantees*

With the exception of AEGON Secure Lifetime Income and 5 for Life (which are written in Dublin), and the product guarantees within Investment Control and Income for Life (which are reinsured to Dublin), all AEGON UK contracts with investment guarantees have been written in policyholder-owned funds (otherwise called with-profit funds). These funds contain free assets, which, as yet, have not been 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 believes this exposure to be low.

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

#### *Scottish Equitable plc.*

As part of its demutualization process before being acquired by AEGON N.V., on December 31, 1993, the business and assets of Scottish Equitable Life Assurance Society were transferred to Scottish Equitable plc. AEGON UK has no financial interest in Scottish Equitable plc's with-profit fund, apart from routine yearly fund management charges, as well as costs and expenses that the company agreed to accept at the time of demutualization.

Guaranteed rates of return on with-profit policies are typically in the range of 0% to 5.5% a year, with the highest rates closed to all premiums in 1999 and all funds closed to new business with investment guarantees from October 2002, except for a low level of increments.

Under a number of contracts written mainly in the 1970s and 1980s, Scottish Equitable also offered minimum pension guarantees (including guaranteed annuity options). As life expectancy rates have improved and interest rates have fallen over time, these minimum guarantees are now often valuable.

#### *Guardian Assurance plc*

The AEGON UK interest in Guardian Assurance plc's with-profit fund is 10% of profits in the fund, with the remaining 90% going to with-profit policyholders. In 1998, prior to Guardian Assurance's acquisition by AEGON UK, the with-profit fund was restructured and closed to new business, except for a low level of increments.

Guaranteed returns on policies without guaranteed cash options or annuity payments are typically 0% to 3.5% a year. On policies with guaranteed cash options or annuity payments, guaranteed returns depend on the value of the options at retirement.

*Management of the with-profit funds*

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

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

The guarantees under the policy, including previous annual bonus additions.

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

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

As all of AEGON UK's with-profit funds are now closed to new business with investment guarantees, the process has begun of gradually distributing free assets to with-profit policyholders through the bonus system outlined above. Part of the management of this process involves endeavoring to ensure 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. In particular, Guardian Assurance plc has reinsured blocks of immediate annuity business to another part of AEGON UK on terms that reflect prevailing market rates. This helps avoid a tontine effect building up in the fund, as the number of with-profit policyholders declines.

### **3.8 Reinsurance ceded**

AEGON UK's reinsurance strategy is aimed at limiting overall mortality and morbidity volatility and maximizing any tax benefits that reinsurance can bring. The actual percentage of business which is reinsured of course varies, depending chiefly on the availability and price of reinsurance on the market.

Prior to 2002, AEGON UK adopted a similar approach to longevity risk. Since then, however, AEGON UK has considered the terms available in the reinsurance market for longevity risk to be relatively unattractive compared to the margins expected from this business and the diversification benefits available to the company by retaining this risk.

AEGON UK prefers to work only with reinsurance companies that have a credit rating of AA or above subject to an economic assessment of the terms on offer. Using a reinsurer with a lower credit rating would require the approval of AEGON UK's local risk and capital committee as well as prior discussion with AEGON's Group Risk division in The Hague.

## Other Countries

### 4.1. Background

In the past few years, AEGON has significantly expanded its international presence outside its three main established markets of the United States, the Netherlands and the United Kingdom. AEGON is now present in more than twenty markets in total in Europe, the Americas and in Asia.

In particular, AEGON has seen strong growth in its businesses in Central and Eastern Europe, as well as in other new, emerging markets such as China, India and Japan.

#### 4.1.1 Central and Eastern Europe

AEGON first entered the Central and Eastern European market in 1992 when the Group bought a majority stake in Hungary's former state-owned insurance company, Állami Biztosító. Hungary remains AEGON's leading business in the region and a springboard for further expansion. Today, AEGON has operations in six Central and Eastern European countries: Hungary, Poland, the Czech Republic, Slovakia, Romania and Turkey.

#### 4.1.2. Asia

AEGON opened its first business in Asia in 1993 in Taiwan. Since then, the Group has expanded its operations in the region. In the first half of 2009, in considering AEGON's strategic priorities to optimize capital allocation and returns, all the business in Taiwan was divested. AEGON today has businesses in China, India and, since December 1, 2009, Japan.

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 began operations in May 2003. The joint venture is licensed to sell both life insurance and accident and health cover in mainland China.

Since 2003, AEGON-CNOOC has been steadily extending its network of offices and businesses in China. It now has licenses in ten different locations—Shanghai, Beijing, Hebei, Jiangsu, Shandong, Qingdao Zhejiang, Tianjin, Guangdong and Shenzhen. These locations give the joint venture access to a potential market of some 400 million people, most of them in the booming coastal provinces of eastern China.

In May 2007, AEGON agreed to form an asset management joint venture with China's Industrial Securities, one of the country's leading securities companies. Under the agreement, as of April 2008, AEGON has a 49 percent interest in AEGON-Industrial Fund Management Company, a mutual fund manager with approximately EUR 3.9 billion in assets under management. The joint venture with Industrial Securities marked an important step for AEGON, further strengthening its commitment to the Chinese market and extending the Group's range of businesses in the country.

AEGON is also present in India. In 2006, AEGON agreed to form a new life insurance partnership in India with Religare Enterprises Limited. The life insurance joint venture started operations in 2008 and currently has opened 52 branches across 43 cities.

AEGON also holds a license to conduct asset management activities in India but currently has no operations in this area.

In early 2007, AEGON signed a joint venture agreement with Sony Life, one of Japan's leading insurance companies. This joint venture will initially focus on variable annuities sales in Japan, but the agreement also provides a platform for further cooperation between AEGON and Sony Life. The joint venture operations were recently launched on December 1, 2009.

#### **4.1.3. Western Europe (Spain and France)**

In addition to the United Kingdom and the Netherlands, AEGON has a presence in two other western European countries: Spain and France.

AEGON first entered the Spanish market in 1980 when it bought local insurer, Seguros Galicia. In recent years, AEGON's activities in Spain have grown rapidly, mainly due to distribution partnerships with some of the country's leading savings banks. AEGON Spain operates through two subsidiaries: AEGON Seguros Salud and AEGON Seguros de Vida. Administration and operational services to all companies in Spain, including joint ventures with third parties, are provided by AEGON Administracion y Servicios A.I.E., a separate legal entity. In addition AEGON operates through partnerships with Caja Mediterraneo (CAM), Caja Navarra, Caja Badajoz and Caja Cantabria.

In August 2008, AEGON purchased 50% of Caixa Terrassa Vida, a life and pension insurance company owned by Caixa Terrassa. The parties agreed to sell health insurance products through this joint venture. The effective date of the purchase was October 31, once the transaction was approved by the regulator.

In December 2008, AEGON executed its purchase option over the 40% of Caja Cantabria Vida, a life and pension insurance company set up at the end of 2007. As a result of this purchase AEGON's stake in the company is currently 50%.

In December 2009, once the required regulatory approval was granted (including a license from local authorities and DGS), Caixa Terrassa Vida started to sell health products.

At the end of 2002, AEGON agreed a partnership with mutual insurer La Mondiale, one of France's leading insurance and pension companies. AEGON has a 35 percent interest in La Mondiale's subsidiary company La Mondiale Participations. La Mondiale Participations offers a wide range of life insurance, pension, savings, investment, asset management and accident and health products to both corporations and individual retail customers.

#### **4.1.4. Variable Annuities Europe**

Since 2009 Variable Annuities Europe has been established as a separate line of business. The business is primarily structured out of Ireland and the majority of sales are currently in the United Kingdom through AEGON UK's sales channels. Variable Annuity products are being gradually rolled out in other European countries where AEGON already has a foothold in the life insurance market.

The main products currently being sold in the UK market are AEGON Secure Lifetime Income, Income for Life and Investment Control. In the French market, our French partner AG2R La Mondiale manufactures Terre d'Avenir and distributes this through its own networks, agency platform and selected regional banks. Guarantees are reinsured to AEGON Ireland. AEGON Ireland also manufactures a variable annuity product (AEGON Variable Lijfrente) for the Dutch market, launched in December 2009. AEGON The Netherlands distributes this product through its existing channel.

#### **4.2. Organizational structure**

AEGON's other international businesses operate through a number of subsidiaries and joint venture partnerships. These international businesses are referred to collectively as Other Countries.

AEGON's main subsidiaries and affiliates are:

##### *Central and Eastern Europe*

AEGON Hungary Composite Insurance Company Limited by Shares

AEGON Hungary Investment Fund Management Company Limited by Shares

AEGON Hungary Pension Fund Management Company Limited by Shares

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AEGON Poland Life Insurance Company

*Asia*

AEGON Pension Fund Management Company (Poland)

AEGON-CNOOC Life Insurance Co. Ltd.

AEGON Religare Life Insurance Co. Ltd.

AEGON Industrial Fund Management Co. Ltd. (AIFMC)

AEGON Sony Life Insurance Co., Ltd (ASLIC)

*Western Europe (Spain and France)*

AEGON Seguros Salud

AEGON Seguros de Vida

AEGON Administracion y Servicios A.I.E

Mediterraneo Vida, 49.99%

Caja Badajoz Vida y Pensiones, 50%

CAN Vida y Pensiones, 50%

Cantabria Vida y Pensiones, 50%

Caixa Terrassa Vida y Pensiones, 50%

*Variable Annuities Europe* is a business line of AEGON Ireland plc.

#### **4.3. Central and Eastern Europe**

AEGON's activities in Central and Eastern Europe operate through a number of different sales channels. These include tied agents, insurance brokers, call centers and, particularly in Poland, Romania, Turkey and Hungary, retail banks. Through tied agents, brokers and call centers, AEGON sells primarily life and non-life insurance and pensions. Banks and loan centers are used to sell mainly life insurance, mortgages, mutual fund, pensions and household.

##### **4.3.1 Life and protection**

AEGON companies in Central and Eastern Europe offer a range of life insurance and personal protection products. This range includes traditional life, as well as unit-linked products. Unit-linked products cover all types of life insurance, including pension, endowment and savings. In Poland, AEGON is one of the leading providers of unit linked products, offering a range of more than 150 different investment funds.

Traditional general account life insurance is a marginal product for most of the region's businesses. The exception is Hungary. Traditional general account includes mainly index life products that are not unit-linked but guaranteed rates of interest.

Group life and preferred life are also part of traditional general account life. Group life contracts are renewable each year. They also carry optional accident and health cover. AEGON offers savings products in Central and Eastern Europe as part of employee benefit programs. These products include guaranteed interest rate returns.

The main guarantee in Hungary is variable crediting rates with minimum interest guarantees between 0% and 4% for universal life type products, plus 100% participation in actual interest earned. Traditional non-profit share products have 5.5% technical interest rates, but this is an insignificant block of business. Profit share products mainly have a 3.5% technical interest rate and 85% participation in excess interest. The average minimum interest guarantee is about 3%.

In Hungary, a small part of the current new business provides a minimum interest guarantee of 2%. In Poland, an insurance fund with minimum rate reset quarterly and annually is offered on unit-linked products. In Slovakia the minimum interest rate on universal life products was 3% up

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to the end of 2006 and since then it has been 2.5%. The universal life products in the Czech Republic have a guaranteed interest rate of 2.4%. The profit share product portfolio in Turkey, have a guaranteed interest rate of 9% for Turkish Lira products. For foreign currency products, the guaranteed interest rate varies between 5%, 2.5% and 1.5%. A minimum 85% of the interest income in excess of guaranteed return is credited to policyholders funds in Turkey. The products ceased being sold in March, 2007 (before AEGON acquired the business).

Based on gross written premium, Hungary has a share of around 80% in the traditional general account life insurance portfolio of the CEE Region. The bulk of the unit-linked portfolio (around 50%) was written in Poland, around 40% of the portfolio was written in Hungary and also there are some smaller unit linked portfolios in the Czech Republic and Slovakia.

In 2008 AEGON established AEGON Life Insurance Company in Romania. This company started to sell life insurance policies in 2009.

Since 2006, AEGON Hungary has been offering mortgages to retail customers. Home loans are mainly Swiss franc denominated and provided by AEGON Hungary Mortgage Finance Co., a subsidiary of AEGON Hungary Composite Insurance Company. AEGON is targeting to be a niche market player.

### **4.3.2 Individual savings and retirement products**

AEGON companies in Central and Eastern Europe offer a variety of individual savings and retirement products. AEGON Hungary Investment Fund Management Company, a subsidiary of AEGON Hungary Composite Insurance Company, offers a range of mutual funds to retail investors. In addition, AEGON offers unit-linked investment products in the Czech Republic.

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### 4.3.3 Pensions and asset management

#### *Pensions*

AEGON's pension business in Central and Eastern Europe has experienced considerable growth in recent years. This was mainly due to the region's strong economic growth experienced before the financial turmoil and to the widespread reform of the pension system in many countries. In 2009, regulatory changes were implemented in the country units of the Region, which slowed down the growth.

In four of the six CEE countries in which AEGON has businesses, AEGON has introduced mandatory pension plans: Hungary, Slovakia, Poland and Romania. Additionally in four countries, AEGON has voluntary pension plans: Hungary, Slovakia, the Czech Republic and Turkey.

AEGON's mandatory pension funds in Hungary, Poland and Slovakia, as well as the voluntary pension fund managed by AEGON Hungary, are among the largest in their countries in terms of both membership and assets under management<sup>2</sup>. AEGON had a total of 2.1 million pension fund members in the CEE Region as of December 2009.

By the acquisition of Ankara Emeklilik A.S. (subsequently renamed to AEGON Pension and Life Insurance Company), AEGON entered the Turkish voluntary pension market in 2008. Also, in 2008 AEGON PTE merged with PTE Skarbiec-Emerytura, a pension fund management company that used to belong to Poland's BRE Bank. Additionally, in 2008 AEGON Hungary acquired the Pension Fund Management Company and the Investment Fund Management Company of UNIQA.

The mandatory pension fund in Romania was launched in 2007, following a partnership agreement signed with Banca Transilvania, to set up a joint pension company ahead of the introduction of the country's new mandatory retirement system in early 2008. In 2009 AEGON completed the acquisition of Banca Transilvania's 50% share in the joint pension company. The transaction gave AEGON full control over the mandatory pension business in Romania.

#### *Asset management*

AEGON provides a range of asset management services through AEGON Hungary Investment Fund Management Company.

AEGON Hungary Investment Fund Management Company:

- manages the general account assets, unit-linked portfolio and pension plans of AEGON Hungary;

- manages the general account assets backing shareholders' equity of AEGON Slovakia, Czech Life Insurance Company and Poland Life Insurance Company;

- manages the guaranteed fund (unit-linked) of AEGON Poland;

- provides asset management services to third parties in Hungary;

- provides asset management services to the AEGON Voluntary Pension Fund Company in the Czech Republic; and

- manages the assets of 17 AEGON mutual funds.

### 4.3.4 General insurance

In addition to life insurance and pensions, AEGON Hungary offers non-life cover (household, car insurance and some wealth industrial risk). In recent years, margins on non life insurance in Hungary have been attractive. Moreover, household insurance provides considerable opportunities for cross-selling life insurance.



#### 4.3.5 Competition

AEGON is among the biggest players on the life insurance market in Hungary. In 2009 based on the first nine months premium income, it is the second largest in Hungary (source: Hungarian Insurance Association, [www.mabisz.hu](http://www.mabisz.hu)). Also based on the first nine months premium income, AEGON is the fourth largest on the Hungarian non life insurance market (source: Hungarian Insurance Association, [www.mabisz.hu](http://www.mabisz.hu)). AEGON is also a significant market player on the Polish market, ranked as fifth based on the unit-linked products in September 2009 (source: [www.knf.gov.pl](http://www.knf.gov.pl)) based on gross written premiums. As AEGON Slovakia was incorporated in 2003, AEGON Czech in 2004 and AEGON Romania in 2008 only, AEGON is a less significant player in these countries, just like the recently acquired AEGON Pension and Life Insurance Company in Turkey.

<sup>2</sup> Source: the Association of Pension Fund Management Companies, Slovakia ([www.adss.sk](http://www.adss.sk)), Hungarian Financial Supervisory Authority ([www.pszaf.hu](http://www.pszaf.hu)) and Polish Financial Supervision Authority ([www.knf.gov.pl](http://www.knf.gov.pl)).

On the Hungarian mandatory pension fund market, AEGON was ranked second both in terms of the number of members and in terms of its managed assets in September 2009. On Hungary's voluntary pension fund market, AEGON was ranked third both in terms of the number of members and in terms of its managed assets in September 2009. (Source: www.pszaf.hu). In terms of managed assets AEGON was ranked fifth on the Slovakian market in December 2009 (Source: Association of Pension Fund Management Companies). Due to the merger with PTE Skarbiec-Emerytura taking place in 2008, AEGON is ranked seventh both in terms of the number of members and in terms of its managed assets in December 2009 on the Polish market. (Source: www.knf.gov.pl). As of December 31, 2009, on the Romanian mandatory private pension market, AEGON was ranked eighth, both in terms of net assets under management and number of members. (source: www.csspp.ro)

#### 4.3.6 Regulation

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

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

the Hungarian Financial Supervisory Authority (HFSA), which has a department dealing exclusively with the insurance sector;

the National Bank of Slovakia;

the Czech National Bank;

the Polish Financial Supervisory Authority (PFSA);

the Insurance Supervisory Commission (CSA) (Romania); and

the Undersecretariat of Treasury (Turkey).

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

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

As one of the largest institutional investors in Hungary, the investment operations of AEGON Hungary are also regulated by the country's Capital Markets Act (CXX. 2001). This Act regulates the activity of brokerage houses, investment funds, fund managers, custodians, stock exchanges, settlement houses and the HFSA. Its main goal is to ensure the transparent operation of capital markets, to develop the regulation of market participants, and to enhance investment security. The Act conforms to relevant EU regulations. Effective 2006 AEGON Hungary Investment Fund Management Company was licensed for managing European investment funds (UCITS funds). This activity is also regulated by the Capital Markets Act.

In Hungary, the foundation and operations of mandatory and voluntary pension funds are regulated by the country's Act on Private Pension and Private Pension Funds (LXXXII. 1997) and its Act on Voluntary Mutual Pension Funds (XCVI. 1993) respectively. Although, for AEGON, these activities are outsourced to AEGON Hungary Pension Fund Management Company, its operations must still comply with this legislation. This activity is also supervised by the HFSA. Slovakia's mandatory pension market is regulated by Act 43/2004 on pension asset management companies and respective notices, and the voluntary pension market by Act 650/2004 on Supplementary Pension Insurance. Both the mandatory and the voluntary pension business fall under the supervision of the National Bank of Slovakia (NBS). In Romania the private pension system is regulated and supervised by the Private Pension System Supervisory Commission (CSSPP) and the mandatory pension system is subject to Act 411/2004 on Privately Administered Pension Funds. In Poland this activity is supervised by the Polish Financial Supervisory Authority (PFSA)

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and is governed by Act as of 28 August 1997 on Organization and Operation of Pension Funds. In the Czech Republic the voluntary pension funds fall under the supervision of the Czech National Bank and are regulated by Act 42/1994 on State-Contributory Supplementary Pension Insurance. In Turkey the voluntary pension funds fall under the supervision of the Undersecretariat of Treasury and the companies are subject to Individual Retirement Saving and Investment System Law No. 4632.

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

### **4.3.7 Asset liability management**

Asset liability management 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 calculations. During these meetings the performance of portfolios is being evaluated.

#### 4.3.8 Reinsurance ceded

AEGON takes out reinsurance for both its life and its non-life businesses in Central and 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.

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

Property catastrophe excess of loss treaty (EUR 5.6 million);

Motor third party liability excess of loss treaty (EUR 0.4 million);

Property per risk excess of loss treaty (EUR 1.1 million).

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

#### 4.4. Asia

As elsewhere around the world, AEGON operates through a number of different sales channels in Asia. In China, AEGON works through agents, independent brokers, banks, direct marketing and the group channel to sell its products. The agency channel usually sells traditional products and regular premium universal life products with minimum guaranteed rates. Participating products are the main products in the bank channel and brokerage channel, because pure investment products were not popular in 2009 due to volatile capital markets. Personal accidental products and critical illness products are the main products sold through the direct marketing channel.

Banks are becoming increasingly important in Asia as a means for distributing pensions, life insurance and other long-term savings and investment products. For this reason, AEGON has been striving in recent years to extend its bank distribution agreements in the region. AEGON now has partnerships in place with several of China's national banks including Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China and China CITIC Bank.

AEGON's bancassurance network in China now totals 900 outlets.

AEGON Sony Life Insurance Co. (ASLIC) in Japan has two primary channels of distribution. One is the Life Planner channel of Sony Life, our joint venture partner, and the other is the bank distribution channel. Life Planner began operations on December 1, 2009 and one regional bank began operations on December 8, 2009. ASLIC launched a partnership with a national bank in February 2010 and intends to add other bank partners going forward. Bancassurance is expected to become an increasingly important channel in Japan as banks are closer to the consumers than insurance companies and are growing more accustomed to selling insurance. Furthermore, banks are eager to expand into fee income based activities since their mainstay business margins have been reduced because of the recession and related low interest rates in Japan.

AEGON Industrial Fund Management Co. (AIFMC) was acquired in March 2008 and sells mutual fund investments via banks, security companies and via direct sales. Its key distributor includes Industrial and Commercial Bank of China (ICBC), Industrial Bank of China (IB), China Merchant Bank (CMB), China Construction Bank (CCB) and Industrial Securities Co. In 2009, AIFMC obtained a license to conduct asset management activities in addition to its mutual funds.

AEGON Religare started operations in mid 2008 and the focus has been on establishing a widespread national agency network. Currently the joint venture has opened 52 branches. In addition AEGON Religare is establishing strategic partnerships with other companies that offer financial services to their clients. Existing products are tailored to meet the specific customer requirements.

#### 4.4.1 Life and protection

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, health, group life, accident and annuities.

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In 2009, the Chinese capital markets experienced significant volatility and customers have shifted their attention to protection products and investment products with guaranteed rates. In the bank channel, participating products are the main products, generating about 70% of channel production. Regular premium universal life with guaranteed rate, regular premium participating products and endowment products with critical illness protection are the top three products in the agency channel. In the broker channel, AEGON-CNOOC is one of the market leaders due to sales of predominantly participating products. AEGON-CNOOC offers employee benefit plans including accidental death, term life and inpatient and outpatient medical benefits to small and mid-sized companies through its group channel.

AEGON Religare started operations in 2008 with the launch of three term assurance and three unit-linked products. It has now added four unit linked products (three life and one pension), three traditional endowment type products (of which two were available for sale for a limited period) and two group life products to its product portfolio as well as an on-line term product available directly to the customer over the internet.

#### 4.4.2 Competition

##### *China*

##### AEGON-CNOOC

China's life insurance industry continued to grow steadily in 2009. As of October 31, 2009, there were 55 life insurance companies in the market, including 28 foreign life insurers, with year to date total premiums of RMB 682.2 billion, an increase of 5.7% over the same period last year. The top 5 life insurance companies control 77.9% of the market, while the foreign life insurance companies occupied 4.9%, i.e. RMB 33.7 billion of total premium.

As of October 31, 2009, AEGON-CNOOC's year to date total premium were RMB 1.196 billion, a 9.0% decrease compared to the same period last year. However, on a new business APE basis, the company's sales have increased over 30% compared to last year. Also, as of October 31, 2009, AEGON-CNOOC ranked 30<sup>th</sup> among all life insurance companies and ninth among foreign life companies. The company's market share among foreign-invested companies was 3.6%. Channel contributions to the APE production ranked in the following order: Bancassurance, Brokerage, Agency, Direct Marketing and Group

While China's insurance market continues to grow, foreign insurers also continue to face a challenging environment. Most maintain a strong commitment to the Chinese market. At the same time, many are finding it difficult to secure economies of scope and scale. Many of the foreign companies have been in China for seven to ten years, but have yet to achieve profitability. Joint venture relationships have experienced challenges working with domestic partners who have limited experience in the insurance business. Regulator's restrictions on capital requirement and geographic expansion also have impact on the JV's business development. The global financial crisis and the severe drop in the equity market in 2008 added to these tensions.

##### AIFMC

There are 62 fund management companies active in mainland China. These players are expanding in line with the development of the Chinese stock market. The main competitive factors are R&D power, fund performance, sales channels and clients' satisfaction. Based on assets under management, AIFMC is ranked 25<sup>th</sup> as of December 31, 2009 (Source: Wind and TX Investment Consulting Co. Ltd). Most of the funds under management out-performed the benchmark as well as their peers. As of December 31, 2009, those funds launched more than three years ago were given the top rating of five stars by Morningstar, a well known professional fund ranking agency.

##### *India*

The life insurance business (measured in the context of first year premium) registered a decline of 7.16% in 2008-09. It is now the tenth largest insurance market world wide and the fifth largest in Asia. According to the IRDA website, there were 23 life insurers licensed in India as of the end of November 2009. Although penetration in the life sector continues to be around 4% of GDP, there are opportunities as the growing middle class is expected to propel growth (Source: Swiss Re, sigma No.3/2009, IRDA website).

Unit-linked products have become increasingly popular as customers have shifted away from traditional products as stock markets boomed over the last year. In spite of the global financial crisis in 2008 unit-linked products continue to be popular. The agency force is still a major distribution channel, but life insurers are increasingly lining up with the banks to distribute their products.

The Life Insurance Company of India remains the dominant player in the market, even as the new private sector companies expand their market share and are expected to generate more than half of new business premiums in 2009. Although the Indian government passed a bill in October 2008 that paves the way for foreign investors to take much larger stakes in domestic insurance companies through a proposal for raising the limit for foreign direct investment from its current level of 26% to 49%, the assent to the bill is awaited by the Parliament

AEGON Religare started operations in mid 2008 and the focus has been on establishing a widespread national agency network. While AEGON Religare has established 52 branches across the country, it faces stiff competition from existing and new players who have set-up a massive distribution footprint across the country.



*Japan*

Variable annuity products in Japan are mostly sold through banks and securities firms with a top-down approach where the head offices have much more decision-making power than the local branch offices in terms of product selection and promotion. Banks are permitted to act as distributors for multiple insurers; each of the three largest banks in Japan (mega banks) has offered the variable annuity products of seven or more insurers.

Most of the players concentrate on Guaranteed Minimum Accrual Benefit. Guaranteed Lifetime Withdrawal Benefit is currently provided by Mitsui Sumitomo-MetLife, AXA and Alico although both AXA and Alico's share in GLWB is not material. ASLIC will be the only providers of a Guaranteed Minimum Surrender Benefit type of product in the market.

**4.4.3 Regulation**

*China*

China Insurance Regulatory Commission (CIRC) is the entity in regulating and supervising all insurance companies in China. CIRC promotes consumer protection, sets the regulation of premium rates and reserve requirements, and has the right to investigate the financial position and solvency of the life insurers.

In 2009, CIRC started to strongly promote a business structure adjustment, encouraging life insurance companies to develop more long-term and regular premium protection plans. With a new insurance law's implementation from October 1, 2009, CIRC further strengthened its supervision of the insurance industry. Tighter controls are anticipated across a broad platform. Solvency, risk management, corporate governance, consumer protection, product supervision and pricing are some of the areas expected to attract attention. The guidelines for commercial banks investing in insurance companies has been published and several large domestic banks have entered into such cross-financial institution investments in 2009. As a result, China's insurance industry is facing new challenges and opportunities.

For asset management companies, China Securities Regulatory Commission (CSRC) is the entity that regulates and supervises all securities and fund management companies in China.

*India*

The Indian life insurance companies are regulated by the Insurance Regulatory and Development Authority (IRDA) that is also responsible for the development of the Indian insurance market.

*Japan*

The Financial Services Agency (FSA) in Japan is the government agency supervising all insurance companies in Japan. All new products or major amendments require a filing with and approval from the FSA. The standard examination period for approval is 90 days (60 days for minor changes). General policy provisions, statements of business procedure, pricing and valuation require approval. The FSA also has the right to do on and off site inspection. Relevant regulations for insurance operation include the Insurance Business Law and related enforcement/notice, the Insurance Act, the Financial Instruments and Exchange Act and others.

**4.4.4 Asset liability management**

*China*

A monthly asset liability management meeting is held to monitor duration and liquidity management. The duration of liabilities and assets are calculated separately by block and the duration-gap is analyzed. Considering that most insurance liabilities are single-pay products with benefit term 10 years or less, AEGON-CNOOC purchased corporate bonds, government bonds, and statutory deposits to match this liability while operating funds are invested in the short-term bond, money-market fund and bond repurchase markets in order to achieve higher investment returns.

The respective Risk and 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 Economic Capital Model, liquidity tests and duration mismatch tests.

*India*



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AEGON Religare has a Board level Investment Committee and a Management level Risk and Capital Committee. A regular review of duration and cash flow matching is conducted. As most of its business is unit linked where investment risk is passed on to the policyholders, Asset Liability Management (ALM) is not critical to this line of business. Regular reviews are done to ensure appropriate ALM for the closed block of business under the traditional endowment products.

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#### 4.4.5 Reinsurance ceded

##### *China*

AEGON-CNOOC shares its morbidity and mortality risk with some international reinsurers which all have high ratings. The mortality risk of individual products is mainly shared by Swiss Re through the surplus reinsurance structure. Most of the morbidity risks are taken by Gen Re and Munich Re in quota share. In 2009, AEGON-CNOOC began to cooperate with Hannover Re. The retention limit on any one individual life is RMB 200,000 and on accidental death is RMB 300,000. The life and accidental group products are reinsured by Hannover Re and group health products are ceded to Munich Re.

##### *India*

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

##### *Japan*

ASLIC will reinsure (cede) 100% of its guarantees on the variable annuities to SA Reinsurance (SARe). ASLIC may utilize third party reinsurance for a minor portion, considering the transfer pricing issues. Formation of SARe is done but operations will start early 2010.

#### 4.5. Western Europe (Spain and France)

AEGON Spain focuses primarily on retail customers. It offers both life insurance and accident and health cover. In particular, AEGON Spain offers pensions as well as both traditional life and unit-linked variable life products, a market traditionally dominated by the country's retail banks. In France, AEGON has a partnership with La Mondiale since 2002 and works together with La Mondiale in a number of areas including pensions, asset management and distribution.

##### 4.5.1. Spain

In Spain, over 70 percent of life insurance policies are sold through the country's retail banks. For this reason, Spain in recent years has been an important part of AEGON's efforts to expand its web of bank distribution partnerships. AEGON now has partnerships in place with five of Spain's leading savings banks, giving the Group access to nearly 2,100 branches across the country:

Caja de Ahorros del Mediterráneo

Caja Navarra

Caja de Badajoz

Caja Cantabria

Caixa Terrassa

AEGON's partnership with Caja de Ahorros del Mediterraneo (CAM) goes back to 2004. CAM is Spain's sixth largest savings bank by profit and by number of branches. CAM has a network of more than 1,120 branches across the Valencia, Murcia and Catalonia provinces, as well as in Madrid and on the Balearic and Canary Islands. AEGON and CAM have a 49.99 percent interest in Mediterraneo Vida, the life insurance and pensions company that has exclusive access to CAM's branch network.

AEGON's partnership with Caja Navarra was signed in November 2005. Caja Navarra has a total of 379 branches in the north of Spain, close to the border with France. Under the agreement, AEGON has acquired a 50 percent interest in Caja Navarra's pension and life insurance business. AEGON and Caja Navarra are also exploring other areas of possible cooperation, including health insurance.

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Caja de Badajoz has a network of some 216 branches, chiefly in the western region of Extremadura, which adjoins Spain's border with Portugal. Under the partnership, also agreed in 2005, AEGON and Caja de Badajoz have set up a 50/50 joint company to sell life insurance and pensions.

Caja Cantabria is one of the largest savings banks in northern Spain, with a total of 172 branches, located primarily in its home province of Cantabria.

With almost 300 branches, Caixa Terrassa is one of the largest savings banks in Catalonia. As a result of this partnership, AEGON will become the sixth largest life insurer in Spain and will gain access to one of the wealthiest areas of Spain.

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

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### *Competition*

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

### *Regulation*

The Dirección General de Seguros (DGS) is the regulatory authority for the Spanish insurance industry. Insurance companies are required to report to the DGS on a quarterly basis. Spanish regulations incorporate all the requirements of the relevant EU Directives. In terms of solvency margin, local regulations are based on a percentage of the reserves for the life insurance business and on a percentage of premiums for the health insurance business.

AEGON Spain's investment portfolio is regulated by Spanish law, which is based on the Third EU Directive (92/96/EEC). The regulation requires the appropriate matching of investments and technical provisions, and it also establishes the main characteristics of the assets that can be applied to asset liability management. There are limitations on the amounts that can be invested in unsecured loans, unquoted stocks, single investments in real estate, and a single loan or debtor.

### *Asset liability management*

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

### *Reinsurance ceded*

AEGON Spain has proportional reinsurance protection in place for its individual risk policies and non-proportional protection for its group risk policies. This strategy is in line with standard practice within the insurance industry. With this approach, AEGON is seeking to diversify its insurance risk and limit the maximum possible losses on risks that exceed policy retention levels. Maximum retention levels vary by product and the nature of the risk being reinsured. Generally, however, the retention limit is between EUR 45,000 and EUR 60,000 per life insured. AEGON Spain remains contingently liable with respect to the amount ceded should the reinsurance company fail to meet its obligations.

AEGON Spain, generally, works only with reinsurance companies that have a credit rating from Standard & Poor's of at least A-. To lessen its exposure to defaults, AEGON Spain regularly monitors the creditworthiness of its reinsurers. Where appropriate, additional protection is taken out through funds that are withheld for investment by the ceding company.

## **4.5.2. France**

In 2002, AEGON signed a partnership with mutual insurer La Mondiale, one of France's largest providers of life insurance and pensions. AEGON and La Mondiale work together in a number of areas, including pensions, asset management and distribution. In 2005, the AEGON Pension Network was launched in collaboration with La Mondiale. As part of the partnership, AEGON took a 20 percent stake in La Mondiale's subsidiary La Mondiale Participations, increasing it later to 35 percent.

AEGON's partnership with La Mondiale gives the Group a foothold in Europe's second largest insurance market. As in Spain, most life insurance in France more than 50 percent is sold via retail banks or La Poste, France's post office.

In July 2007, La Mondiale and fellow insurer AG2R announced a merger. The merger which does not affect AEGON's partnership with La Mondiale has created the country's ninth largest insurer of individuals, serving some 8 million customers (including retirees). The new group became operational at the start of 2008.

## **4.6. Variable Annuities Europe**

Variable annuity products are essentially unit-linked life insurance products with guarantees. They typically offer a range of investment fund options linked in various proportions at the choice of the policyholder - to equities and fixed interest investments. The guarantees may take several different forms from guarantees of a minimum level of future income for life (immediate or deferred) or for a given term; 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. The risk is that poor market performance or extreme longevity erodes the policyholder account value to the extent that the insurance charges prove inadequate to meet the cost of the benefits in excess of the policyholder's remaining account

value.

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

Premiums paid on variable annuity contracts are invested in underlying funds, including bond and equity funds and (usually) a cash fund. In most products, the investment options are selected by a client based on the client's preferred level of risk. The assets and liabilities related to this product are legally segregated for the benefit of particular policyholders in separate accounts of the insurance company. These separate accounts are classified as investments for the account of policyholders. Various riders are available on variable annuity contracts, providing guaranteed minimum death, maturity, withdrawal or income benefits.

The account value of variable annuities reflects the performance of the funds. The insurance provider earns administration and expense charges as well as guarantee charges for the guaranteed benefits. Surrender charges are generally not a large form of revenue as policyholder surrender rates are typically lower when a surrender charge penalty is still present. Any surrender charges collected are typically applied to recoup outstanding installation costs.

#### *Competition*

Competition is still relatively low in most of the variable annuities markets in Europe compared to established markets. Competition is steadily increasing however, particularly in the UK and Germany. The financial crisis did cause some insurers to delay their entry; led most existing players to re-price or redesign their products for new business, and caused the exit of one of the highest profile new entrants (The Hartford). Our main competitors in Europe are AXA, Allianz, ING, MetLife and SwissLife.

#### *Regulation*

The AEGON Ireland business includes the Dublin-based life insurance company, AEGON Ireland plc. (authorized by the Irish Financial Services Regulatory Authority and regulated by the United Kingdom's FSA for conduct of UK business), as well as a Dublin-based service company.

#### **4C Organizational structure**

AEGON N.V. is a holding company that operates through its subsidiaries. For a list of names and locations of the most important group companies, see Note 18.53 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

The main operating units of the AEGON Group are separate legal entities organized under the laws of their respective countries. The shares of those legal entities are directly or indirectly held by two intermediate holding companies incorporated under Dutch law: AEGON Nederland N.V., the parent company of the Dutch operations, and AEGON International B.V., which holds the Group companies of all countries except the Netherlands.

#### **4D Description of property**

In the United States, AEGON owns many of the buildings that the company uses in the normal course of its business, primarily as offices. AEGON owns 19 offices located throughout the United States with a total square footage of 2.3 million. AEGON also leases space for various offices located throughout the United States under long-term leases with a total square footage of 1.7 million. AEGON's principal offices are located in Baltimore, Maryland; Cedar Rapids, Iowa; Louisville, Kentucky; Los Angeles, California; Frazer, Pennsylvania; St. Petersburg, Florida; Plano, Texas; Purchase, New York; and Charlotte, North Carolina.

Other principal offices owned by AEGON are located in The Hague, The Netherlands; Budapest, Hungary; and Madrid, Spain. AEGON leases its headquarters and other offices in the Netherlands (Leeuwarden), the United Kingdom and Canada under long-term leases. AEGON believes that its properties are adequate to meet its current needs.

#### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable



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## ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

### 5.1 Introduction

AEGON is committed to providing information on key factors that drive its business and affect its financial condition, results and value. For a discussion of critical accounting policies see *Application of Critical Accounting Policies - IFRS Accounting Policies*. For a discussion of our risk management methodologies see Item 11 *Quantitative and Qualitative Disclosure About Market Risk* and Item 18.4 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F included in this Report.

### 5.2 Application of Critical Accounting Policies - IFRS Accounting Policies

The Operating and Financial Review and Prospects are based upon AEGON's consolidated financial statements, which have been prepared in accordance with 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 financial statement presentation and that require complex estimates or significant judgment are described in the following sections.

#### i Valuation of assets and liabilities arising from life insurance contracts

##### General

The liability for life insurance contracts with guaranteed or fixed account terms is either based on current assumptions or on the assumptions established at inception of the contract, reflecting the best estimates at the time increased with a margin for adverse deviation. All contracts are subject to liability adequacy testing which reflects management's current estimates of future cash flows. To the extent that the liability is based on current assumptions, a change in assumptions will have an immediate impact on the income statement. Also, if a change in assumption results in the failure of the liability adequacy test, the entire deficiency is recognized in the income statement. To the extent that the failure relates to unrealized gains and losses on available-for-sale investments, the additional liability is recognized in the revaluation reserve in equity.

Some insurance contracts without a guaranteed or fixed contract term contain guaranteed minimum benefits. Depending on the nature of the guarantee, it may either be bifurcated and presented as a derivative or be reflected in the value of the insurance liability in accordance with local accounting principles. Given the dynamic and complex nature of these guarantees, stochastic techniques under a variety of market return scenarios are often used for measurement purposes. Such models require management to make numerous estimates based on historical experience and market expectations. Changes in these estimates will immediately affect the income statement.

In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force are recorded as DPAC and VOBA assets respectively and are amortized to the income statement over time. If the assumptions relating to the future profitability of these policies are not realized, the amortization of these costs could be accelerated and may even require write offs due to unrecoverability.

In July 2009 AEGON reached a final agreement with Stichting Verliespolis and Stichting Woekerpolis Claim to reduce charges for customers of its unit-linked insurance policies in the Netherlands. The agreement is part of industry-wide efforts in the Netherlands to address concerns over charges related to unit-linked insurance products. The total costs of the improvements to the policies under this agreement are estimated at EUR 250 million. The improvements do not have a significant impact on AEGON's 2009 income statement as the actual reserves for insurance and investment policies are sufficient to cover the estimated future liabilities. Any amounts due for past periods have been recorded in insurance contract reserves.

##### *Actuarial assumptions*

The main assumptions used in measuring DPAC, VOBA and the liabilities for life insurance contracts with fixed or guaranteed terms relate to mortality, morbidity, investment return and future expenses. Depending on local accounting principles, surrender rates may be considered.

Mortality tables applied are generally developed based on a blend of company experience and industry wide studies, taking into consideration product characteristics, own risk selection criteria, target market and past experience. Mortality experience is monitored through regular studies, the results of which are fed into the pricing cycle for new products and reflected in the liability calculation when appropriate. For contracts insuring survivorship, allowance may be made for further longevity improvements. Morbidity assumptions are based on own claims severity and frequency experience, adjusted where appropriate for industry information.





Investment assumptions are either prescribed by the local regulator or based on management's future expectations. In the latter case, the anticipated future investment returns are set by management on a countrywide basis, considering available market information and economic indicators.

Assumptions on future expenses are based on the current level of expenses, adjusted for expected expense inflation if appropriate.

Surrender rates depend on product features, policy duration and external circumstances such as the interest rate environment and competitor and policyholder behavior. Credible own experience, as well as industry published data, are used in establishing assumptions. Lapse experience is correlated to mortality and morbidity levels, as higher or lower levels of surrenders may indicate future claims will be higher or lower than anticipated. Such correlations are accounted for in the mortality and morbidity assumptions based on the emerging analysis of experience.

#### **Reserve for guaranteed minimum benefits**

See Item 5.2.iii of this Annual Report on Form 20-F for further discussion on guaranteed minimum benefits in our insurance products.

#### **DPAC and VOBA**

A significant assumption related to estimated gross profits on variable annuities and variable life insurance products in the United States and some of the smaller country units, is the annual long-term growth rate of the underlying assets. As equity markets do not move in a systematic manner, assumptions as to the long-term growth rate are made after considering the effects of short-term variances from the long-term assumptions (a reversion to the mean assumption). The reconsideration of this assumption may affect the original DPAC or VOBA amortization schedule, referred to as DPAC or VOBA unlocking. The difference between the original DPAC or VOBA amortization schedule and the revised schedule, which is based on estimates of actual and future gross profits, is recognized in the income statement as an expense or a benefit in the period of determination. At December 31, 2009, the reversion to the mean assumptions for variable products, primarily variable annuities, were as follows in the United States: gross long-term equity growth rate of 9% (2008: 9%); gross short-term growth rate of 7.25% (2008: 15%); gross short- and long-term fixed security growth rate of 6% (2008: 6%); and the gross short- and long-term growth rate for money market funds of 3.5% (2008: 3.5%).

A 1% decrease in the expected long-term equity growth rate with regards to our variable annuities and variable life insurance products in the United States and Canada would result in a decrease in DPAC and VOBA balances of approximately EUR 41 million after tax, while a change in the short-term equity growth rate by 1% (increase or decrease) would impact DPAC and VOBA balances by approximately EUR 33 million after tax. A change in both the long-term and short-term equity growth rates to 8% would impact DPAC and VOBA balances by less than EUR 15 million after tax. The DPAC and VOBA balances for these products in the United States and Canada amounted to EUR 1.7 billion at December 31, 2009.

For the fixed annuities and fixed universal life insurance products, the EGP calculations include a net interest rate margin, which we assume will remain practically stable under any reasonably likely interest-rate scenario.

The impact of a 10% increase in the mortality assumption would impact DPAC and VOBA balances by approximately EUR 103 million after tax. The impact of a 20% increase in the lapse assumption would impact DPAC and VOBA balances by approximately EUR 33 million after tax.

The impact of any reasonably likely changes in the other assumptions we use to determine EGP margins (i.e. maintenance expenses, inflation and disability) would impact DPAC and VOBA balances by less than EUR 20 million after tax per assumption change.

**DPAC**

The movements in DPAC over 2009 compared to 2008 can be summarized and compared as follows:

<b>In million EUR</b>	<b>2009</b>	<b>2008</b>
At January 1	12,224	10,957
Costs deferred/rebates granted during the year	1,555	1,720
Disposal of group assets	(297)	
Amortization through income statement	(1,190)	(1,302)
Shadow accounting adjustments	(1,455)	1,396
Net exchange differences	78	(530)
Other	(15)	(17)
<b>At December 31</b>	<b>10,900</b>	<b>12,224</b>

<b>In million EUR</b>	<b>Americas</b>	<b>The Netherlands</b>	<b>United Kingdom</b>	<b>Other countries</b>	<b>Total</b>
<b>2009</b>					
Life and protection	5,023	374	196	149	5,742
Individual savings and retirement products	1,157			19	1,176
Pensions and asset management		58	2,773		2,831
Institutional products	249				249
Life reinsurance	900				900
General insurance				2	2
<b>At December 31</b>	<b>7,329</b>	<b>432</b>	<b>2,969</b>	<b>170</b>	<b>10,900</b>

<b>In million EUR</b>	<b>Americas</b>	<b>The Netherlands</b>	<b>United Kingdom</b>	<b>Other countries</b>	<b>Total</b>
<b>2008</b>					
Life and protection	5,248	453	193	424	6,318
Individual savings and retirement products	2,217				2,217
Pensions and asset management		68	2,430		2,498
Institutional products	295				295
Life reinsurance	894				894
General insurance				2	2
<b>At December 31</b>	<b>8,654</b>	<b>521</b>	<b>2,623</b>	<b>426</b>	<b>12,224</b>

**VOBA**

The movement in VOBA over 2009 can be summarized and compared to 2008 as follows:

<b>In million EUR</b>	<b>2009</b>	<b>2008</b>
At January 1	4,119	3,927
Additions	4	24
Acquisitions through business combinations		42
Amortization / depreciation through income statement	(332)	(212)
Shadow accounting adjustments	(427)	444
Net exchange differences	(2)	(106)
<b>At December 31</b>	<b>3,362</b>	<b>4,119</b>



In million EUR	Americas	The Netherlands	United Kingdom	Other countries	Total
<b>2009</b>					
Life and protection	1,570	3	1	39	1,613
Individual savings and retirement products	190				190
Pensions and asset management	47	55	734	25	861
Institutional products	42				42
Life reinsurance	560				560
Distribution		96			96
<b>Total VOBA</b>	<b>2,409</b>	<b>154</b>	<b>735</b>	<b>64</b>	<b>3,362</b>
<b>2008</b>					
Life and protection	2,061	4	1	45	2,111
Individual savings and retirement products	361				361
Pensions and asset management	51	60	707	26	844
Institutional products	88				88
Life reinsurance	606				606
Distribution		109			109
<b>Total VOBA</b>	<b>3,167</b>	<b>173</b>	<b>708</b>	<b>71</b>	<b>4,119</b>

#### ii Fair value of investments and derivatives determined using valuation techniques

Investment contracts issued by AEGON are either carried at fair value (if they are designated as financial liabilities at fair value through profit or loss) or amortized cost (with fair value being disclosed in the notes to the consolidated financial statements in Item 18 of this Annual Report on Form 20-F). These contracts are not quoted in active markets and their fair values are determined by using valuation techniques, such as discounted cash flow methods and stochastic modeling or in relation to the unit price of the underlying assets. All models are validated and calibrated. A variety of factors are considered, including time value, volatility, policyholder behavior, servicing costs and fair values of similar instruments. Credit spread is considered in measuring the fair value of derivatives (including derivatives embedded in insurance contracts), borrowings and other liabilities.

#### *Fair value of financial assets and liabilities*

The estimated fair values of AEGON's financial assets and liabilities are presented in the respective notes to the balance sheet together with their carrying values. The estimated fair values correspond with the amounts at which the financial instruments at AEGON's best estimate could have been traded at the balance sheet date between knowledgeable, willing parties in arm's length transactions. When available, AEGON uses quoted market prices in active markets to determine the fair value of investments and derivatives. In the absence of an active market, the fair value of investments in financial assets is estimated by using other market observable data such as corroborated external quotes and present value or other valuation techniques. An active market is one in which transactions are taking place regularly on an arm's length basis. Although not necessarily determinative, indicators that a market is inactive are lower transaction volumes, reduced transaction sizes and, in some cases, no observable trading activity for short periods. A fair value measurement assumes that an asset or liability is exchanged in an orderly transaction between market participants, and accordingly, fair value is not determined based upon a forced liquidation or distressed sale.

Valuation techniques are used when AEGON determines the market is inactive or quoted market prices are not available for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, to arrive at the price at which an orderly transaction would occur between market participants at the measurement date. Therefore, unobservable inputs reflect AEGON's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available.

AEGON employs an oversight structure over valuation of financial instruments that includes appropriate segregation of duties. Senior management, independent of the investing functions, is responsible for the oversight of control and valuation policies and for reporting the results of these policies. For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilized to corroborate those inputs. Further details of the validation processes are set out below.

#### **Shares**

Fair values for unquoted shares are estimated using observations of the price/earnings or price/cash flow ratios of quoted companies considered comparable to the companies being valued. Valuations are adjusted to account for company-specific issues and the lack of liquidity inherent in an unquoted investment. Illiquidity adjustments are generally based on available market evidence. In addition, a variety of other factors are

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reviewed by management, including, but not limited to, current operating performance, changes in market outlook and the third-party financing environment.

The fair values of investments held in non-quoted investment funds (hedge funds, private equity funds) are determined by management after taking into consideration information provided by the fund managers. AEGON reviews the valuations each month and performs analytical procedures and trending analyses to ensure the fair values are appropriate.

#### **Debt securities**

When available, AEGON uses quoted market prices in active markets to determine the fair value of its debt securities. These market quotes are obtained through index prices or pricing services.

The fair values of debt securities (including ABS - Housing, RMBS, CMBS and CDO securities) are determined by management after taking into consideration several sources of data. AEGON's valuation policy dictates that publicly available prices are initially sought from several third party pricing services. In the event that pricing is not available from these services, those securities are submitted to brokers to obtain quotes. The majority of brokers' quotes are non-binding. As part of the pricing process AEGON assesses the appropriateness of each quote (i.e., as to whether the quote is based on observable market transactions or not) to determine the most appropriate estimate of fair value. Lastly, securities are priced using internal cash flow modeling techniques. These valuation methodologies commonly use the following inputs: reported trades, bids, offers, issuer spreads, benchmark yields, estimated prepayment speeds, and/or estimated cash flows. Only pricing services and brokers with a substantial presence in the market and with appropriate experience and expertise are used.

Third party pricing services will often determine prices using recently reported trades for identical or similar securities. The pricing service makes adjustments for the elapsed time from the trade date to the balance sheet date to take into account available market information. Lacking recently reported trades, third party pricing services and brokers will use modeling techniques to determine a security price where expected future cash flows are developed based on the performance of the underlying collateral and discounted using an estimated market rate. Also included within the modeling techniques for ABS - Housing, RMBS, CMBS and CDO securities are estimates of the speed at which principal will be repaid over their remaining lives. These estimates are determined based on historical repayment speeds (adjusted for current markets) as well as the structural characteristics of each security.

Each month, AEGON performs an analysis of the inputs obtained from third party services and brokers to ensure that the inputs are reasonable and produce a reasonable estimate of fair value. AEGON's asset specialists and investment valuation specialists consider both qualitative and quantitative factors as part of this analysis. Several examples of analytical procedures performed include, but are not limited to, recent transactional activity for similar debt securities, review of pricing statistics and trends and consideration of recent relevant market events.

Credit ratings are also an important consideration in the valuation of securities and are included in the internal process for determining AEGON's view of the risk associated with each security. However, AEGON does not rely solely on external credit ratings and there is an internal process, based on market observable inputs, for determining AEGON's view of the risks associated with each security.

AEGON's portfolio of private placement securities (held at fair value under the classification of available-for-sale) is valued using a matrix pricing methodology. The pricing matrix is obtained from a third party service provider and indicates current spreads for securities based on weighted average life, credit rating, and industry sector. Each month, AEGON's asset specialists review the matrix to ensure the spreads are reasonable by comparing them to observed spreads for similar bonds traded in the market. Other inputs to the valuation include coupon rate, the current interest rate curve used for discounting and an illiquidity premium to account for the illiquid nature of these securities. The illiquidity premiums are determined based upon the pricing of recent transactions in the private placements market; comparing the value of the privately offered security to a similar public security. The impact of the illiquidity premium for private placement securities to the overall valuation is insignificant.

#### **Mortgages, policy loans and private loans (held at amortized cost)**

For private loans, fixed interest mortgage and other loans originated by the Group, the fair value used for disclosure purposes is estimated by discounting expected future cash flows using a current market rate applicable to financial instruments with similar yield, credit quality and maturity characteristics.

The fair value of floating interest rate mortgages, policy loans and private placements used for disclosure purposes is assumed to be approximated by their carrying amount adjusted for changes in credit risk. Credit risk adjustments are based on market observable credit spreads if available, or managements estimate if not market observable.

#### **Money market and other short term investments and deposits with financial institutions**

The fair value of assets maturing within a year is assumed to be approximated by their carrying amount adjusted for credit risk where appropriate. Credit risk adjustments are based on market observable credit spreads if available, or managements estimate if not market

observable.



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### Free standing financial derivatives

Where quoted market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that a typical market participant would consider and are based on observable market data when available. Models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices.

Fair values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices in active markets. Fair values for over-the-counter (OTC) derivative financial instruments represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services. Most valuations are derived from swap and volatility matrices, which are constructed for applicable indices and currencies using current market data from many industry standard sources. Option pricing is based on industry standard valuation models and current market levels, where applicable. The pricing of complex or illiquid instruments is based on internal models or an independent third party. For long-dated illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. To value OTC derivatives, management uses observed market information, other trades in the market and dealer prices.

AEGON normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA master netting agreements for each of the Group's legal entities to facilitate AEGON's right to offset credit risk exposure. Where appropriate collateral is not held by AEGON or the counterparty, the fair value of derivatives is adjusted for credit risk based on market observable spreads. Changes in the fair value of derivatives attributable to changes in counterparty credit risk were not significant.

### Derivatives embedded in insurance contracts including guarantees

Certain guarantees for minimum benefits in insurance and investment contracts are carried at fair value. These guarantees include guaranteed minimum withdrawal benefits (GMWB) in the United States which are offered on some AEGON variable annuity products and are also assumed from a ceding company; minimum interest rate guarantees on insurance products offered in The Netherlands, including group pension and traditional products; Variable annuities sold in Europe; and guaranteed minimum accumulation benefits on segregated funds sold in Canada.

The fair values of these guarantees are calculated as the present value of future expected payments to policyholders less the present value of assessed rider fees attributable to the guarantees. Given the complexity and long-term nature of these guarantees which are unlike instruments available in financial markets, their fair values are determined by using stochastic techniques under a variety of market return scenarios. A variety of factors are considered, including expected market rates of return, equity and interest rate volatility, credit spread, correlations of market returns, discount rates and actuarial assumptions.

The expected returns are based on risk-free rates. The credit spread is set by using the credit default swap (CDS) spreads of a reference portfolio of life insurance companies (including AEGON), adjusted to reflect the subordination of senior debt holders at the holding company level to the position of policyholders at the operating company level (who have priority in payments to other creditors). Because CDS spreads for US Life insurers differ significantly from that for European life insurers, AEGON's assumptions are set by region to reflect these differences in the valuation of the guarantee embedded in the insurance contracts.

For equity volatility, AEGON uses a term structure with market based implied volatility inputs for the first five years. Correlations of market returns across underlying indices are based on actual observed market returns and their inter-relationships over a number of years preceding the valuation date. The volume of observable option trading from which volatilities are implied diminishes markedly after five years; and therefore, AEGON uses a volatility curve which grades from market based implied volatilities for five years to a long-term forward rate assumption of 25% in 2009 and 2008. The December 31, 2009 volatility assumption for the S&P 500 index in year 30 is approximately 25.3% (spot rate). Assumptions on customer behavior, such as lapses, included in the models are derived in the same way as the assumptions used to measure insurance liabilities.

These assumptions are reviewed at each valuation date, and updated based on historical experience and observable market data, including market transactions such as acquisitions and reinsurance transactions.

Since many of the assumptions are unobservable and are considered to be significant inputs to the liability valuation, the liability included in future policy benefits has been reflected within Level III of the fair value hierarchy. Refer Note 18.47 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F for more details about AEGON's guarantees.

### Investment contracts

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Similar to embedded derivatives in insurance contracts, certain investment products are not quoted in active markets and their fair values are determined by using valuation techniques. Because of the dynamic and complex nature of these cash flows, stochastic or similar techniques under a variety of market return scenarios are often used. A variety of factors are considered, including expected market rates of return, market volatility, correlations of market returns, discount rates and actuarial assumptions.

The expected returns are based on risk-free rates, such as the current London Inter-Bank Offered Rate (LIBOR) swap rates and associated forward rates or the current rates on local government bonds. Market volatility assumptions for each underlying index are based on observed market implied volatility data and/or observed market performance. Correlations of market returns for various underlying indices are based on observed market returns and their inter-relationships over a number of years preceding the valuation date. Current risk-free spot rates are used to determine the present value of expected future cash flows produced in the stochastic projection process.

Assumptions on customer behaviour, such as lapses, included in the models are derived in the same way as the assumptions used to measure insurance liabilities.

### iii Guarantees in insurance contracts

For financial reporting purposes AEGON distinguishes between the following types of minimum guarantees:

- 1) Financial guarantees: these guarantees are treated as bifurcated embedded derivatives, valued at fair value and presented as derivatives (refer to Item 18.2.10 and Note 18.3 of this Annual Report on Form 20-F);
- 2) Total return annuities: these guarantees are not bifurcated from their host contracts because they are valued at fair value and presented as part of insurance contracts (refer to Item 18.2.19 of this Annual Report on Form 20-F);
- 3) Life contingent guarantees in the United States: these guarantees are not bifurcated from their host contracts, valued in accordance with insurance accounting ASC 944 Financial Services-Insurance and presented together with insurance liabilities (refer to Item 18.2.19 and 18.3 of this Annual Report on Form 20-F); and
- 4) Life contingent guarantees in the Netherlands: these guarantees are not bifurcated from their host contracts, valued at fair value and presented together with the underlying insurance contracts (refer to Item 18.2.19 and 18.3 of this Annual Report on Form 20-F).

In addition to the guarantees mentioned above AEGON has traditional life insurance contracts that include minimum guarantees that are not valued explicitly; however, the adequacy of all insurance liabilities, net of VOBA and DPAC, are assessed periodically (refer to Item 18.2.19 of this Annual Report on Form 20-F).

#### a. Financial guarantees

In the United States and United Kingdom, a guaranteed minimum withdrawal benefit (GMWB) is offered directly on some variable annuity products AEGON issues and is also assumed from a ceding company. Variable annuities allow a customer to provide for the future on a tax-deferred basis and to participate in equity or bond market performance. Variable annuities allow a customer to select payout options designed to help meet the customer's need for income upon maturity, including lump sum payment or income for life or for a period of time. This benefit guarantees that a policyholder can withdraw a certain percentage of the account value, starting at a certain age or duration, for either a fixed period or during the life of the policyholder.

In Canada, variable products sold are known as Segregated Funds. Segregated funds are similar to variable annuities, except that they include a capital protection guarantee for mortality and maturity benefits (guaranteed minimum accumulation benefits). The initial guarantee period is ten years. The ten-year period may be reset at the contractholder's option for certain products to lock-in market gains. The reset feature cannot be exercised in the final decade of the contract and for many products can only be exercised a limited number of times per year.

In The Netherlands, individual variable unit linked products have a minimum benefit guarantee if premiums are invested in certain funds. The initial guarantee period is 10 years and may be reset at the policyholder's option to lock in market gains. The reset feature cannot be exercised in the final decade of the contract and for many products can only be exercised a limited number of times per year. The management expense ratio charged to the funds is not guaranteed and can be increased at management's discretion. The sum insured at maturity or upon the death of the beneficiary has a minimum guaranteed return (in the range of 3% to 4%) if the premium has been paid for a consecutive period of at least ten years and is invested in a mixed fund and/or fixed-income funds. No guarantees are given for equity investments only.

The following table provides information on the liabilities for financial guarantees for minimum benefits:

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	United States <sup>1</sup>	Canada <sup>1</sup>	VA Europe	The Netherlands <sup>2</sup>	2009 Total <sup>3</sup>	United States <sup>1</sup>	Canada <sup>1</sup>	VA Europe	The Netherlands <sup>2</sup>	2008 Total <sup>3</sup>
At January 1	350	1,028	23	1,156	2,557	(18)	595		377	954
Incurred guarantee benefits	(250)	(216)	(22)	(399)	(887)	350	580	28	779	1,737
Paid guarantee benefits		(235)			(235)		(11)			(11)
Net exchange differences	(8)	108			100	18	(136)	(5)		(123)
<b>At December 31</b>	<b>92</b>	<b>685</b>	<b>1</b>	<b>757</b>	<b>1,535</b>	<b>350</b>	<b>1,028</b>	<b>23</b>	<b>1,156</b>	<b>2,557</b>

	United States <sup>1</sup>	Canada <sup>1</sup>	VA Europe	The Netherlands <sup>2</sup>	2009 Total <sup>3</sup>	United States <sup>1</sup>	Canada <sup>1</sup>	VA Europe	The Netherlands <sup>2</sup>	2008 Total <sup>3</sup>
Account value	5,974	2,448	741	6,934	16,097	3,395	1,993	258	5,763	11,409
Net amount at risk <sup>4</sup>	457	684	1	259	1,401	1,007	930	23	554	2,514

<sup>1</sup> Guaranteed minimum accumulation and withdrawal benefits

<sup>2</sup> Fund plan and unit-linked guarantees

<sup>3</sup> Balances are included in the derivatives liabilities on the face of the balance sheet; refer Item 18.9 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F

<sup>4</sup> The net amount at risk represents the difference between the maximum amount payable under the guarantees and the account value. In addition AEGON reinsures the elective guaranteed minimum withdrawal benefit rider issued with a ceding company's variable annuity contracts. The rider is essentially a return of premium guarantee, which is payable over a period of at least fourteen years from the date that the policyholder elects to start withdrawals. At contract inception, the guaranteed remaining balance is equal to the premium payment. The periodic withdrawal is paid by the ceding company until the account value is insufficient to cover additional withdrawals. Once the account value is exhausted, AEGON pays the periodic withdrawals until the guaranteed remaining balance is exhausted. At December 31, 2009, the reinsured account value was EUR 4.5 billion (2008: EUR 4.2 billion) and the guaranteed remaining balance was EUR 4.0 billion (2008: EUR 4.6 billion).

The reinsurance contract is accounted for as a derivative and is carried in AEGON's balance sheet at fair value. At December 31, 2009, the contract had a value of EUR 90 million (2008: EUR 442 million). AEGON entered into a derivative program to mitigate the overall exposure to equity market and interest rate risks associated with the reinsurance contract. This program involves selling S&P 500 futures contracts to mitigate the effect of equity market movement on the reinsurance contract and the purchase of over-the-counter interest rate swaps to mitigate the effect of movements in interest rates on the reinsurance contracts.

#### b. Total return annuities

Total Return Annuity (TRA) is an annuity product in the United States which provides customers with a pass-through of the total return on an underlying portfolio of investment securities (typically a mix of corporate and convertible bonds) subject to a cumulative minimum guarantee. Both the assets and liabilities are carried at fair value, however, due to the minimum guarantee not all of the changes in the market value of the asset will be offset in the valuation of the liability. This product exists in both the fixed annuity and life reinsurance lines of business and in both cases represents closed blocks. The reinsurance contract is in the form of modified coinsurance so only the liability for the minimum guarantee is recorded on our books.

Product balances as of December 31, 2009 were EUR 657 million in fixed annuities (2008: EUR 790 million) and EUR 149 million in life reinsurance (2008: EUR 176 million).

#### c. Life contingent guarantees in the United States

Certain variable insurance contracts in the United States also provide guaranteed minimum death benefits (GMDB) and guaranteed minimum income benefits (GMIB). Under a GMDB, the beneficiaries receive the greater of the account balance or the guaranteed amount upon the death of the insured. The net amount at risk for GMDB contracts is defined as the current GMDB in excess of the capital account balance at the balance sheet date.

The GMIB feature provides for minimum payments if the contractholder elects to convert to an immediate payout annuity. The guaranteed amount is calculated using the total deposits made by the contractholder, 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.

The additional liability for guaranteed minimum benefits that are not bifurcated are determined (based on ASC 944) each period by estimating the expected value of benefits in excess of the projected account balance and recognizing the excess over the accumulation period based on total expected assessments. The estimates are reviewed regularly and any resulting adjustment to the additional liability is recognized in the income statement. The benefits used in calculating the liabilities are based on the average benefits payable over a range of stochastic scenarios. Where applicable, the calculation of the liability incorporates a percentage of the potential annuitizations that may be elected by the contract holder.

The following table provides information on the liabilities for guarantees that are included in the valuation of the host contracts.

	GMDB <sup>1</sup>	GMIB <sup>2</sup>	2009 Total <sup>4</sup>	GMDB <sup>1</sup>	GMIB <sup>2</sup>	2008 Total <sup>4</sup>
At January 1	409	434	843	188	121	309
Incurring guarantee benefits	266	160	426	308	306	614
Paid guarantee benefits	(329)	(33)	(362)	(95)	(7)	(102)
Net exchange differences	(12)	(18)	(30)	8	14	22
<b>At December 31</b>	<b>334</b>	<b>543</b>	<b>877</b>	<b>409</b>	<b>434</b>	<b>843</b>

	GMDB <sup>1</sup>	GMIB <sup>2</sup>	2009 Total <sup>3</sup>	GMDB <sup>1</sup>	GMIB <sup>2</sup>	2008 Total <sup>3</sup>
Account value	24,289	6,369		21,177	5,758	
Net amount at risk <sup>5</sup>	4,055	577		8,025	1,934	
Average attained age of contractholders	66	66		65	64	

<sup>1</sup> Guaranteed minimum death benefit in the United States

<sup>2</sup> Guaranteed minimum income benefit in the United States

<sup>3</sup> Note that the variable annuity contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive

<sup>4</sup> Balances are included in the insurance liabilities on the face of the balance sheet; refer to Item 18.20 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F

<sup>5</sup> The net amount at risk is defined as the present value of the minimum guaranteed annuity payments available to the contract holder determined in accordance with the terms of the contract in excess of the current account balance

#### **d. Life contingent guarantees in the Netherlands**

The group pension contracts offered by AEGON in the Netherlands include large group contracts that have an individually determined asset investment strategy underlying the pension contract. The guarantee given is that the profit sharing is the minimum of 0% or the realized return (on an amortized cost basis), both adjusted for technical interest rates ranging from 3% to 4%. If there is a negative profit sharing, the 0% minimum is effective, but the loss in any given year is carried forward to be offset against any future surpluses. In general, a guarantee is given for the life of the underlying employees so that their pension benefit is guaranteed. Large group contracts also share technical results (mortality risk and disability risk). The contract period is typically five years and the premiums are fixed over this period. Separate account guaranteed group contracts provide a guarantee on the benefits paid.

The traditional life and pension products offered by AEGON in the Netherlands include various products that accumulate a cash value. Premiums are paid by customers at inception or over the term of the contract. The accumulation products pay benefits on the policy maturity date, subject to survival of the insured. In addition, most policies also pay death benefits if the insured dies during the term of the contract. The death benefits may be stipulated in the policy or depend on the gross premiums paid to date. Premiums and amounts insured are established at inception of the contract. The amount insured can be increased as a result of profit sharing, if provided for under the terms and conditions of the product. Minimum interest guarantees exist for all generations of accumulation products written, except for universal life type products for which premiums are invested solely in equity funds. Older generations contain a 4% guarantee; in recent years the guarantee has decreased to 3%.

These guarantees are valued at fair value and are included as part of insurance liabilities with the underlying host insurance contracts in Item 18.20 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

The following table provides information on the liabilities for guarantees that are included in the valuation of the host contracts.

	2009 GMB <sup>1,2</sup>	2008 GMB <sup>1,2</sup>
At January 1	2,410	436
Incurred guarantee benefits	(1,265)	1,974
<b>At December 31</b>	<b>1,145</b>	<b>2,410</b>
Account value	12,929	13,071
Net amount at risk <sup>3</sup>	513	779

<sup>1</sup> Guaranteed minimum benefit in the Netherlands

<sup>2</sup> Balances are included in the insurance liabilities on the face of the balance sheet; refer to Item 18.20 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F

<sup>3</sup> The net amount at risk represents the difference between the maximum amount payable under the guarantees and the account value

#### **Fair value measurement of guarantees in insurance contracts**

The fair values of guarantees mentioned above (with the exception of life contingent guarantees in the United States) are calculated as the present value of future expected payments to policyholders less the present value of assessed rider fees attributable to the guarantees. Given the long-term nature of these guarantees, their fair values are determined by using complex valuation techniques. Because of the dynamic and complex nature of these cash flows, AEGON uses stochastic techniques under a variety of market return scenarios. A variety of factors are considered, including expected market rates of return, equity and interest rate volatility, credit risk, correlations of market returns, discount rates and actuarial assumptions.

Since the price of these guarantees is not quoted in any market, the fair value of these guarantees is computed using valuation models which use observable market data supplemented with the Group's assumptions on developments in future interest rates, volatility in equity prices and other risks inherent in financial markets. All the assumptions used as part of this valuation model are calibrated against actual historical developments observed in the markets. Since many of the assumptions are unobservable and are considered to be significant inputs to the liability valuation, the liability has been reflected within Level III of the fair value hierarchy. Refer to Item 18.3 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F for more details on AEGON's fair value hierarchy.

The expected returns are based on risk-free rates. AEGON added a premium to reflect the credit spread as required. The credit spread is set by using the credit default swap (CDS) spreads of a reference portfolio of life insurance companies (including AEGON), adjusted to reflect the subordination of senior debt holders at the holding company level to the position of policyholders at the operating company level (who have priority in payments to other creditors). Because CDS spreads for United States life insurers differed significantly from that for European life insurers, AEGON's assumptions reflect these differences in the valuation. If the credit spreads were 20 basis points higher or lower respectively, and holding all other variables constant in the valuation model, 2009 income before tax would have been EUR 136 million and EUR 145 million higher or lower respectively (2008: EUR 255 million higher or lower).

For equity volatility, AEGON uses a term structure with market based implied volatility inputs for the first five years. Correlations of market returns across underlying indices are based on actual observed market returns and their inter-relationships over a number of years preceding the valuation date. The volume of observable option trading from which volatilities are implied diminishes markedly after five years, and therefore, AEGON uses a volatility curve which grades from actual implied volatilities for five years to a long-term forward rate of 25%. Assumptions on customer behavior, such as lapses, included in the models are derived in the same way as the assumptions used to measure insurance liabilities. Had AEGON used a long term equity implied volatility assumption that was 5 volatility points higher or lower, the impact on income before tax would have been a decrease of EUR 155 million or an increase of EUR 136 million, respectively, in 2009 IFRS income before tax (2008: EUR 100 million decrease or increase).

These assumptions are reviewed at each valuation date, and updated based on historical experience and observable market data, including market transactions such as acquisitions and reinsurance transactions.

AEGON utilizes different risk management strategies to mitigate the financial impact of the valuation of these guarantees on the results including asset and liability management and derivative hedging strategies to hedge certain aspects of the market risks embedded in these guarantees. Guarantees valued at fair value contributed a net loss before tax of EUR 76 million (2008: loss of EUR 675 million) to operating

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earnings. This net loss is attributable to a decrease in the total guarantee reserves of EUR 2,505 million (2008: increase of EUR 4,292 million). The main drivers of this decrease are EUR 911 million related to an increase in equity markets (2008: EUR (1,098) million), EUR 344 million related to decreases in equity volatilities (2008: EUR (758) million) and EUR 1,434 million related to increases in risk free rates (2008: EUR (3,474) million) offset by EUR 187 million related to the increase in the spread of credit risk (2008: EUR 1,174 million). Hedges related to these guarantee reserves contributed fair value losses of EUR 2,581 million to income before tax (2008: gains of EUR 3,617 million).



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**iv Fair value measurement**

The following is a description of AEGON's methods of determining fair value, and a quantification of its exposure to financial instruments measured at fair value.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Financial instruments measured at fair value on an ongoing basis include investments for the general account, investments for the account of policyholders, and investments designated at fair value and derivatives.

Effective January 1, 2009 AEGON adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. In accordance with this amendment AEGON uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level I: quoted prices (unadjusted) in active markets for identical assets or liabilities that AEGON can access at the measurement date;

Level II: inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices of identical or similar assets and liabilities) using valuation techniques for which all significant inputs are based on observable market data; and

Level III: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) using valuation techniques for which any significant input is not based on observable market data.

In accordance with the first time adoption requirements of the amendment to IFRS 7, this information is required only for the current year and comparative information is not required. In prior years, AEGON used a similar, but not the same, fair value classification hierarchy. The valuation and classification process for the prior year has not been re-performed in order to compute this comparative disclosure however the movement tables below do indicate those instances where there were significant movements between the fair value hierarchy levels during 2009.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active or quoted market prices are not available, a valuation technique is used.

The judgment as to whether a market is active may include, although not necessarily determinative, lower transaction volumes, reduced transaction sizes and, in some cases, no observable trading activity for short periods. In inactive markets, assurance is obtained that the transaction price provides evidence of fair value or determined that the adjustments to transaction prices are necessary to measure the fair value of the instrument.

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for such financial instruments, the derivation of fair value is more judgmental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's carrying amount and/or inception profit (day 1 gain or loss) is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Additional information is provided in the section headed "Effect of changes in significant unobservable assumptions to reasonably possible alternatives" below.

The table below shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level I	Level II	Level III	2009 Total
<b>Financial assets carried at fair value</b>				
<i>Available-for-sale investments</i>				
Shares	531	123	443	1,097
Debt securities	17,487	67,895	4,334	89,716
Money market and other short-term instruments	1	9,178	10	9,189
Other investments at fair value	57	10	842	909
	<b>18,076</b>	<b>77,206</b>	<b>5,629</b>	<b>100,911</b>
<i>Fair value through profit or loss</i>				
Shares	823	162	14	999
Debt securities	27	1,513	142	1,682
Money market and other short-term instruments	622	253		875
Other investments at fair value		440	1,080	1,520
Investments for account of policyholders <sup>1</sup>	70,224	51,797	2,776	124,797
Derivatives	96	4,651	170	4,917
	<b>71,792</b>	<b>58,816</b>	<b>4,182</b>	<b>134,790</b>
<b>Total financial assets at fair value</b>	<b>89,868</b>	<b>136,022</b>	<b>9,811</b>	<b>235,701</b>
<b>Financial liabilities carried at fair value</b>				
Investment contracts			1,145	1,145
Investment contracts for account of policyholders	3,924	16,032	521	20,477
Borrowings <sup>2</sup>	506	453		959
Derivatives	29	4,004	1,683	5,716
	<b>4,459</b>	<b>20,489</b>	<b>3,349</b>	<b>28,297</b>

<sup>1</sup> The investments for account of policyholders included in the table above represents those investments carried at fair value through profit or loss.

<sup>2</sup> Borrowings included in the table above contain those borrowings that are carried at fair value through profit or loss. Total borrowings on the balance sheet also contain borrowings carried at amortized cost that are not included in the above schedule.

*Significant transfers between Level I and II*

During the year, the amount of assets transferred from Level I to Level II classification was EUR 498 million. The reason for the change in level relates to changes in liquidity for specific debt securities.

## Movements in Level III financial instruments measured at fair value

	At January 1, 2009	Total gains/(losses) in income statement *	Total gains/(losses) in OCI	Purchases	Sales	Settlements	Transfers from Levels I and II	Transfers to Levels I and II	At December 31, 2009	Total gains or losses for the period included in profit and loss for assets held at December 31, 2009 **
<b>Financial assets carried at fair value</b>										
<i>Available-for-sale investments</i>										
Shares	722	115	(295)	264	(363)				443	
Debt securities	6,059	(333)	909	833	(350)	(710)	335	(2,409)	4,334	
Money market and other short-term instruments	59				(49)				10	
Other investments at fair value	812	139	(21)	225	(34)	(2)			842	
	<b>7,652</b>	<b>(356)</b>	<b>593</b>	<b>1,322</b>	<b>(796)</b>	<b>(712)</b>	<b>335</b>	<b>(2,409)</b>	<b>5,629</b>	
<i>Fair value through profit or loss</i>										
Shares	71	4			(61)				14	1
Debt securities	218	(11)	9		(66)	(7)	6	(7)	142	5
Money market and other short-term instruments										
Other investments at fair value	1,333	(211)		123	(157)		93	(101)	1,080	(232)
Investments for account of policyholders	3,329	(191)		473	(835)				2,776	(25)
Derivatives	318	(130)		18	(2)	(34)			170	(118)
	<b>5,269</b>	<b>(539)</b>	<b>9</b>	<b>614</b>	<b>(1,121)</b>	<b>(41)</b>	<b>99</b>	<b>(108)</b>	<b>4,182</b>	<b>(369)</b>
<b>Financial liabilities carried at fair value</b>										
Investment contracts	(2,410)	1,265							(1,145)	
Investment contracts for account of policyholders	(291)	30		(280)	20				(521)	
Derivatives	(2,483)	767		(3)	36				(1,683)	(32)

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(5,184)

2,062

(283)

56

(3,349)

(32)

\* Includes impairments and movements related to fair value hedges

\*\* Total gains / (losses) for the period during which the financial instrument was in Level III

During the year AEGON transferred certain financial instruments from Levels I and II to Level III of the fair value hierarchy. The amount of the total assets transferred was EUR 434 million. The reason for the change in level was that the market for these securities had become inactive, which led to a change in market observability of prices. Prior to transfer, the fair value for the Level I and II securities was determined using observable market transactions or corroborated broker quotes for the same or similar instruments. Since transfer, all such assets have been valued using valuation models incorporating significant non market-observable inputs.

Similarly, during the year AEGON transferred certain financial instruments from Level III to other levels of the fair value hierarchy. The recorded amount of the total assets transferred was EUR 2,517 million. The change in level was a result of a return of activity in the market for these securities.

The total net amount of gains recognized in the income statement on Level III financial instruments amount to EUR 1,167 million (pre-tax).

The following table shows the sensitivity of the fair value of Level III instruments to changes in key assumptions, by class of instrument:

	Note	Carrying amount	December 31, 2009	
			Effect of reasonably possible alternative assumptions (+/-) Increase	Decrease
<b>Financial assets carried at fair value</b>				
<i>Available for sale investments</i>				
Shares	a	443	20	(20)
Debt securities	b	4,334	219	(219)
Money market and other short-term investments	b	10	1	(1)
Other		842	13	(13)
<i>Financial assets designated at fair value through profit or loss*</i>				
Shares		14	1	(1)
Debt securities		142	15	(15)
Other investments at fair value	c	1,080	136	(136)
Derivatives	d	27	3	(3)
<b>Financial liabilities carried at fair value</b>				
Investment contracts	e	1,145	94	(87)
Derivatives	f	1,683	103	(96)

\* Investments for account of policyholders are excluded from the reasonably possible alternative assumptions disclosure. Policyholder assets, and their returns, belong to policyholders and do not impact AEGON's net income or equity. The effect on total assets is offset by the effect on total liabilities.

In order to determine reasonably possible alternative assumptions, AEGON adjusted key unobservable models inputs as follows:

- a. Available for sale shares include shares in the Federal Home Loan Bank for an amount of EUR 194 million that are measured at par. The bank has implicit financial support from the United States government. The redemption value of the shares is fixed at par and can only be redeemed by the bank. Remaining share positions were stressed by 10% up or down.
- b. Debt securities and money market and other short-term investments mainly consist of corporate bonds (EUR 1,239 million) and other structured debt securities (EUR 3,020 million). For corporate bonds the most significant unobservable input for the valuation of these securities is the credit spread / illiquidity premium. AEGON adjusted the price, based on the bid / ask spread AEGON observed in the market for these type of securities. For investments in structured debt securities (ABS, RMBS and CMBS), the most significant unobservable input for valuation of these securities is the credit spread / illiquidity premium. AEGON adjusted the discount rate by 100 basis points up or down for this input.
- c. Other investments at fair value include investments exposed to real estate (EUR 444 million) and private equity investments (EUR 575 million). AEGON adjusted the assumption pertaining to real estate values up or down by 10%. This change is reflective of the range presented to senior management when analyzing investment opportunities for approval. For private equity investments the underlying investments are of a very diversified nature in terms of type of investments, investment strategy and sector. There is no one significant unobservable assumption or combination of assumptions that could be identified and used to compute a reasonably alternative assumption analysis for this portfolio.
- d. Derivatives exclude derivatives for account of policyholders amounting to EUR 143 million.
- e. Investment contracts reflect the fair value of guarantees issued for which the most significant unobservable input is the credit spread. The credit spread was increased or decreased by 20 basis points.

- f. Derivatives that depend on the yield were stressed using an increase or decrease of the yield by 100 basis points. Derivatives also include embedded derivatives related to guarantees (EUR 0.8 billion) for which the most significant unobservable input is the credit spread. The credit spread was increased or decreased by 20 basis points.

**v Impairment of financial assets**

There are a number of significant risks and uncertainties inherent in the process of monitoring investments and determining if impairment exists. These risks and uncertainties include the risk that the Group's assessment of an issuer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer and the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated. Also, there is a risk that new information obtained by the Group or changes in other facts and circumstances will lead the Group to change its investment decision. Any of these situations could result in a charge against the income statement in a future period to the extent of the impairment charge recorded.

**Debt instruments**

Debt instruments are impaired when it is considered probable that not all amounts due will be collected as scheduled. Factors considered include industry risk factors, financial condition, liquidity position and near-term prospects of the issuer, nationally recognized credit rating declines and a breach of contract.

The amortized cost and fair value of bonds, money market investments and other are as follows as of December 31, 2009 included in our available-for-sale (AFS) and held to maturity portfolios:

In million EUR	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
<b>Bonds</b>						
- United States Government	3,206	45	(106)	3,145	1,115	2,030
- Dutch Government	3,150	57	(3)	3,204	2,640	564
- Other Government	12,340	380	(157)	12,563	8,662	3,901
- Mortgage backed securities	12,711	167	(2,043)	10,835	4,093	6,742
- Asset backed securities	10,190	122	(1,427)	8,885	2,898	5,987
- Corporate	51,302	1,938	(2,086)	51,154	32,223	18,931
Money market investments	9,189			9,189	9,187	2
Other	916	54	(61)	909	461	448
<b>Total</b>	<b>103,004</b>	<b>2,763</b>	<b>(5,883)</b>	<b>99,884</b>	<b>61,279</b>	<b>38,605</b>
Of which held by AEGON Americas, NL and UK	100,026	2,695	(5,795)	96,926	59,294	37,632

**Unrealized Bond Losses by Sector**

The composition by industry categories of bonds and money market investments that are included in our available-for-sale and held to maturity portfolios in an unrealized loss position held by AEGON at December 31, 2009 and December 31, 2008 is presented in the table below.

**Unrealized losses - bonds and money market investments**

In million EUR	December 31, 2009	
	Carrying value of instruments with unrealized losses	Gross unrealized losses
Residential mortgage backed securities	3,085	(1,108)
Commercial mortgage backed securities	3,653	(934)
Asset Backed Securities (ABSs) - Housing - Related	1,281	(631)
ABSs - Credit Cards	1,747	(71)
ABSs - Aircraft	55	(29)
ABSs - CBOs	1,156	(321)
ABSs - Other	1,780	(377)
Financial Industry - Banking	5,416	(1,046)
Financial Industry - Brokerage	107	(11)
Financial Industry - Finance companies	55	(17)
Financial Industry - Insurance	1,746	(335)
Financial Industry - Reits	644	(74)
Financial Industry - Financial other	835	(135)
Industrial - Basic Industry	588	(36)
Industrial - Capital Goods	986	(52)
Industrial - Consumer cyclical	1,123	(71)
Industrial - Consumer non-cyclical	1,381	(50)
Industrial - Energy	1,082	(35)
Industrial - Technology	693	(26)
Industrial - Transportation	553	(48)
Industrial - Communications	1,687	(68)
Industrial - Industrial other	322	(18)
Utility - Electric	1,174	(55)
Utility - Natural gas	426	(24)
Utility - Utility other	84	(2)
Sovereign exposure	6,498	(248)
<b>Total</b>	<b>38,157</b>	<b>(5,822)</b>
Of which held by AEGON Americas, NL and UK	37,182	(5,734)

AEGON regularly monitors industry sectors and individual debt securities for evidence of impairment. This evidence may include one or more of the following: 1) deteriorating market to book ratio, 2) increasing industry risk factors, 3) deteriorating financial condition of the issuer, 4) covenant violations, 5) high probability of bankruptcy of the issuer or 6) nationally recognized credit rating agency downgrades. Additionally, for asset-backed securities or mortgage-backed securities, cash flow trends and underlying levels of collateral are monitored. A security is impaired if there is objective evidence that a loss event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows. A specific security is considered to be impaired when it is determined that it is probable that not all amounts due (both principal and interest) will be collected as scheduled.



The following narrative discussion relates to AEGON Americas, AEGON The Netherlands and AEGON UK. The composition by industry categories of bonds and money market investments in an unrealized loss position held by AEGON Americas, AEGON The Netherlands and AEGON UK at December 31, 2009 and December 31, 2008, is presented in the table below.

**Unrealized losses bonds and money market investments held by AEGON Americas, AEGON The Netherlands and AEGON UK**

In million EUR	December 31, 2009	
	Carrying value of instruments with unrealized losses	Gross unrealized losses
Residential mortgage backed securities	3,085	(1,108)
Commercial mortgage backed securities	3,653	(934)
Asset Backed Securities (ABSs) - Housing - Related	1,246	(629)
ABSs - Credit Cards	1,747	(71)
ABSs - Aircraft	55	(29)
ABSs - CBOs	1,156	(321)
ABSs - Other	1,780	(377)
Financial Industry - Banking	5,193	(993)
Financial Industry - Brokerage	107	(11)
Financial Industry - Finance companies	55	(17)
Financial Industry - Insurance	1,720	(331)
Financial Industry - Reits	643	(74)
Financial Industry - Financial other	808	(118)
Industrial - Basic Industry	588	(36)
Industrial - Capital Goods	986	(51)
Industrial - Consumer cyclical	1,116	(70)
Industrial - Consumer non-cyclical	1,377	(50)
Industrial - Energy	1,078	(35)
Industrial - Technology	693	(26)
Industrial - Transportation	548	(48)
Industrial - Communications	1,682	(69)
Industrial - Industrial other	293	(16)
Utility - Electric	1,161	(55)
Utility - Natural gas	424	(16)
Utility - Utility other	85	(4)
Sovereign exposure	5,903	(245)
<b>Total</b>	<b>37,182</b>	<b>(5,734)</b>

The available-for-sale gross unrealized loss position decreased by EUR 10.1 billion since December 31, 2008 primarily as a result of credit spread tightening, partially offset by increasing interest rates.

The information presented above is subject to rapidly changing conditions. As such, AEGON expects that the level of securities with overall unrealized losses will fluctuate. The recent volatility of financial market conditions has resulted in increased recognition of both investment gains and losses, as portfolio risks are adjusted through sales and purchases.

As of December 31, 2009, there are EUR 2,640 million of gross unrealized gains and EUR 5,734 million of gross unrealized losses in the AFS bonds portfolio of AEGON Americas, AEGON The Netherlands and AEGON UK. No issuer represents more than 3% of the total unrealized loss position. The largest single issuer unrealized loss is EUR 96 million and relates to US Treasury securities, which contain fixed income positions of investment grade quality and are commented on in the sovereign sector commentary below.

While financial and credit market conditions remained somewhat stressed during 2009, most capital markets improved over the course of the year. The lingering impacts of the credit crisis, including tight credit conditions, continued to have an effect on economic growth worldwide, though most developed economies were able to return to positive economic growth rates by the fourth quarter. Unprecedented government fiscal and monetary stimulus across the world has improved market liquidity and investor confidence, and has provided much-needed support for economic conditions. In the US, the Federal Reserve maintained a Fed Funds rate of near zero and has been successful in stabilizing credit

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conditions to the extent that it has been able to scale back some of the non-traditional market supports implemented to mitigate the crisis. Longer term US Treasury rates rose during the year as the market began to forecast improved economic conditions and began to reflect inflation concerns due to the massive government stimulus. Most world equity markets fell dramatically in the early months of 2009 only to rally back over the remainder of the year, reflecting improved investor sentiment. Unemployment rose and continues at elevated levels in most developed nations. Default rates were high during 2009, but began to improve materially with improved economic conditions late in the year. Oil and most industrial commodities rallied sharply, while agricultural commodities were mixed.

**Residential mortgage backed securities**

AEGON Americas, AEGON The Netherlands and AEGON UK hold EUR 5,080 million of residential mortgage-backed securities (RMBS), of which EUR 3,416 million is held by AEGON USA and EUR 1,641 million by AEGON The Netherlands. Residential mortgage backed securities are securitizations of underlying pools of non-commercial mortgages on real estate. The underlying residential mortgages have varying credit characteristics and are pooled together and sold in tranches. AEGON's RMBS includes collateralized mortgage obligations (CMOs), government sponsored enterprise (GSE) guaranteed passthroughs, prime jumbo/whole loan passthroughs, Alt-A RMBS, negative amortization RMBS and reverse mortgage RMBS. The following table shows the breakdown of AEGON USA's available-for-sale RMBS portfolio\*:

In million EUR	AAA	AA	A	BBB	<BBB	Total		Net
						Amortized Cost	Fair Value	Unrealized Gain/(Loss)
GSE guaranteed	1,348					1,348	1,365	17
Whole loan	280	16	10	7	187	500	396	(104)
Alt-A	133	11	17		682	843	641	(202)
Negative amortization floaters	283	44	62	90	882	1,361	722	(639)
Reverse mortgage floaters	350					350	292	(58)
<b>Total</b>	<b>2,394</b>	<b>71</b>	<b>89</b>	<b>97</b>	<b>1,751</b>	<b>4,402</b>	<b>3,416</b>	<b>(986)</b>

In million EUR	SSNR <sup>1</sup>	SNR <sup>2</sup>	MEZZ <sup>3</sup>	SSUP <sup>4</sup>	Total		Net
					Amortized Cost	Fair Value	Unrealized Gain/(Loss)
GSE guaranteed		1,348			1,348	1,365	17
Whole loan	222	240	20	18	500	396	(104)
Alt-A	578	262	2	1	843	641	(202)
Negative amortization floaters	1,271	26	8	56	1,361	722	(639)
Reverse mortgage floaters		350			350	292	(58)
<b>Total</b>	<b>2,071</b>	<b>2,226</b>	<b>30</b>	<b>75</b>	<b>4,402</b>	<b>3,416</b>	<b>(986)</b>

<sup>1</sup> SSNR super senior

<sup>2</sup> SNR senior

<sup>3</sup> MEZZ mezzanine

<sup>4</sup> SSUP senior support

\* Ratings based on a hierarchy of S&P, Moody's, Fitch, Internal, NAIC

All RMBS securities of AEGON USA are monitored and reviewed on a monthly basis with detailed modeling completed on each portfolio quarterly. Model output is generated under base and several stress-case scenarios. RMBS asset specialists utilize widely recognized industry modeling software to perform a loan-by-loan, bottom-up approach to modeling. Models incorporate external loan-level analytics to identify the riskiest securities. The results from the models are then closely analyzed by the asset specialist to determine whether or not a principal or interest loss is expected to occur. Positions are impaired to fair value where loss events have taken place or are projected to take place that would affect future cash flows.

The total gross unrealized loss on RMBS is EUR 1,108 million, of which EUR 1,040 million relates to positions of AEGON USA, and the total net unrealized loss on RMBS is EUR 996 million, of which EUR 986 million relates to positions of AEGON USA. The pace of deterioration continued in early 2009, but began to stabilize in late 2009. Even with the stabilization, fundamentals in RMBS securities continue to be weak. Delinquencies and severities in property liquidations remain at an elevated level. Prepayments remain at historically low levels. Due to the weak fundamental situation, reduced liquidity, and the requirement for higher yields due to uncertainty, credit spreads remain elevated across the asset class.

**Alt-A Mortgage Exposure**

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AEGON's RMBS exposure includes exposure to securitized home loans classified as Alt-A. This portfolio totals EUR 641 million at December 31, 2009, net unrealized losses on this portfolio amount to EUR 202 million at December 31, 2009. Alt-A loans are made to borrowers whose qualifying mortgage characteristics do not meet the standard underwriting criteria established by the GSEs. The typical Alt-A borrower has a credit score high enough to obtain an A standing, which is especially important since the score must compensate for the lack of other necessary documentation related to borrower income and/or assets.

AEGON's investments in Alt-A mortgages are in the form of mortgage backed securities. AEGON's Alt-A investments are primarily backed by loans with fixed interest rates for the entire term of the loan. Additionally, approximately two-thirds of the Alt-A portfolio is invested in super-senior tranches. Mortgage-backed securities classified as super-senior are those that substantially exceeded the subordination requirements of AAA-rated securities at origination. The table below summarizes the credit quality and the vintage year of the available-for-sale Alt-A mortgage securities:

In million EUR	AAA	AA	A	BBB	<BBB	Total Amortized Cost	Fair Value	Net Unrealized Gain/(Loss)
2004 & Prior	47	11			2	60	53	(7)
2005	10		17		102	129	107	(22)
2006	30				148	178	164	(14)
2007	33				293	326	205	(121)
2008	13				137	150	112	(38)
<b>Total</b>	<b>133</b>	<b>11</b>	<b>17</b>		<b>682</b>	<b>843</b>	<b>641</b>	<b>(202)</b>

\* Ratings based on a hierarchy of S&P, Moody's, Fitch, Internal, NAIC

**Negative Amortization (Option ARMs) Mortgage Exposure**

As part of AEGON's RMBS Exposure, AEGON holds EUR 722 million of Negative Amortization mortgages, net unrealized losses on this portfolio amount to EUR 639 million at December 31, 2009. Negative amortization mortgages (also known as Option ARMs) are loans whereby the payment made by the borrower may be less than the accrued interest due and the difference is added to the loan balance. When the accrued balance of the loan reaches the negative amortization limit (typically 110% to 125% of the original loan amount), the loan recalibrates to a fully amortizing level and a new minimum payment amount is determined. The homeowner's new minimum payment amount can be significantly higher than the original minimum payment amount. The timing of when these loans reach their negative amortization cap will vary, and is a function of the accrual rate on each loan, the minimum payment rate on each loan and the negative amortization limit itself. Typically, these loans are estimated to reach their negative amortization limit between 3 and 5 years from the date of origination.

AEGON's exposure to negative amortization mortgages is primarily super-senior securities. The table below summarizes the credit quality and the vintage year of the available-for-sale negative amortization (Option ARMs) securities.

In million EUR	AAA	AA	A	BBB	<BBB	Total Amortized Cost	Fair Value	Net Unrealized Gain/(Loss)
2004 & Prior	6	19			10	35	17	(18)
2005	178	25	49	67	108	427	237	(190)
2006	49		13	23	453	538	267	(271)
2007	8				311	319	179	(140)
2008	42					42	22	(20)
<b>Total</b>	<b>283</b>	<b>44</b>	<b>62</b>	<b>90</b>	<b>882</b>	<b>1,361</b>	<b>722</b>	<b>(639)</b>

\* Ratings based on a hierarchy of S&P, Moody's, Fitch, Internal, NAIC

Additionally, AEGON has exposure to GSEs, whole loans (prime jumbo) and reverse mortgage RMBS loans. The market value of these securities is EUR 1,365 million, EUR 396 million and EUR 292 million with net unrealized losses of EUR 17 million, EUR 104 million and EUR 58 million, respectively. These amounts are not included in AEGON's Alt-A and Negative Amortization exposure tables above.

There are six individual issuers rated below investment grade in this sub-sector which have unrealized loss position greater than EUR 25 million.

In million EUR	Category	Fair Value	Unrealized Loss	Rating*
Countrywide Alt Ln 2006-OA10	Negative Amortization	56	(61)	B-
American Home Mtge 2007-5	Negative Amortization	63	(58)	CCC
Lehman Mtge Tr 2007-10	Alt-A	73	(42)	CCC
GSR Mtg Tr 2007-OA1	Alt-A	30	(40)	B+/CCC <sup>1</sup>
Lehman Mtge Tr 2008-1	Alt-A	51	(32)	CCC
Harborview Mtg Ln Tr 2006-9	Negative Amortization	32	(31)	B-

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\* Ratings based on a hierarchy of S&P, Moody's, Fitch, Internal, NAIC

<sup>1</sup> Ratings based on two tranches within the same Alt-A deal

For each of these holdings, the collateral pools have experienced higher than expected delinquencies and losses, and the unrealized loss is further exacerbated by the impact of declining home values on borrowers using affordability products. Further impacting the unrealized losses is spread widening due to illiquidity as well as increased extension risk due to slower than expected prepayments. Despite the continued decline in the margin of safety on these securities during 2009, cash flow models indicate full recovery of principal and interest for each of AEGON's particular holdings in an unrealized loss position.

As the remaining unrealized losses in the RMBS portfolio relate to holdings where AEGON expects to receive full principal and interest, AEGON does not consider the underlying investments to be impaired as of December 31, 2009.

There are no other individual issuers rated below investment grade in the RMBS sector which have unrealized loss positions greater than EUR 25 million.

**Commercial mortgage backed securities**

AEGON Americas, AEGON The Netherlands and AEGON UK hold EUR 5,749 million of commercial mortgage backed securities (CMBS), of which EUR 5,383 million is held by AEGON USA and EUR 314 million by AEGON UK. CMBS are securitizations of underlying pools of mortgages on commercial real estate. The underlying mortgages have varying risk characteristics and are pooled together and sold in different rated tranches. The Company's CMBS includes conduit, large loan, single borrower, collateral debt obligations (CDOs), government agency, and franchise loan receivable trusts. The following table shows the breakdown of AEGON USA's available-for-sale CMBS portfolio:

CMBS\* by Vintage and Rating\*\*

In million EUR	AAA	AA	A	BBB	<BBB	Total Amortized Cost	Fair Value	Net Unrealized (loss)
2004 & Prior	1,429	240	42	27	9	1,747	1,608	(139)
2005	764	76	15	32	1	888	785	(103)
2006	1,274	165	133	109	73	1,754	1,498	(256)
2007	855	167	202	160	135	1,519	1,190	(329)
2008	137	69	92			298	249	(49)
2009	46	8				54	53	(1)
<b>Total</b>	<b>4,505</b>	<b>725</b>	<b>484</b>	<b>328</b>	<b>218</b>	<b>6,260</b>	<b>5,383</b>	<b>(877)</b>

\* Includes CMBS and CDOs backed by commercial real estate (CRE) & CMBS

\*\* Ratings based on a hierarchy of S&P, Moody's, Fitch, Internal, NAIC

All CMBS securities of AEGON USA are monitored and modeled under base and several stress-case scenarios by asset specialists. For conduit securities, a widely recognized industry modeling software is used to perform a loan-by-loan, bottom-up approach. For non-conduit securities, a CMBS asset specialist works closely with AEGON's real estate valuation group to determine underlying asset valuation and risk. Both methodologies incorporate external estimates on the property market, capital markets, property cash flows, and loan structure. Results are then closely analyzed by the asset specialist to determine whether or not a principal or interest loss is expected to occur. If cash flow models indicate a credit event will impact future cash flows, the security is impaired to fair value.

The total gross unrealized loss on CMBS is EUR 934 million, of which EUR 921 million relates to positions of AEGON USA, and the total net unrealized loss on CMBS is EUR 878 million, of which EUR 877 million relates to positions of AEGON USA. Over the past 18 months, the commercial real estate market has continued to weaken. As property fundamentals deteriorate, CMBS loan delinquencies have been climbing. The introduction of the 20% and 30% credit enhanced classes within the 2005-2008 vintage deals provide some offset to these negative fundamentals. Despite beginning to show signs of improvement, the lending market remains limited as lenders have become more conservative with underwriting standards, property transactions have diminished greatly, and higher mortgage spreads have curtailed borrowing. A lack of liquidity in the market combined with a broad re-pricing of risk has led to increased credit spreads across the credit classes. As the remaining unrealized losses in the CMBS portfolio relate to holdings where AEGON expects to receive full principal and interest, AEGON does not consider the underlying investments to be impaired as of December 31, 2009.

There are no individual issuers rated below investment grade in the CMBS sector which have unrealized loss positions greater than EUR 25 million.

**Asset Backed Securities****ABS - Housing Exposure**

AEGON Americas, AEGON The Netherlands and AEGON UK hold EUR 1,557 million of ABS-Housing securities, of which EUR 1,320 million is held by AEGON USA. The gross unrealized loss on the ABS-housing securities amounts to EUR 629 million. ABS Housing securities are secured by pools of residential mortgage loans primarily those which are categorized as subprime. The unrealized loss is primarily due to decreased liquidity and increased credit spreads in the market combined with significant increases in expected losses on loans within the underlying pools. Expected losses within the underlying pools are generally higher than original expectations, primarily in certain later-vintage adjustable rate mortgage loan pools, which has led to some rating downgrades in these securities.





**ABS - Subprime Mortgage Exposure**

AEGON does not currently invest in or originate whole loan residential mortgages. AEGON categorizes asset backed securities issued by a securitization trust as having subprime mortgage exposure when the average credit score of the underlying mortgage borrowers in a securitization trust is below 660 at issuance. AEGON also categorizes asset backed securities issued by a securitization trust with second lien mortgages as subprime mortgage exposure, even though a significant percentage of second lien mortgage borrowers may not necessarily have credit scores below 660 at issuance. The following table shows the breakdown of AEGON USA's available-for-sale sub-prime mortgage portfolio:

In million EUR	AAA	AA	A	BBB	<BBB	Total Amortized Cost	Fair Value	Net Unrealized (Loss)
<b>Sub-prime Mortgages Fixed rate</b>								
2004 & Prior	310	37	9		42	398	323	(75)
2005	118	8	19		3	148	120	(28)
2006	15			7	69	91	66	(25)
2007	123			2	85	210	129	(81)
2008	18					18	14	(4)
	<b>584</b>	<b>45</b>	<b>28</b>	<b>9</b>	<b>199</b>	<b>865</b>	<b>652</b>	<b>(213)</b>
<b>Sub-prime Mortgages Floating rate</b>								
2004 & Prior	18	19	2	13	17	69	46	(23)
2005	60	40		19	13	132	105	(27)
2006	10	46		3	87	146	72	(74)
2007	14	16			126	156	67	(89)
2008	16					16	15	(1)
	<b>118</b>	<b>121</b>	<b>2</b>	<b>35</b>	<b>243</b>	<b>519</b>	<b>305</b>	<b>(214)</b>
<b>Second Lien Mortgages<sup>1</sup></b>								
2004 & Prior	50	9	7	27	7	100	77	(23)
2005				26	13	39	25	(14)
2006		4	9	8	51	72	56	(16)
2007	6				199	205	87	(118)
2008								
	<b>56</b>	<b>13</b>	<b>16</b>	<b>61</b>	<b>270</b>	<b>416</b>	<b>245</b>	<b>(171)</b>
<b>Total</b>	<b>758</b>	<b>179</b>	<b>46</b>	<b>105</b>	<b>712</b>	<b>1,800</b>	<b>1,202</b>	<b>(598)</b>

<sup>1</sup> Second lien collateral primarily composed of loans to prime and Alt-A borrowers

\* Ratings based on a hierarchy of S&P, Moody's, Fitch, Internal, NAIC

Additionally, AEGON USA has exposure to asset backed securities collateralized by manufactured housing loans. The market value of these securities is EUR 122 million and the net unrealized losses are EUR 14 million. All but one position have vintages of 2003 or prior. These amounts are not included in AEGON's subprime mortgage exposure tables above.

All ABS-housing securities are monitored and reviewed on a monthly basis with detailed cash flow models using the current collateral pool and capital structure on the portfolio quarterly. Model output is generated under base and several stress-case scenarios. ABS-housing asset specialists utilize widely recognized industry modeling software to perform a loan-by-loan, bottom-up approach to modeling. The ABS-housing models incorporate external estimates on property valuations, borrower characteristics, propensity of a borrower to default or prepay and the overall security structure. Defaults were estimated by identifying the loans that are in various delinquency buckets and defaulting a certain percentage of them over the near-term and long-term. Recent payment history, a percentage of on-going delinquency rates and a constant prepayment rate are also incorporated into the model. Once the entire pool is modeled, the results are closely analyzed by the asset specialist to determine whether or not our particular tranche or holding is at risk for payment interruption. Holdings are impaired to fair value where loss events have taken place (or are projected to take place on structured securities) that would affect future cash flows on our particular tranche. Securities expected to have

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future cash flow interruptions within AEGON's subprime portfolio have been impaired to fair market value and remaining positions are not considered impaired as of December 31, 2009.

There are four individual issuers rated below investment grade in ABS-housing sector which have unrealized loss position greater than EUR 25 million.

In million EUR	Category	Fair Value	Unrealized Loss	Rating*
Residential Fndg II 2007-HSA2	2nd Lien -Insured <sup>1</sup>	36	(44)	BB+
Soundview Hm Eq Ln 2006-OPT1	Floating 1 <sup>st</sup> Lien-Mezzanine	10	(32)	B
Flagstar Home Eq Ln Tr 2007-1A	2nd Lien -Insured <sup>1</sup>	15	(28)	BB+
Residential Fndg II 2007-HSA3	2nd Lien -Insured <sup>1</sup>	16	(27)	BB+

\* Ratings based on a hierarchy of S&P, Moody's, Fitch, Internal, NAIC

<sup>1</sup> Insured by MBIA

For each of these holdings, the collateral pools have experienced higher than expected delinquencies and losses, and the unrealized loss is further exacerbated by the impact of declining home values on borrowers using affordability products and the downgrade of MBIA to below investment grade on three of the deals insured by MBIA. The credit spread widening is further impacting the unrealized losses due to illiquidity as well as increased extension risk due to slower than expected prepayments. Despite the continued decline in the margin of safety on these securities during 2009, cash flow models indicate full recovery of principal and interest for each of AEGON's particular holdings in an unrealized loss position.

As the remaining unrealized losses in the ABS-housing portfolio relate to holdings where AEGON expects to receive full principal and interest, AEGON does not consider the underlying investments to be impaired as of December 31, 2009.

There are no other individual issuers rated below investment grade in the ABS-housing sector which have unrealized loss positions greater than EUR 25 million.

**Non housing ABS Exposure**

AEGON Americas, AEGON The Netherlands and AEGON UK hold EUR 7,505 million of Non housing ABS securities. The gross unrealized loss on the Non housing ABS securities amounts to EUR 798 million. AEGON USA holds EUR 5,202 million of non housing related asset backed securities (ABS), net unrealized losses on this portfolio amount to EUR 496 million at December 31, 2009. These are securitizations of underlying pools of credit card receivables, auto financing loans, small business loans, bank loans and other receivables. The underlying assets have been pooled together and sold in tranches with varying credit ratings. The following table shows the breakdown of AEGON USA's available-for-sale non housing ABS portfolio:

In million EUR	AAA	AA	A	BBB	<BBB	Total Amortized Cost	Fair Value	Net Unrealized (Loss)
Credit Cards	1,227	382	355	608	14	2,586	2,547	(39)
Autos	301	87	105	41	189	723	721	(2)
SBA/Small Business Loans	414	9	11	31		465	322	(143)
CDOs backed by ABS								
Corp Bonds, Bank Loans	413	208	42	19	37	719	596	(123)
Other ABS	545	121	299	187	53	1,205	1,016	(189)
<b>Total ABS Non Housing</b>	<b>2,900</b>	<b>807</b>	<b>812</b>	<b>886</b>	<b>293</b>	<b>5,698</b>	<b>5,202</b>	<b>(496)</b>

**ABS - Credit cards**

The net unrealized loss on ABS - credit cards is EUR 38 million. The unrealized loss in the ABS - credit card sector is primarily a function of decreased liquidity and increased credit spreads in the structured finance and financial institution market. While the

ABS - credit card portfolios may be negatively impacted by the slowing domestic economy and housing market, there has been little rating migration of the bonds held by AEGON as issuers continue to actively manage both the underlying accounts and the master trusts. As there has been no impact to the expected future cash flows within AEGON's credit card portfolio, AEGON does not consider the underlying investments to be impaired as of December 31, 2009.

There are no individual issuers rated below investment grade in the ABS - credit card sector which have unrealized loss positions greater than EUR 25 million.

**ABS - Small business loans**

The net unrealized loss on the ABS - small business loans is EUR 143 million. The unrealized loss in the ABS - small business loan portfolio is a function of decreased liquidity and increased spreads as new issuance within this sector has come to a halt. Additionally, delinquencies and losses in the collateral pools within AEGON's small business loan securitizations have increased since 2007, as a result of the overall economic slowdown. Banks and finance companies have also scaled back their lending to small businesses.

AEGON's ABS - small business loan portfolio is concentrated in senior note classes (99% of par value). Thus in addition to credit enhancement provided by the excess spread, reserve account, and over-collateralization, AEGON's positions are also supported by subordinated note classes. AEGON's ABS - small business loan portfolio is also primarily secured by commercial real estate (99% of par value), with the original loan to value (LTV) of the underlying loans typically ranging between 60-70%. As there has been no impact to the expected future cash flows within the ABS - small business loan portfolio, AEGON does not consider the underlying investments to be impaired as of December 31, 2009.

There are no individual issuers rated below investment grade in the ABS - Small business sector which have unrealized loss positions greater than EUR 25 million.

**ABS - CDOs**

The net unrealized loss on the ABS - CDOs is EUR 123 million. ABS - CDOs are primarily secured by pools of corporate bonds and leveraged bank loans. The unrealized loss is a function of decreased liquidity and increased credit spreads in the market for structured finance. Where there have been rating downgrades to below investment grade, the individual bonds have been modeled using the current collateral pool and capital structure. As the unrealized losses in the ABS - CDO portfolio relate to holdings where AEGON expects to receive full principal and interest, AEGON does not consider the underlying investments to be impaired as of December 31, 2009.

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There are no individual issuers rated below investment grade in the ABS - CDO sector which have unrealized loss positions greater than EUR 25 million.

### **Other ABS**

The net unrealized loss on ABS - other is EUR 189 million. ABS - other includes debt issued by securitization trusts collateralized by various other assets including student loans, timeshare loans, franchise loans and other asset categories. The unrealized losses are a function of decreased liquidity and increased credit spreads in the market. Over 95% of the securities in an unrealized loss in this section are rated investment grade. Where ratings have declined to below investment grade, the individual bonds have been modeled to determine if cash flow models indicate a credit event will impact future cash flows and resulting impairments have been taken. As the unrealized losses in the ABS - other portfolio relate to holdings where AEGON expects to receive full principal and interest, AEGON does not consider the underlying investments to be impaired as December 31, 2009.

There are no individual issuers rated below investment grade in the ABS - other sector which have unrealized loss positions greater than EUR 25 million.

## Financial

The Financial sector is further subdivided into Banking, Brokerage, Insurance, REIT's and Financial other. Companies within AEGON's financial sector are generally high in credit quality and, as a whole, represent a large portion of the corporate debt market. The extreme stress on the capital base of banks and other financial institutions within the sector has been significantly reduced following unprecedented liquidity and capital support from major governments over the last year.

Fundamentals remain somewhat weakened by the global recession and some companies remain dependent on government support. However, funding concerns have largely abated as capital markets have reopened and investor confidence is returning to the sector. In addition, the sector has raised a significant amount of capital, creating a large buffer to help absorb rising credit losses. Following the unprecedented global market turmoil, regulators are likely to strengthen capital requirements for the sector as a whole as well as implement additional regulatory controls and oversight.

### Credit concentration risk section:

The value of our investments in deeply subordinated securities in the financial services sector may be significantly impacted if issuers of certain securities with optional deferral features exercise the option to defer coupon payments or are required to defer as a condition of receiving government aid. The deeply subordinated securities issued by non-US Banks are broadly referred to as capital securities which can be categorized as Tier 1 or Upper Tier 2. Capital securities categorized as Tier 1 are typically perpetual with a non-cumulative coupon that can be deferred under certain conditions. Capital securities categorized as Upper Tier 2 are generally perpetual with a cumulative coupon that is deferrable under certain conditions.

The following table highlights AEGON's credit risk to capital securities within the banking sector:

In million EUR	Americas	The Netherlands	United Kingdom	Spain	Cost Price	Fair Value	Net Unrealized (Loss)
Tier 1	729	255	600	90	1,674	1,328	(346)
Upper Tier 2	667	67	248	7	989	759	(230)
<b>At December 31, 2009</b>	<b>1,396</b>	<b>322</b>	<b>848</b>	<b>97</b>	<b>2,663</b>	<b>2,087</b>	<b>(576)</b>

### Banking

The overall exposure to the banking sub-sector in AEGON's portfolio is large, diverse, and of high quality. The unrealized losses in the banking sub-sector primarily reflect the size of our holdings, low floating rate coupons on some securities, and credit spread widening due to economic weakness and market concerns that deeply subordinated securities will not be supported by governments should banks find themselves in need of government aid. Government initiatives put into place during 2008 and 2009 have been largely successful in reopening the funding markets though lending remains cautious in some countries and sectors of the economy. Many banks have benefited from both direct assistance (government capital injections, asset relief plans and government guarantees on debt) and indirect assistance (various government liquidity measures, including short-term funding facilities). Global banks remain somewhat vulnerable to ongoing asset write-downs, credit losses and weak earnings prospects that are associated with a recessionary environment and this continues to pressure subordinated and longer duration holdings.

There are three individual issuers rated below investment grade in this sub-sector which have unrealized losses greater than EUR 25 million.

AEGON's exposure to Bank of America Corp has an amortized cost of EUR 574 million as of December 31, 2009, of which EUR 172 million relates to holdings rated below investment grade. The securities, which were rated as low as B at one time, are now rated BB. As of December 31, 2009 unrealized losses were EUR 69 million, of which EUR 60 million relates to holdings below investment grade. Given the difficult market outlook, concerns about capital adequacy and heightened risk for possible coupon deferral or exchange offers, Bank of America's deeply subordinated capital securities have largely been downgraded to below investment grade by the rating agencies even though more senior obligations remain solidly investment grade. Bank of America Corp. is the largest banking organization in the US. It acquired the troubled mortgage-bank Countrywide Financial Corp in 2008 and completed the acquisition of the liquidity challenged brokerage firm Merrill Lynch in 2009. Bank of America Corp has raised capital (including infusions from the government) to support its credit profile and its acquisitions in an environment of deteriorating asset quality. Subsequently, the US government stress test indicated Bank of America Corp required additional equity, which it addressed through a variety of non-government sources that included common stock issuance, exchange of preferred for common and asset sales. Bank of America Corp paid back the government-provided capital in December 2009, funded by issuance of common equivalent securities and excess liquidity. Payments continue to be made in accordance with the original bond agreements. AEGON evaluated

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the near-term prospects of the issuer in relation to the severity and duration of the unrealized loss and does not consider the position to be impaired as of December 31, 2009.

AEGON's exposure to Royal Bank of Scotland Group plc (RBS) has an amortized cost of EUR 325 million as of December 31, 2009, of which EUR 208 million relates to holdings rated below investment grade. The Tier 1 and Upper Tier 2 securities are rated BB to CC, depending on the individual features of the bonds. As of December 31, 2009 unrealized losses were EUR 63 million, of which EUR 61 million related to holdings rated below investment grade. RBS is one of the world's largest universal banks with historically prominent positions in both global wholesale banking and in UK financial services. However, RBS has been severely impacted by the global credit market crisis and on October 13, 2008, the UK government announced it would take decisive action to stabilize and support the bank. Since that time, the UK government has taken a 70% equity stake in the bank and announced plans to insure a large portion of RBS' riskiest assets under the UK Asset Protection Plan. In light of the significant amount of State aid that RBS received, it was required to submit a Restructuring Plan to the European Commission, outlining the steps it plans to take to restore profitability and long-term viability. On November 3, 2009, RBS announced an Agreement in Principle with the European Commission. The Agreement provided key details of RBS' participation in the Asset Protection Plan as well as required burden sharing measures RBS must undertake as a condition of the European Commission's approval of the Restructuring Plan. As part of the burden sharing measures, RBS will not pay dividends or coupons on existing hybrid securities (including Tier 1, Upper Tier 2, preference and B shares) or exercise any call options for a two year period unless there is a legal obligation to do so. As such, AEGON has impaired its RBS securities with optional deferral language and non-cumulative coupons. The remaining RBS securities are deemed either must pay securities or have optional deferral language with cumulative coupons. AEGON evaluated the near-term prospects of the issuer in relation to the severity and duration of the unrealized losses and does not consider those investments to be impaired as of December 31, 2009.

AEGON's exposure to Lloyds Banking Group PLC has an amortized cost of EUR 317 million as of December 31, 2009, of which EUR 131 million relates to holdings rated below investment grade. These Tier 1 and Upper Tier 2 securities are rated from BB+ to CC depending on the individual features of the bonds. As of December 31, 2009 unrealized losses were EUR 56 million, of which EUR 46 million relates to holdings rated below investment grade. Lloyds Banking Group PLC was created from the merger of Lloyds TSB and HBOS PLC in the fall of 2008 as the shutdown in capital markets threatened the sustainability of HBOS PLC's wholesale funding and specialist lending model. Following an emergency capital injection, the UK Government currently owns 43.4% of the combined Lloyds Banking Group PLC. After months of speculation, Lloyds announced on November 3, 2009 that it was withdrawing from the UK's Asset Protection Plan, which was offered to systemically important UK banks as a way to insure them against losses on their riskiest assets. Instead, Lloyds announced plans to raise £21 billion in core Tier 1 capital to cover potential losses on its assets over the next few years. Lloyds' plans were approved by the UK regulator, the UK government and the European Commission and have since been completed. However, as a result of the State Aid that Lloyds received during the height of the credit crisis, it was required to submit a Restructuring Plan to the European Commission. As a condition of approving Lloyds' Restructuring Plan, the European Commission asked Lloyds to undertake certain burden sharing measures. As part of the burden sharing measures, Lloyds will not pay dividends or coupons on existing hybrid securities or exercise any call options for a two year period unless there is a legal obligation to do so. As such, AEGON has impaired its Lloyds securities with optional deferral language and non-cumulative coupons. The remaining Lloyds securities are deemed either must pay securities or have optional deferral language with cumulative coupons. AEGON evaluated the near-term prospects of the issuer in relation to the severity and duration of the unrealized losses and does not consider those positions to be impaired as of December 31, 2009.

AEGON evaluated the near-term prospects of the issuers in the banking sub sector in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2009.

#### **Brokerage, Insurance and Financial Other**

The unrealized losses in the Financial sector primarily reflect general spread widening on companies due to broad housing, mortgage market, equity market and economic issues plus increased liquidity and capital markets concerns, which has been compounded in some cases by the structure of the securities (subordination or other structural features and duration). While the sub-sector has some exposure to the US residential mortgage market, the issuers are highly diversified. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2009.

There is one individual issuer rated below investment grade in this sub-sector which has unrealized losses greater than EUR 25 million.

AEGON's exposure to American International Group (AIG) has an amortized cost of EUR 381 million as of December 31, 2009, of which EUR 168 million relates to holdings rated below investment grade. These securities are rated from BB+ to B depending on the individual features of the bonds. As of December 31, 2009 unrealized losses were EUR 102 million, of which EUR 43 million relates to holdings rated below investment grade. AIG is the world's largest international insurance company. AIG suffered losses in excess of expectations on both their direct investment and derivative exposure to mortgage related securities. The losses led to rating downgrades, which in turn triggered incremental collateral postings. Early termination rights related to the downgrades, further anticipated mark-to-market related collateral postings required under its CDS contracts, and impairments within its general account portfolio increased strain on liquidity and the amount of incremental capital needed. In late September of 2008, AIG was able to secure a two-year bridge facility from the Federal Reserve, in exchange for warrants equal to 80% of their equity. Since that time, the US Government's support of AIG has been restructured and augmented, in order to provide the company time to complete asset sales prior to repaying loans and investments made by the US Government. Payments continue to be made in accordance with the original bond agreements. AEGON evaluated the near-term prospects of the issuer in relation to the severity and duration of the unrealized loss and does not consider the position to be impaired as of December 31, 2009.

There are no other individual issuers rated below investment grade in the brokerage, insurance and financial other sector which have unrealized loss positions greater than EUR 25 million.

#### **REITs**

The unrealized losses in the REIT sub-sector are a result of fundamental weakness in commercial real estate, which has caused general spread widening in the CMBS market and the REIT unsecured market. Despite real estate values falling and capitalization rates rising, REIT's operating fundamentals continue to perform at levels sufficient to support their debt structure. However, further fundamental deterioration is expected as unemployment rises, consumer discretionary spending falls, and tenant bankruptcies increase. The majority of REITs have recapitalized their balance sheets by accessing the capital markets while maintaining financial flexibility during the difficult financing environment. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2009.

There are no individual issuers rated below investment grade in the REITs sector which have unrealized loss positions greater than EUR 25 million.





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## **Industrial**

The Industrial sector is further subdivided into various sub sectors, the majority of the gross unrealized losses relate to Basic Industries, Capital Goods, Consumer Cyclical, Consumer Non-Cyclical, Communications, and Transportation.

### **Basic Industries and Capital Goods**

The Basic and Capital Goods industries encompass various sub-sectors ranging from aerospace defense to packaging. Building materials continue to be impacted by the delay in infrastructure spending as well as the slowdown in the US housing market which has been further impacted by declines in consumer spending. While chemicals have a high degree of operating leverage and thus have benefited from the increase in economic activity in recent months, the volatility in raw material costs and increasing competition from global competitors has balanced the outlook. Paper and forest products continue to be under pressure due to lower housing starts, pricing pressure and lack of demand for paper related shipping and writing products. Lower paper and forest products demand has been partially offset by falling input costs and US government related alternative fuel tax credits. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2009.

There are no individual issuers rated below investment grade in the basic industries and capital goods sub-sector which have unrealized loss positions greater than EUR 25 million.

### **Consumer Cyclical**

The more significant of these sub-sectors from an unrealized loss perspective are retailers, automotive, home construction and gaming.

Retail has been negatively impacted by a consumer pull-back in spending, particularly discretionary purchases, as high unemployment, credit market tightening, and household deleveraging have weighed on the consumer. Signs of improvement have begun to emerge as the decline in residential real estate prices has slowed, equity prices have increased, and consumer confidence has come off its historical lows. Margins have also strengthened on tight inventory controls, cost cutting activities and the lapping of easy year-over-year comparisons. Promotional activity and discounts continue to be used as tools to drive traffic and maintain market share, but not to the same magnitude as witnessed last year.

The underlying fundamentals driving sales and earnings performance of the automotive industry continue to be pressured as a result of a secular shift away from more profitable SUVs and pickups towards more fuel-efficient cars and crossovers. In addition, the combination of global economic weakness, weak consumer confidence, tight credit standards and high unemployment has negatively impacted auto sales.

Fundamentals in the home construction industry have weakened due to oversupply and tighter lending practices which have led to a decrease in order activity and lower margins. Additionally, the subprime issues and foreclosures have had a dramatic effect on the home construction fundamentals, and have impacted the homebuyer's ability to finance a home purchase. Finally, high unemployment has put additional pressure on the supply/demand imbalance. While many of these issues are still weighing heavy on the sector, the industry has seen some positive momentum with lower cancellation rates, better access to financing, stronger consumer confidence and some stabilization in home prices.

Fundamentals in the gaming industry remain weak due to increased debt and related interest costs due to leveraged buyout activity and a material reduction in discretionary consumer spending. A deteriorating homebuilding environment and a material drop-off in consumer confidence, coupled with concerns over unemployment resulted in declining demand. Recent supply additions have come at a very difficult time and have added to the supply/demand imbalance. Discounted rooms have been offered to entice demand, which will have a negative effect on margins.

AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2009.

There are no individual issuers rated below investment grade in the consumer cyclical sub-sector which have unrealized loss positions greater than EUR 25 million.

### **Consumer Non-Cyclical**

The Consumer Non-Cyclical industry encompasses various sub-sectors ranging from consumer products to supermarkets. The more significant of these sub-sectors from an unrealized loss perspective are food and beverages and consumer products. Food and beverages and consumer products fundamentals have modestly weakened over the past year due to higher input costs (which have recently moderated or turned for the better due to the roll off of previous high cost hedging strategies) and the industries' limited ability to pass along these higher costs to the customer, who in many cases has chosen to trade down to less expensive, and more value oriented products. Also, the price gap between

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branded products and private label products has become more compelling to the consumer. Additionally, many of the shareholder friendly actions typical of this space have been scaled back or suspended in order to preserve cash.

Overall, the sector represents a large portion of the corporate debt market. As a result, AEGON's exposure is large and the gross dollar amount of unrealized losses is also large. The vast majority of the unrealized losses in the consumer non-cyclical sector relate to global macro economic conditions and credit spread widening. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2009.

There are no individual issuers rated below investment grade in the consumer non-cyclical sub-sector which have unrealized loss positions greater than EUR 25 million.

### Communications

The Communications sector can be further divided into the media cable, media non-cable, wireless and wirelines sub-sectors. The majority of weakness to date has been within the media non-cable category. All media companies, but especially newspaper and

directory companies, have been suffering from a tepid advertising environment related to the weak economy. This has made it difficult for companies to offset declining revenues with sufficient cost cutting initiatives, leading to significantly lower profits. Historically, this space has been a focus for activist shareholders and private equity firms, forcing management to respond by increasing financial leverage, performing consolidations or divesting assets. The net effect of this was a weaker credit profile for many companies just as the market started to slow down. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2009.

There are no individual issuers rated below investment grade in the communications sub-sector which have unrealized loss positions greater than EUR 25 million.

### **Transportation**

The Transportation sector includes railroads, transportation services companies, and airlines. Railroads have been impacted by the global economic slowdown as lower industrial production has reduced the demand for shipment of freight and industrial commodities. The decline in international trade and the pull back of the consumer has also caused intermodal volumes to decline substantially. The railroads have reacted aggressively to the drop in volumes by cutting headcount, parking railcars and locomotives, cutting capital expenditures, and discontinuing share repurchase activity. As a result, balance sheets remain strong. The long-term view for the railroads remains positive.

Transportation is a diversified subsector including issuers ranging from rental car companies to rail car manufacturers. These companies have all been impacted by the economic slowdown in varying degrees. Rental car companies have experienced weakness in end market demand, especially within the corporate travel segment. A weak used car market rebounded dramatically during 2009 and the capital markets have opened back up for the more leveraged names in the subsector. Parcel delivery companies have also experienced weak demand for their services, which has pressured pricing. Balance sheets generally remain strong and the recent strength in industrial production should help fundamentals for this sub-sector.

Airline fundamentals continue to be pressured as business travel demand remains soft. Airlines have resorted to cutting capacity and fares to keep their aircraft full, which has resulted in high load factors, but much weaker yields. This has translated into significant pressure on the top-line. Liquidity concerns have abated for the foreseeable future given the sizable amounts of cash that have been raised across the sector via the capital markets. Concerns over input costs have increased as jet fuel costs have risen to its 52 week highs. AEGON USA's airline exposure has senior level collateral protection.

AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2009.

There are no individual issuers rated below investment grade in the transportation sub-sector which have unrealized loss positions greater than EUR 25 million.

### **Utility**

The utility sector is further sub divided into Electric, Natural Gas and Other. The most significant of these sub-sectors from an unrealized loss perspective is Electric.

### **Electric**

The Electric Utility sub-sector is generally viewed as a defensive sector during weak economic environments. The economic slowdown has resulted in declining revenue trends, which have been most pronounced in the large industrial customer base. Companies in the sector have responded to the declining revenue trends with cost cutting initiatives and reduced capital expenditure programs. Liquidity remains adequate for most companies in the Electric Utility sub-sector and significant debt refinancing was completed during 2009 which further enhanced liquidity profiles. Other headwinds continue to affect the industry including ongoing capital expenditure requirements, the possibility of CO2 legislation, declining unregulated generation margins, and increasingly uncertain state regulatory environments during a time of economic stress. Even with these headwinds, most balance sheets have been maintained and cash flow has been sufficient to support credit fundamentals. AEGON evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2009.

There are no individual issuers rated below investment grade in this sub-sector which have unrealized loss positions greater than EUR 25 million.

### **Sovereign Exposure**

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Sovereign exposure relates to government issued securities including Dutch government bonds, US Treasury, agency and state bonds. The issuer identified as having the largest unrealized loss in the Available-For-Sale portfolio was US Treasuries. US Treasury interest rates rose significantly during 2009. Government fiscal and monetary policy has stabilized credit conditions across much of the World, and, as a result, the quality premium for US Treasury bonds has diminished. In addition, generally more optimistic economic sentiment and some concerns about potential future inflationary pressures have put pressure on US Treasuries. As a result, prices for US Treasury and Agency securities fell during 2009. AEGON evaluated the near-term prospects of the issuer in relation to the severity and duration of the unrealized loss and does not consider the position to be impaired as of December 31, 2009.

### **Unrealized Loss by Maturity**

The table below shows the composition by maturity of all bonds in an unrealized loss position held by AEGON Americas, AEGON The Netherlands and AEGON UK at December 31, 2009.

**Maturity Level**

<b>In million EUR</b>	<b>Carrying value of securities with gross unrealized losses</b>	<b>Gross unrealized losses</b>
One year or less	3,943	(131)
Over 1 thru 5 years	9,852	(1,005)
Over 5 thru 10 years	8,815	(1,492)
Over 10 years	14,572	(3,106)
<b>Total</b>	<b>37,182</b>	<b>(5,734)</b>

**Unrealized Loss by Credit Quality**

The table below shows the composition by credit quality of bonds in an unrealized loss position held by AEGON Americas, AEGON The Netherlands and AEGON UK at June 30, 2009.

<b>In million EUR</b>	<b>Carrying value of securities with gross unrealized losses</b>	<b>Gross unrealized losses</b>
Treasury Agency	2,905	(147)
AAA	9,095	(1,112)
AA	3,488	(498)
A	8,529	(979)
BBB	9,129	(1,153)
BB	2,104	(777)
B	1,025	(497)
Below B	907	(571)
	<b>37,182</b>	<b>(5,734)</b>

The table below provides the length of time a security has been below cost and the respective unrealized loss at year-end.

<b>In million EUR</b>	<b>Investment grade carrying value of securities with gross unrealized losses</b>	<b>Below investment grade carrying value of securities with gross unrealized losses</b>	<b>Investment grade unrealized loss</b>	<b>Below investment grade unrealized loss</b>
0 - 6 months	16,279	1,005	(1,212)	(494)
6 - 12 months	2,426	30	(242)	(5)
> 12 months	14,441	3,001	(2,436)	(1,345)
<b>Total</b>	<b>33,146</b>	<b>4,036</b>	<b>(3,890)</b>	<b>(1,844)</b>

The majority of the unrealized losses relate to investment grade holdings where credit spreads have widened in the near term in conjunction with concerns over the current macroeconomic conditions.

The table below provides the length of time a below investment grade security has been in an unrealized loss and the percentage of carrying value (CV) to amortized cost.

*Aging and severity unrealized losses*

	Carrying value of bonds with gross unrealized losses	Gross unrealized losses
CV 70-100% of amortized cost	606	(109)
CV 40-70% of amortized cost	381	(324)
CV < 40 % of amortized cost	18	(61)
<b>0-6 months</b>	<b>1,005</b>	<b>(494)</b>
CV 70-100% of amortized cost	30	(5)
CV 40-70% of amortized cost		
CV < 40 % of amortized cost		
<b>6-12 months</b>	<b>30</b>	<b>(5)</b>
CV 70-100% of amortized cost	821	(121)
CV 40-70% of amortized cost	152	(93)
CV < 40 % of amortized cost	24	(16)
<b>12-24 months</b>	<b>997</b>	<b>(230)</b>
CV 70-100% of amortized cost	1,171	(185)
CV 40-70% of amortized cost	716	(610)
CV < 40 % of amortized cost	117	(320)
<b>&gt; 24 months</b>	<b>2,004</b>	<b>(1,115)</b>
<b>Total</b>	<b>4,036</b>	<b>(1,844)</b>

*Realized gains and losses on bonds of AEGON Americas, AEGON The Netherlands and AEGON UK for the year ended December 31, 2009:*

In million EUR	Gross realized gains	Gross realized losses
Bonds	900	(574)

The table below provides the length of time the security was below cost prior to the sale and the respective realized loss for assets not considered impaired.

*Time period*

In million EUR	0 -12 months	>12 months	Total
Bonds	(224)	(350)	(574)

**Impairment losses and recoveries**

The composition of AEGON Americas, AEGON The Netherlands and AEGON UK's bond impairment losses and recoveries by issuer for the year ended December 31, 2009 is presented in the table below. Those issuers with impairments or recoveries exceeding EUR 25 million are specifically noted.

In million EUR	(Impairment)/ Recovery
<i>Impairments:</i>	
Northern Rock PLC	(103)
Royal Bank of Scotland PLC	(56)
Countrywide ABS Certs 2006-6	(52)
CIT Group Inc	(45)
Bradford & Bingley	(35)
Countrywide Alt Ln 2006-46	(33)
RH Donnelley Corp	(31)
Countrywide Alt Ln 2006-34	(29)
Countrywide Alt Ln 2007-22	(26)
Other Impairments	(804)
<i>Sub-total impairments</i>	<i>(1,214)</i>
<i>Recoveries:</i>	
Other recoveries	116
<i>Sub-total recoveries</i>	<i>116</i>
<b>Net (impairments) and recoveries</b>	<b>(1,098)</b>

Net impairments during 2009 totaled EUR 1,098 million, including EUR 350 million related to subprime mortgage asset backed securities and a further EUR 217 million to residential mortgage backed securities, both in the USA.

During 2009, AEGON recognized EUR 116 million in recoveries on impaired securities. Recoveries taken on structured securities during 2009 relate to gains on sales and exchanges of previously impaired assets. Recoveries on non-structured securities were supported by credit events combined with significant market value improvements.

A EUR 103 million loss was realized in 2009 on Northern Rock PLC. Northern Rock is a large residential mortgage lender in the United Kingdom that has been unable to withstand the shutdown of liquidity in the global markets without the assistance of state aid. Additionally, in October 2009 the European Commission approved a restructuring plan which allows for Northern Rock to split into two separate entities: Northern Rock PLC and Northern Rock Asset Management. There is substantial uncertainty regarding the form of capital and capital adequacy of each new entity. Based on AEGON's evaluation of Northern Rock's restructuring plan, the securities were impaired to fair value in the third quarter of 2009.

A EUR 56 million loss was realized in 2009 on Royal Bank of Scotland PLC. Royal Bank of Scotland has experienced extreme financial difficulties since the onset of the financial crisis. It is one of the world's largest universal banks and the United Kingdom government took a substantial financial interest in the bank to support its existence and promote stability. However, the bank's securities have declined in price as a result of its excessive losses, diluted capital base, and majority government control. A EUR 14 million loss was recorded in the first quarter of 2009 due to the intent to sell. Additionally, in the fourth quarter of 2009 RBS announced it would not pay dividends or coupons on existing hybrid securities (including Tier 1, Upper Tier 2, Preference and B shares) or exercise any call options for a two year period unless there is a legal obligation to do so. Therefore, RBS securities with optional deferral language and non-cumulative coupons were impaired to fair value in the fourth quarter of 2009, resulting in EUR 42 million in impairments.

A EUR 52 million loss was realized in 2009 on Countrywide ABS Certs 2006-6. The debt represents a beneficial interest in a portfolio of pooled US subprime mortgage loans. The pool contains large concentration in states with significant declining home values. While the deal continued paying full principal and interest payments during 2009, deterioration in the housing markets caused revisions to modeling assumptions which triggered an adverse change in cash flows. The security was impaired to fair value in the second quarter due to an adverse change in projected cash flows.

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A EUR 45 million loss was realized in 2009 on CIT Group Inc. CIT is a finance company with a focus on small and middle market commercial lending. During 2009, it experienced significant financial difficulties which made it probable that either an exchange or bankruptcy filing would occur. Therefore, our securities were impaired to fair value in the third quarter of 2009. In the fourth quarter of 2009, CIT emerged from a prepackaged bankruptcy reorganization and a recovery of EUR 15 million was realized in the fourth quarter of 2009.

A EUR 35 million loss was realized on Bradford & Bingley in 2009. The nationalized bank is in run-off and has suspended coupon payments on certain subordinated debt instruments. As a result, the securities were impaired to fair value in the second quarter for EUR 34 million with an additional impairment of EUR 1 million in the third quarter due to reduction in fair value.



A EUR 33 million loss was realized in 2009 on Countrywide Alt Ln 2006-46. The debt represents a beneficial interest in a portfolio of pooled US Alt-A fixed rate mortgage loans. The pool contains a large concentration of mortgages in states experiencing a significant decline in home values. While the deal continued paying full principal and interest payments during 2009, deterioration in the housing markets caused revisions to modeling assumptions which triggered an adverse change in cash flows. The security was impaired to fair value in the first quarter due to an adverse change in projected cash flows.

A EUR 31 million loss was realized on RH Donnelley Corp in 2009. They incurred significant losses due to the decline of the yellow page industry due to a slowdown in local advertising that originally began in newspapers, which has spread to the yellow page industry. As a result of this, RH Donnelley Corp has struggled to generate revenues consistent with past results. Due to intent to sell status on a portion of AEGON's holdings, an impairment for USD 3 million was realized in the first quarter. RH Donnelley Corp filed for a pre-negotiated bankruptcy in the second quarter and was impaired to fair value.

A EUR 29 million loss was realized on Countrywide Alt Ln 2006-34 in 2009. The debt represents a beneficial interest in a portfolio of pooled US Alt-A fixed rate mortgage loans. The pool contains a large concentration of mortgages in states experiencing a significant decline in home values. While the deal continued paying full principal and interest payments during 2009, deterioration in the housing markets caused revisions to modeling assumptions which triggered an adverse change in cash flows. The security was impaired to fair value in the second quarter due to an adverse change in projected cash flows.

A EUR 26 million loss was realized on Countrywide Alt Ln 2007-22 in 2009. The debt represents a beneficial interest in a portfolio of pooled US Alt-A fixed rate mortgage loans. The pool contains a large concentration of mortgages in states experiencing a significant decline in home values. While the deal continued paying full principal and interest payments during 2009, deterioration in the housing markets caused revisions to modeling assumptions which triggered an adverse change in cash flows. The security was impaired to fair value in the first quarter due to an adverse change in projected cash flows.

***Equity instruments classified as available for sale***

Objective evidence of impairment of an investment in an equity instrument classified as available for sale includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. Significant or prolonged decline is generally defined as an unrealized loss position for more than 6 months or a fair value of less than 80% of the cost price of the investment. Additionally, as part of an ongoing process, the equity analysts actively monitor earnings releases, company fundamentals, new developments and industry trends for any signs of possible impairment.

These factors typically require significant management judgment. The impairment review process has resulted in EUR 88 million of impairment charges for the year ended December, 2009 for AEGON Americas, AEGON The Netherlands and AEGON UK.

As of December 31, 2009, there are EUR 161 million of gross unrealized gains and EUR 16 million of gross unrealized losses in the equity portfolio of AEGON. There are no securities held by AEGON with an unrealized loss of more than EUR 5 million. The table below represents the unrealized gains and losses on share positions held by AEGON Americas, AEGON The Netherlands and AEGON UK.

In million EUR	Cost basis	Carrying value	Net unrealized gains/(losses)	Carrying value of securities with gross unrealized gains	Gross unrealized gains	Carrying value of securities with gross unrealized losses	Gross unrealized losses
Shares	892	1,049	157	911	170	138	(13)

The composition of shares by industry sector in an unrealized loss position held by AEGON Americas, AEGON The Netherlands and AEGON UK at December 31, 2009 is presented in the table below.

#### Unrealized losses shares

In million EUR	December 31, 2009	
	Carrying value of instruments with unrealized losses	Gross unrealized losses
Communication	27	(2)
Consumer cyclical	2	
Consumer non-cyclical	1	
Financials	69	(11)
Funds	31	
Industries	3	
Technology	1	
Other	4	
<b>Total</b>	<b>138</b>	<b>(13)</b>

#### Impairment losses on Shares

The table below provides the length of time the shares held by AEGON Americas, AEGON The Netherlands and AEGON UK were below cost prior to the impairment in 2009.

In million EUR	0 - 6 months
Shares	(88)

The composition of AEGON Americas, AEGON The Netherlands and AEGON UK's common stock impairment losses by issuer for the period ended December 31, 2009 is presented in the table below. There were no issuers with impairments above EUR 25 million.

#### Vi Goodwill

Goodwill is reviewed and tested for impairment under a fair value approach. Goodwill must be tested for impairment at least annually or more frequently as a result of an event or change in circumstances that would indicate an impairment charge may be necessary. The recoverable amount is the higher of the value in use and fair value less costs to sell for a cash-generating unit. Impairment testing requires the determination of the value in use or fair value less costs for each of AEGON's identified cash generating units.

#### Vii Valuation of defined benefit plans

The liabilities or assets recognized in the balance sheet in respect of defined benefit plans is the difference between the present value of the projected defined benefit obligation at the balance sheet date and the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. Actuarial assumptions used in the measurement of the liability include the discount rate, the expected return on plan assets, estimated future salary increases and estimated future pension increases. To the extent that actual experience deviates from these assumptions, the valuation of defined benefit plans and the level of pension expenses recognized in the future may be affected.

#### Viii Recognition of deferred tax assets

Deferred tax assets are established for the tax benefit related to deductible temporary differences, carry forwards of unused tax losses and carry forwards of unused tax credits when in the judgment of management it is more likely than not that AEGON will receive the tax benefits. Since there is no absolute assurance that these assets will ultimately be realized, management reviews AEGON's deferred tax positions periodically to

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determine if it is more likely than not that the assets will be realized. Periodic reviews include, among other things, the nature and amount of the taxable income and deductible expenses, the expected timing when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning strategies it can utilize to increase the likelihood that the tax assets will be realized. These strategies are also considered in the periodic reviews.

**Ix Valuation of share appreciation rights and share options**

Because of the inability to measure the fair value of employee services directly, fair value is measured by reference to the fair value of the rights and options granted. This value is estimated using the binomial option pricing model, taking into account the respective vesting and exercise periods of the share appreciation rights and share options.

The volatility is derived from quotations from external market sources and the expected dividend yield is derived from quotations from external market sources and the binomial option pricing model. Future blackout periods are taken into account in the model in conformity with current blackout periods. The expected term is explicitly incorporated in the model by assuming that early exercise occurs when the share price is greater than or equal to a certain multiple of the exercise price. This multiple has been set at two based on empirical evidence. The risk free rate is the interest rate for Dutch government bonds.

**x Recognition of provisions**

Provisions are established for contingent liabilities when it is probable that a past event has given rise to a present obligation or loss and the amount can be reasonably estimated. Management exercises judgment in evaluating the probability that a loss will be incurred. The estimate of the amount of a loss requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure.

**xi Non-consolidated group companies**

All Group Companies are consolidated.

## 5.3 Results of Operations 2009 compared to 2008

In million EUR	2009	2008	%
<b>Underlying earnings geographically</b>			
Americas	805	1,073	(25)
The Netherlands	398	378	5
United Kingdom	48	141	(66)
Other countries	161	93	73
Holding and other activities	(252)	(112)	(125)
<b>Underlying earnings before tax</b>	<b>1,160</b>	<b>1,573</b>	<b>(26)</b>
<b>By product segment</b>			
Life and protection	1,052	911	15
Individual savings and retirement	(94)	(146)	36
Pensions and asset management	259	508	(49)
Institutional products	118	405	(71)
Life reinsurance	21	(63)	
Distribution	(3)	1	
General insurance	36	45	(20)
Interest charges and other	(252)	(112)	(125)
Share in net results of associates	23	24	(4)
<b>Underlying earnings before tax</b>	<b>1,160</b>	<b>1,573</b>	<b>(26)</b>
Over/(under) performance of fair value items	(460)	(1,619)	72
<b>Operating earnings/(loss) before tax</b>	<b>700</b>	<b>(46)</b>	
Gains on investments	432	35	
Impairment charges	(1,273)	(1,038)	(23)
Other income/(charges)	(323)	(12)	
<b>Income/(loss) before tax</b>	<b>(464)</b>	<b>(1,061)</b>	<b>56</b>
Income tax	668	(21)	
<b>Net income/(loss)</b>	<b>204</b>	<b>(1,082)</b>	
<b>Net underlying earnings</b>	<b>1,025</b>	<b>1,234</b>	<b>(17)</b>
<b>Revenues geographically 2009</b>			

In million EUR	Holdings, other activities and eliminations					Total
	Americas	The Netherlands	United Kingdom	Other countries		
Total life insurance gross premiums	5,889	3,066	7,014	934		16,903
Accident and health insurance premiums	1,689	206		70		1,965
General insurance premiums		457		148		605
Total gross premiums	7,578	3,729	7,014	1,152		19,473
Investment income	3,908	2,211	2,316	203	43	8,681
Fees and commission income	896	383	195	119		1,593
Other revenues	2			2		4
<b>Total revenues</b>	<b>12,384</b>	<b>6,323</b>	<b>9,525</b>	<b>1,476</b>	<b>43</b>	<b>29,751</b>
Number of employees, including agent-employees	14,194	5,510	4,851	3,560	267	28,382



This report includes two non-GAAP financial measures: underlying earnings before tax and operating earnings before tax. The reconciliation of these measures to the most comparable GAAP measure is shown below in accordance with Regulation G. AEGON believes the non-GAAP measures shown herein, together with the GAAP information, provides meaningful measures for the investing public to evaluate AEGON's business relative to the businesses of our peers.

In million EUR	2009	2008
<b>Underlying earnings before tax</b>	<b>1,160</b>	<b>1,573</b>
Over/(under) performance of fair value items	(460)	(1,619)
<b>Operating earnings before tax</b>	<b>700</b>	<b>(46)</b>
Gains/(losses) on investments	432	35
Impairment charges	(1,273)	(1,038)
Other income/(charges)	(323)	(12)
<b>Income before tax</b>	<b>(464)</b>	<b>(1,061)</b>
Income tax	668	(21)
<b>Net income</b>	<b>204</b>	<b>(1,082)</b>

During 2009 AEGON continued to deliver on its strategic priorities:

To reallocate capital toward businesses with higher growth and return prospects

To improve growth and returns from existing businesses

To reduce financial markets risk

To manage AEGON as an international company.

#### Portfolio review

AEGON continues to assess its businesses to ensure they meet requirements in terms of earnings growth, cash flow and return on capital. As part of this review, AEGON:

is running off its institutional spread-based business in the US, which will result in lower credit risk in the long run and a release of capital in the near term;

sold its life business in Taiwan, decreasing AEGON's long-term interest rate exposure and substantially lowering required economic capital;

withdrew from the Group Risk market in the UK, releasing EUR 55 million in capital over next three years;

sold its funeral insurance business in the Netherlands in January 2010.

Consistent with its strategy to allocate capital to businesses and geographies that offer attractive growth and higher return prospects, AEGON completed its acquisition of a 50% stake in Mongeral, Brazil's sixth largest independent life insurer, and the acquisition of Banca Transilvania's

50% share in BT AEGON, a Romanian pension business the two companies set up in 2008.

### **Cost measures**

During 2009, AEGON realized cost reduction measures of EUR 250 million, significantly above the company's target for the year of EUR 150 million. Excluding the impact of restructuring charges, increased employee benefit expenses in the United States and currency movements, operating costs decreased in 2009 by 5% on a comparable basis.

AEGON's total workforce, excluding agent employees, declined by 7% during the year to just over 25,000 employees. The decline was due mainly to restructuring in the United States and the United Kingdom, as well as the sale of real estate brokerage activities in the Netherlands and the sale of the company's life insurance operations in Taiwan.

### **Capital & risk management**

#### *Capital preservation*

During 2009, a further EUR 3.3 billion of capital was released from AEGON's businesses, bringing the total for 2008 and 2009 to EUR 4.9 billion.

#### *Excess capital*

Excess capital above S&P AA capital adequacy requirements amounted to EUR 3.7 billion at the end 2009, up from EUR 2.9 billion at the end of 2008. The increase primarily reflected capital efficiency and derisking activities (EUR 3.3 billion) and statutory earnings



(EUR 1.2 billion) offset by credit migration and impairments in the company's bond portions (EUR 1.9 billion) and higher regulatory and rating agency capital requirements for longevity and default provisioning and other (EUR 1.5 billion). In August 2009 the company issued EUR 1 billion of new common shares in a public offering the proceeds of which were used to repay one-third of the EUR 3 billion in core capital provided by the Dutch State at the end of 2008. The repayment, including interest and premium for repayment, totaled EUR 1.15 billion. Under current uncertain circumstances, AEGON aims to maintain a substantial capital buffer.

#### *Core capital*

At year-end 2009, core capital, excluding the revaluation reserves, amounted to EUR 15.9 billion or 75% of the total capital base, well above AEGON's self-imposed minimum target of 70%. Core capital, including the revaluation reserves, totaled EUR 14.2 billion, comprising EUR 12.2 billion in shareholders' equity and a further EUR 2 billion in convertible core capital securities. At the end of December 31, 2009, the Insurance Group Directive<sup>3</sup> (IGD) capital surplus totaled EUR 6.7 billion, equivalent to a solvency ratio of 204% up from 183% in 2008.

The revaluation reserves amounted to a negative EUR 1.7 billion, a significant improvement of EUR 5.5 billion from year end 2008, mainly resulting from the positive effects of tightening credit spreads compared to last years elevated spread levels.

#### *Improved risk profile*

As announced in February 2009, AEGON is running off its institutional spread-based business in the United States. The run-off will significantly reduce AEGON's exposure to credit risk and help lessen overall sensitivity to fluctuations in financial markets. During the course of 2009, as planned, account balances of this business were reduced by USD 11.5 billion to USD 21.3 billion. During 2010, these balances are expected to be reduced by a further USD 8.5 billion. In order to fund these outflows, assets from the institutional spread-based business have been transferred internally to other businesses in the United States in exchange for cash. As a result, the institutional spread-based business realized a negative spread on these assets which adversely impacted underlying earnings.

#### **Manage AEGON as an international company**

AEGON's new global asset management business formally started on October 1, combining its international asset management operations in one international organization.

A European data center was opened in the United Kingdom, bringing together the data centers from the United Kingdom and the Netherlands, saving costs and significantly improving efficiency expected going forward.

To further improve marketing effectiveness, AEGON Scottish Equitable will be rebranded solely as AEGON. Brand awareness in the United Kingdom has increased strongly since AEGON became the lead partner of British tennis.

Leveraging on expertise in the United States and the United Kingdom, further progress has been made in developing variable annuity products. Currently, variable annuity products are being sold in the United Kingdom, the Netherlands and France. In addition, toward the end of 2009, AEGON's joint venture with Sony Life launched its first variable annuity product in the Japanese market. The product is being distributed through Sony Life's Lifepanner channel and several banks, including megabank Sumitomo Mitsui Banking Corp.

#### **Earnings overview**

##### *Net income*

AEGON's net income increased to EUR 204 million compared to a loss of EUR 1,082 million in 2008. The increase was the result of a significant improvement in the performance of fair value items, gains on investments and taxes, partly offset by lower earnings from lower investment income and lower fund related charges, higher impairment charges and the loss on the sale of the Taiwanese life insurance operations which amounted to EUR 385 million. Fair value items include the over- or underperformance on certain assets held at fair value through profit or loss. In 2009 these showed an underperformance of EUR 460 million, a significant improvement compared with an underperformance of EUR 1,619 million in 2008. In the Americas, the underperformance of EUR 30 million was primarily attributable to losses on a macro equity hedge and fair value assets, largely offset by the positive impact of the guarantees. Underperformance of fair value items in the Netherlands of EUR 247 million was due mainly to the impact of movements in the fair value of guarantees and related hedges. In addition,

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the further narrowing of AEGON's own credit spread resulted in a loss of EUR 189 million for the holding company. Gains on investments amounted to EUR 432 million in 2009, a result primarily of trading in AEGON's bond portfolios, in part offset by fair value losses on direct residential real estate investments in the Netherlands. Impairment charges in 2009 increased to EUR 1,273 million. Impairments on US housing and mortgage related securities totaled EUR 678 million, while of the remainder EUR 501 million was related to corporate bonds, mostly in Americas and the United Kingdom.

<sup>3</sup> The calculation of the IGD (Insurance Group Directive) capital surplus and ratio are based on Solvency I capital requirements on IFRS for entities within the EU (Pillar I for AEGON UK), and local regulatory solvency measurements for non-EU entities. Specifically, required capital for the life insurance companies in the US is calculated as two times the upper end of the Company Action Level range (200%) as applied by the National Association of Insurance Commissioners in the US. The calculation of the IGD ratio excludes the available and required capital of the UK With-Profit funds. In the UK solvency surplus calculation the local regulator only allows the available capital number of the With-Profits funds included in overall local available capital to be equal to the amount of With-Profits funds' required capital.

*Income tax*

Income tax benefit in 2009 amounted to EUR 668 million and included a tax benefit of EUR 419 million related to cross border intercompany reinsurance transactions between Ireland and the United States, which is a partial reversal of the EUR 490 million in tax charges incurred during 2008.

*Underlying earnings before tax*

AEGON's underlying earnings before tax amounted to EUR 1,160 million for 2009, a decrease of 26% from 2008.

In the Americas, underlying earnings totaled EUR 805 million compared with EUR 1,073 million a year earlier. The decrease was due mainly to lower investment income as a result of increased cash balances in relation to the run-off of AEGON's institutional spread-based business in the United States and the capital preservation and derisking initiatives that were introduced early in 2009, as well as significantly higher employee benefit expenses. This was partly offset by the recovery in financial markets, which had a positive effect on fee income.

Underlying earnings in the Netherlands increased to EUR 398 million, up from EUR 378 million in 2008. This increase was mainly the result of improved mortality and morbidity results and several provision releases. Investment income was lower, primarily because 2008 included substantial non-recurring dividend income and a lower interest result.

In the United Kingdom, underlying earnings amounted to EUR 48 million, a sharp decrease from 2008, due primarily to the impact of lower equity and corporate bond markets on fund related charges and an exceptional charge of GBP 38 million related to a program to improve the consistency of customer records in the pension business and losses from distribution companies.

Underlying earnings from Other Countries totaled EUR 161 million in 2009, up from EUR 93 million in 2008, driven mainly by further growth in Central & Eastern Europe and Spain. Earnings for 2008 included a sizeable one-time charge in Taiwan. AEGON's Taiwanese life insurance operations were sold during 2009 and its results are no longer included in the company's income statements. Excluding Taiwan, underlying earnings before tax increased 21%.

*Interest charges and other*

Expenses for the holding company amounted to EUR 252 million in 2009, compared with EUR 112 million last year, primarily a result of higher funding costs.

*Commissions and expenses*

Total commissions and expenses declined by 2% compared with 2008 to EUR 6.0 billion. Operating expenses were level at EUR 3.3 billion. Cost reduction initiatives were mainly offset by increases due to inflation and benefit plans. Excluding the impact of restructuring charges, increased employee benefit expenses in the United States and currency movements, operating costs decreased in 2009 by 5% on a comparable basis.

*Production*

New life sales totaled EUR 2,045 million, down 22% compared with 2008. The decline in sales was due to lower retail sales in Americas and sharply lower annuity sales in the United Kingdom, as planned following re-pricing. In the Netherlands sales increased primarily as a result of a rise in demand for AEGON's pension products. In Spain and Asia, sales increased as AEGON's businesses continued to expand, while Central & Eastern Europe reported lower single premiums in Poland as a result of the market turmoil.

Gross deposits, excluding institutional guaranteed products, totaled EUR 23.6 billion in 2009, up 6% from 2008. Pension deposits, saving deposits, retail mutual funds and variable annuities were all strong. However, as anticipated, fixed annuity deposits were lower, and will continue to be managed toward a lower level. Net deposits, excluding institutional guaranteed products, remained strong at EUR 5.5 billion.

## AMERICAS

Americas (includes AEGON USA and AEGON Canada)

	2009 in million USD	2008 in million USD	%	2009 in million EUR	2008 in million EUR	%
<b>Income by product segment</b>						
Life and protection						
<i>Life</i>	653	769	(15)	464	524	(11)
<i>Accident and health</i>	314	363	(13)	223	247	(10)
Individual savings and retirement						
<i>Fixed annuities</i>	311	368	(15)	222	251	(12)
<i>Variable annuities</i>	(356)	(587)	(39)	(253)	(400)	(37)
<i>Retail mutual funds</i>	(39)	8		(28)	5	
Pensions and asset management	59	150	(61)	42	103	(59)
Institutional products						
<i>Institutional guaranteed products</i>	119	544	(78)	85	371	(77)
<i>BOLI-COLI</i>	47	50	(6)	33	34	(3)
Life reinsurance	29	(93)		21	(63)	
Share in net results of associates	(5)	1		(4)	1	
<b>Underlying earnings/(loss) before tax</b>	<b>1,132</b>	<b>1,573</b>	<b>(28)</b>	<b>805</b>	<b>1,073</b>	<b>(25)</b>
Over/(under) performance of fair value items	(42)	(2,434)	(98)	(30)	(1,660)	(8)
Operating earnings/(loss) before tax	1,090	(861)		775	(587)	
Gains/(losses) on investments	8	(103)		6	(71)	
Impairment charges	(1,337)	(1,138)	(17)	(951)	(776)	(23)
Other income/(charges)	(4)	6		(3)	4	
<b>Income/(loss) before tax</b>	<b>(243)</b>	<b>(2,096)</b>	<b>(88)</b>	<b>(173)</b>	<b>(1,430)</b>	<b>(88)</b>
Income tax	940	74		669	51	
<b>Net income/(loss)</b>	<b>697</b>	<b>(2,022)</b>		<b>496</b>	<b>(1,379)</b>	
<b>Net underlying earnings/(loss)</b>	<b>1,048</b>	<b>1,143</b>	<b>(8)</b>	<b>745</b>	<b>780</b>	<b>(4)</b>
<b>Revenues</b>						
Total life insurance gross premiums	8,287	8,704	(5)	5,889	5,937	(1)
Accident and health insurance	2,377	2,511	(5)	1,689	1,713	(1)
Total gross premiums	10,664	11,215	(5)	7,578	7,650	(1)
Investment income	5,500	6,856	(20)	3,908	4,677	(16)
Fee and commission income	1,260	1,375	(8)	896	938	(4)
Other revenue	2	3	(33)	2	2	
<b>Total revenues</b>	<b>17,426</b>	<b>19,449</b>	<b>(10)</b>	<b>12,384</b>	<b>13,267</b>	<b>(7)</b>
Commissions and expenses	5,009	4,961	1	3,560	3,384	5
Of which operating expenses	2,227	2,167	3	1,583	1,478	7

	2009 in million USD	2008 in million USD	%	2009 in million EUR	2008 in million EUR	%
<b>New life sales</b>						
Life	566	669	(15)	402	456	(12)
BOLI/COLI	4	36	(89)	3	25	(88)
Life reinsurance	206	240	(14)	146	163	(10)
<b>Total life production</b>	<b>776</b>	<b>945</b>	<b>(18)</b>	<b>551</b>	<b>644</b>	<b>(14)</b>
New premium production accident and health	758	870	(13)	539	593	(9)
<b>Gross deposits (on and off balance sheet)</b>						
Fixed annuities	4,751	5,947	(20)	3,377	4,057	(17)
Variable annuities	3,728	3,680	1	2,649	2,510	6
Retail mutual funds	2,414	2,813	(14)	1,715	1,919	(11)
Institutional guaranteed products	6,085	26,945	(77)	4,325	18,380	(76)
Pensions and asset management	12,027	12,987	7	8,547	8,859	(4)
Life reinsurance	2	4	(50)	2	2	
<b>Total gross deposits</b>	<b>29,007</b>	<b>52,376</b>	<b>(45)</b>	<b>20,615</b>	<b>35,727</b>	<b>(42)</b>
Exchange rates						

Per 1 EUR	Weighted average		Year-end	
	2009	2008	2009	2008
USD	1.4071	1.4660	1.4406	1.3917
CAD	1.5773	1.5589	1.5128	1.6998

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## Net income

Net income amounted to USD 697 million, a strong improvement from the USD 2,022 million loss in 2008. The improvement was primarily the result of the less negative performance of fair value items and a strong reversal of taxes losses incurred in 2008 related to cross border intercompany reinsurance treaties (2009 included a tax benefit of USD 590 million versus tax charges of USD 718 million during 2008). Investment impairments of USD 1,337 million were higher than 2008 (USD 1,138 million) and primarily reflected a higher level of housing/mortgage related impairments.

The underperformance of fair value items of USD 42 million was mainly attributable to losses related to a macro equity hedge on guarantees. The results of AEGON's macro equity hedge program amounted to a loss of USD 298 million in 2009. Alternative assets in the Americas, such as real estate partnerships and private equity, however, showed an underperformance of USD 92 million. This was largely offset by a positive contribution from both total return annuities and the impact of lower implied equity market volatilities on the fair value of GMWB guarantees. 2008 included USD (794) million of fair value assets losses (hedge funds, real estate limited partnerships and convertible bonds). In addition in 2008 lower interest rates, declining equity markets, increased equity market volatility and widening credit spreads contributed to a USD 1,211 million lower mark-to-market valuation for GMWB guarantees, total return annuities and Canadian segregated funds.

## Underlying earnings before tax

Underlying earnings before tax for 2009 amounted to USD 1,132 million, a decrease of 28% from 2008.

Earnings from *Life & Protection* declined by 15% and totaled USD 967 million. Earnings included increased employee benefit expenses and persistency related charges and several one-off items; a DPAC charge in the Canadian life business, reserve strengthening in the US life business and restructuring charges, partially offset by positive mortality experience and the impact of expense reductions.

*Individual Savings & Retirement* earnings amounted to a loss of USD 84 million, compared to a loss of USD 211 million in 2008 due to the equity market impact on fee income, minimum guarantee reserve strengthening and accelerated DPAC amortization. In addition, changes in lapse assumptions affected earnings by USD 75 million. The increased equity markets in the second half of 2009 did not lead to a reserve release on the variable annuity book, but resulted in lowering AEGON's short-term equity market return assumptions to 7.25%, below the long-term assumption of 9%. Fixed annuity earnings were impacted by lower yields from higher than average cash balances and accelerated DPAC amortization charges. Earnings in 2009 were also impacted by USD 37 million from increased employee benefit plan expenses.

*Pensions & Asset Management* earnings decreased to USD 59 million from USD 150 million in the prior year, due mainly to reduced fees as a result of lower equity markets and higher cash balances. Earnings also included USD 37 million from increased employee benefit plan expenses.

*Institutional Guaranteed Products* spreads declined significantly due to an accumulation of cash necessary to run-off the business as well as the amortization of unrealized losses on assets transferred to other portfolios in exchange for cash. The amortization consolidates to zero in aggregate, however, it was established to mirror a non-distressed market value transfer of the assets between portfolios.

Earnings from *Life Reinsurance* totaled USD 29 million, up significantly from the USD 93 million loss reported in 2008. 2008 included significant reserve strengthening and an USD 45 million asset write-off which didn't recur, while 2009 results were negatively impacted by lower investment income and higher employee benefit expenses.

## Commissions and expenses

Total commissions and expenses increased 1% to USD 5.0 billion. The fourth quarter last year included substantial accelerated DPAC amortization following lower equity markets. Operating expenses increased 3% to USD 2,227 million as significant expense reductions were more than offset by an increase in employee benefit plan expenses and restructuring expenses.

## Production

Total new life sales decreased 18% compared with 2008. Standardized retail production was lower due to tight credit markets and reduced lending, which significantly lowered life sales through the premium financing market. New premium production for accident and health products decreased 13% compared with 2008 due to the decision to run-off of the automotive credit business in the United States.

Total gross deposits, excluding institutional guaranteed products, decreased 10% compared with 2008. As a result of active management of the fixed annuity book, deposits declined to USD 4,751 million in 2009, while variable annuity deposits continued to develop favorably and amounted to USD 3,728 million. Mutual fund deposits decreased by 14% to USD 2,414 million as a result of the market conditions. Pension and asset management deposits decreased 7% in 2009 to USD 12.0 billion. Net deposits, excluding institutional guaranteed products, remained very

strong at USD 4.9 billion in 2009.

**THE NETHERLANDS**

	2009 In million EUR	2008 In million EUR	%
<b>Income by product segment</b>			
Life and protection			
<i>Life</i>	234	43	
<i>Accident and health</i>	28	23	22
Individual savings and retirement			
<i>Saving products</i>	(54)	(14)	
Pensions and asset management	174	308	(44)
Distribution	16	3	
General insurance	1	8	(88)
Share in net results of associates	(1)	7	
<b>Underlying earnings/(loss) before tax</b>	<b>398</b>	<b>378</b>	<b>5</b>
Over/(under) performance of fair value items	(247)	(165)	50
Operating earnings before tax	151	213	(29)
Gains on investments	224	20	
Impairment charges	(111)	(138)	(20)
<b>Income before tax</b>	<b>264</b>	<b>95</b>	<b>178</b>
Income tax	(23)	(1)	
<b>Net income</b>	<b>241</b>	<b>94</b>	<b>156</b>
Net underlying earnings	299	326	(8)
<b>Revenues</b>			
Total life insurance gross premiums	3,066	3,204	(4)
Accident and health insurance	206	210	(2)
General insurance	457	458	
Total gross premiums	3,729	3,872	(4)
Investment income	2,211	2,387	(7)
Fee and commission income	383	416	(8)
<b>Total revenues</b>	<b>6,323</b>	<b>6,675</b>	<b>(5)</b>
Commissions and expenses	1,181	1,269	(7)
Of which operating expenses	873	934	(7)
<b>New life sales</b>			
Life	82	97	(15)
Pensions	157	122	29
<b>Total life production</b>	<b>239</b>	<b>219</b>	<b>9</b>
New premium production accident and health	17	15	13
New premium production general insurance	26	28	(7)
<b>Gross deposits (on and off balance sheet)</b>			
Saving deposits	3,032	2,473	23
Pensions and asset management	412	228	81



<b>Total gross deposits</b>	<b>3,444</b>	<b>2,701</b>	<b>28</b>
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### **Net income**

Net income increased compared to 2008 to EUR 241 million. The improvement was a result of lower impairment charges and increased gains on investments partly offset by an underperformance on fair value items.

Gains on investments totaled EUR 224 million, mainly the result of adjustments in the bond portfolio, in part driven by asset and liability management, partly offset by fair value losses of residential real estate investments. Fair value items underperformed by EUR 247 million mainly because of the impact of fair value movements of guarantees and related hedges. Impairments, primarily related to equities with the remainder to corporate credit investments, amounted to EUR 111 million.

### **Underlying earnings before tax**

Underlying earnings before tax for 2009 amounted to EUR 398 million, an increase of 5% from 2008.

Earnings from *Life & Protection* increased to EUR 262 million. Life results improved mainly as a result of higher investment income, higher earnings from mortgages and lower costs, partly offset by charges related to a reorganization of the sales operations. Earnings also included several releases of provisions.

For *Individual savings and retirement*, pressure on margins and volumes from fierce competition in the savings market and charges related to a reorganization of the sales operations, as well as the failures of Icesave and DSB, led to an underlying loss of EUR 54 million, compared to a loss of EUR 14 million in 2008.

*Pensions & Asset Management* earnings declined compared with last year to EUR 174 million. Last year included a one-off dividend of EUR 75 million and exceptional technical results of EUR 37 million.

Earnings from *Distribution* amounted to EUR 16 million in 2009 compared to EUR 3 million in 2008. Lower volumes in the Dutch insurance market continue to have repercussions for the earnings of this business. Earnings for 2008 included a restructuring charge of EUR 21 million related to the real estate brokerage business.

*General insurance* earnings decreased to EUR 1 million due to higher claims experience and included a charge related to the reorganization of the Dutch sales operations.

### **Commissions and expenses**

Commissions and expenses decreased by 7% compared with 2008 to EUR 1,181 million. As a result of significant cost savings, e.g. a reduction in staff and in project-related expenses, operating costs declined by 7% to EUR 873 million.

### **Production**

Sales of both individual life single and recurring premium products were down compared to last year, following increased pricing competition in the immediate annuity market, as well as lower demand for regular premium products. Life sales decreased to EUR 82 million. Demand for AEGON's group pension products increased. This resulted in pension sales of EUR 157 million, up from EUR 122 million in the year before. In total, new life sales amounted to EUR 239 million.

Gross deposits were up strongly compared with 2008. Net deposits turned positive as a result of the increased savings deposits.

## UNITED KINGDOM

	2009 in million GBP	2008 in million GBP	%	2009 in million EUR	2008 in million EUR	%
<b>Income/(loss) by product segment</b>						
Life and protection	38	46	(17)	43	58	(26)
Pensions and asset management	21	68	(69)	24	85	(72)
Distribution	(16)	(1)		(19)	(2)	
<b>Underlying earnings before tax</b>	<b>43</b>	<b>113</b>	<b>(62)</b>	<b>48</b>	<b>141</b>	<b>(66)</b>
Over/(under) performance of fair value items	5	(15)		6	(19)	
Operating earnings before tax	48	98	(51)	54	122	(56)
Gains/(losses) on investments	90	(17)		101	(21)	
Impairment charges	(163)	(18)		(183)	(22)	
Other income/(charges)	59	(14)		66	(17)	
<b>Income before tax</b>	<b>34</b>	<b>49</b>	<b>(31)</b>	<b>38</b>	<b>62</b>	<b>(39)</b>
Income tax attributable to policyholder return	(59)	14		(66)	17	
<b>Income/(loss) before income tax on shareholders return</b>	<b>(25)</b>	<b>63</b>		<b>(28)</b>	<b>79</b>	
Income tax on shareholders return	30	1		33	1	
<b>Net income</b>	<b>5</b>	<b>64</b>	<b>(92)</b>	<b>5</b>	<b>80</b>	<b>(94)</b>
Net underlying earnings	56	104	(46)	62	131	(53)
<b>Revenues</b>						
Total gross premiums	6,245	7,179	(13)	7,014	9,017	(22)
Investment income	2,062	2,007	3	2,316	2,521	(8)
Fee and commission income	174	190	(8)	195	239	(18)
<b>Total revenues</b>	<b>8,481</b>	<b>9,376</b>	<b>(10)</b>	<b>9,525</b>	<b>11,777</b>	<b>(19)</b>
Commissions and expenses	687	662	4	772	832	(7)
Of which operating expenses	428	414	3	481	519	(7)
<b>New life sales</b>						
Life	183	251	(27)	206	316	(35)
Pensions	760	971	(22)	854	1,219	(30)
<b>Total life production</b>	<b>943</b>	<b>1,222</b>	<b>(23)</b>	<b>1,060</b>	<b>1,535</b>	<b>(31)</b>
<b>Gross deposits (on and off balance sheet)</b>						
Pensions and asset management	1,076	542	99	1,208	681	77
<b>Total gross deposits</b>	<b>1,076</b>	<b>542</b>	<b>99</b>	<b>1,208</b>	<b>681</b>	<b>77</b>
Exchange rates						

Per 1 EUR	Weighted average		Year-end	
	2009	2008	2009	2008
GBP	0.8903	0.7961	0.8881	0.9525



### **Net income**

Net income amounted to GBP 5 million in 2009, down from GBP 64 million in prior year, as a result of lower fund related charges and an increase in impairments, partly offset by realized gains on investments and a tax credit. Gains on investments totaled GBP 90 million, mainly from bond trading. Impairments increased in 2009 to GBP 163 million, mostly related to hybrid securities issued by Irish and UK banks.

### **Underlying earnings before tax**

Underlying earnings before tax decreased to GBP 43 million in 2009, due primarily to the impact of lower equity and corporate bond markets on fund related charges in AEGON's unit-linked pension business in the United Kingdom and an exceptional charge of GBP 38 million related to a program to improve consistency of customer records.

Earnings from *Life & Protection* amounted to GBP 38 million, down from GBP 46 million in 2008. Growth in the annuity and protection business and favorable mortality results were offset by one-time charges related to the withdrawal from the group employee benefit business. Earnings in last year had included a one-off benefit related to a purchased hedge.

*Pensions & Asset Management* earnings amounted to GBP 21 million, down GBP 47 million from last year. Main reason for the decrease is an exceptional charge of GBP 38 million related to a program to improve consistency of customer records, along with a reduction in fund related charges due to lower average equity and bond markets.

*Distribution* activities in 2009 recorded a loss of GBP 16 million, primarily a result of more difficult market conditions for mortgage and investment products and costs associated with adapting the business to the new environment.

### **Commissions and expenses**

Total commissions and expenses in 2009 were up 4% compared to 2008. Commissions were lower because of a change in AEGON's business mix in the United Kingdom. Operating expenses increased by 3% to GBP 428 million, due mainly to restructuring expenses and a rise in risk and regulatory costs. 2008 had included a provision release related to incentive payments in the asset management business.

### **Production**

Compared to 2008, sales were down across most products, driven by falling annuity sales through pricing action and economic factors impacting group pension sales. Group pension sales in 2008 included one large case. Sales from investment bonds suffered from tax changes and worsening market conditions.

**OTHER COUNTRIES**

	2009 In million EUR	2008 In million EUR	%
<b>Income by product segment</b>			
Life and protection			
<i>Life</i>	(58)	11	
<i>Accident and health</i>	2	5	(60)
Individual savings and retirement			
<i>Variable annuities</i>		(1)	
<i>Saving products</i>	1		
<i>Retail mutual funds</i>	18	13	38
Pensions and asset management	19	12	58
General insurance	35	37	(5)
Share in net results of associates	28	16	75
<b>Underlying earnings before tax</b>	<b>161</b>	<b>93</b>	<b>73</b>
Over/(under) performance of fair value items			
Operating earnings/(loss) before tax	161	93	73
Gains/(losses) on investments	7	(10)	
Impairment charges	(23)	(68)	66
Other income/(charges)	(387)	1	
<b>Income/(loss) before tax</b>	<b>(242)</b>	<b>16</b>	
Income tax	(43)	(25)	(72)
<b>Net (loss)</b>	<b>(285)</b>	<b>(9)</b>	
Net underlying earnings	112	64	75
<b>Revenues</b>			
Total life insurance gross premiums	934	1,637	(43)
Accident and health insurance	70	74	(5)
General insurance	148	159	(7)
Total gross premiums	1,152	1,870	(38)
Investment income	203	282	(28)
Fee and commission income	119	110	8
Other revenues	2	2	
<b>Total revenues</b>	<b>1,476</b>	<b>2,264</b>	<b>(35)</b>
Commissions and expenses	340	494	(31)
Of which operating expenses	195	211	(8)
<b>New life sales</b>			
Life	195	232	(16)
Saving products		1	(100)
<b>Total life production</b>	<b>195</b>	<b>233</b>	<b>(16)</b>
New premium production accident and health	5	6	(17)
New premium production general insurance	30	40	(25)
<b>Gross deposits (on and off balance sheet)</b>			
Variable annuities	406	126	

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Retail mutual funds	1,402	779	80
Pensions and asset management	878	773	19
<b>Total gross deposits</b>	<b>2,868</b>	<b>1,642</b>	<b>64</b>

**Exchange rates**

Weighted average exchange rates for the currencies of the countries included in the Other Countries segment, and which do not report in Euros are summarized in the table below.

	2008	2008
Per 1 EUR		
Czech Republic Krona (CZK)	26.3343	24.8931
Hungarian Forint (HUF)	280.2934	251.2908
New Taiwan Dollar (NTD)	44.9230	46.1694
Polish Zloty (PLN)	4.3248	3.5206
Rin Min Bi Yuan (CNY)	9.4849	10.2470
Slovakian Koruna (SKK)	NA	31.1190

Please note that AEGON's Other Countries segment is accounted for in the financial statements in euros, but that the operating results for individual country units are accounted for, and discussed, in local currency terms.

**Net income/(loss)**

Other countries recorded a net loss of EUR 285 million in 2009 as a result of a book loss of EUR 385 million from the sale of the company's Taiwanese life insurance activities. Excluding this one-time loss, net income amounted to EUR 100 million, a strong increase compared to the same period last year, mainly as a result of improved results in CEE and Spain and a loss in 2008 in Taiwan from accelerated DPAC amortization, higher gains on investments and lower impairments.

**Underlying income/(loss) before tax**

Earnings from *Life & Protection* increased in 2009 to EUR 60 million mainly as a result of growth in CEE particularly in the Czech Republic as well as improved results from AEGON's joint ventures in Spain. Results last year were impacted by an accelerated amortization of DPAC in Taiwan of EUR 43 million.

The asset management joint venture in China performed well, driven by increased asset balances on the back of a strong recovery in the Chinese equity market. As a result, earnings from *Individual savings and retirement products* increased to EUR 19 million.

*Pensions & Asset management* earnings increased to EUR 19 million as a result of the inclusion of a Polish pension fund and the introduction of DPAC in the pension businesses in Hungary and Poland.

*General Insurance* earnings remained high at EUR 35 million in 2009, compared to EUR 37 million in 2008.

AEGON's share in the result of associates went up considerably due to a better performance of the partnerships with regional savings bank CAM in Spain, given that last year's results were impacted by impairment charges, and with La Mondiale, AEGON's French partner.

**Commissions and expenses**

Commissions and expenses, excluding Taiwan, rose from EUR 311 million in 2008 to EUR 315 million in 2009, as a result of higher operating expenses. Operating expenses, also excluding Taiwan, were up EUR 15 million due to the inclusion of new operations in Turkey and Asia, the inclusion of acquired pension funds in Hungary and Poland and two new joint ventures in Spain along with continued growth of the business.

**Production**

Total new life sales of EUR 195 million were lower than last year mainly due to the sale of the Taiwanese life operations in early 2009. Excluding Taiwan, sales increased slightly as higher sales in Spain and China more than offset the decline in CEE.

In Central & Eastern Europe, sales of recurring premium life insurance declined 13% as strong performances in the Czech Republic and Slovakia were offset by declines in Hungary and Poland. Single premium sales were sharply lower, particularly in Poland, because of market turmoil. Total new life sales in CEE amounted to EUR 75 million in 2009, compared to EUR 98 million in 2008.



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In Spain, new life sales increased to EUR 90 million, up from EUR 74 million, due primarily to the inclusion of two new joint ventures with regional savings banks and higher sales of existing joint ventures as a result of the introduction of new products and successful sales campaigns. Sales for the partnership with regional savings bank CAM, which are not consolidated in the company's accounts, amounted to EUR 168 million on a 100% basis (EUR 166 million in 2008).

In Asia, new life sales in China increased to EUR 24 million compared to EUR 15 million last year, as a result of higher recurring premium production in most distribution channels. AEGON's joint venture in India, which is not consolidated, recorded new life sales of EUR 19 million on a 100% basis.

Gross deposits increased to EUR 2.9 billion mainly due to a higher retail mutual funds as a result of the introduction of new mutual funds in China. Pensions and asset management deposits increased to EUR 878 million, due to continued growth in the pension business in CEE. Variable annuity deposits in Europe increased to EUR 406 million as sales in the United Kingdom were significantly higher as a result of lessening competition and the continued attractiveness of guaranteed products to customers.

#### 5.4 Results of Operations 2008 compared to 2007

##### AEGON Consolidated

##### AEGON and the global financial crisis

In 2008, AEGON's earnings were severely affected by the global financial crisis. Especially in the second half of 2008, there was a significant deterioration in the risk environment both for AEGON and the insurance industry as a whole. The global financial crisis led to a period of extreme volatility in world financial markets. The company's core businesses, however, remained resilient, while measures were taken to reduce risk and release and secure additional capital. Unprecedented turmoil in world financial markets during the year resulted in:

Significantly lower equity markets;

A decline in interest rates, particularly in the second half of the year;

An unprecedented widening in credit spreads and sharply lower bond values;

A strong increase in equity market volatility.

AEGON had, however, taken a number of steps designed to position itself for a possible downturn in the global economy. These steps included:

Reducing the company's exposure to equity markets;

Structuring its credit portfolio more defensively (primarily by moving toward higher quality investments);

Extending its hedging programs on interest rates;

Taking on more reinsurance;

Lowering financial guarantees on certain products;

Adopting a more integrated, international approach to risk management and devoting more resources to this area.

These steps helped strengthen AEGON's capital and liquidity position in the years immediately prior to the financial crisis. The crisis itself, however, proved more severe than anticipated, and to counter its effects the company was obliged to take further action in the second half of 2008. These short-term measures were aimed at:

Lowering risk and preserving capital within existing businesses; and

Reducing operating expenses.

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AEGON's solvency ratio, under the European Insurance Group Directive, stood at 183%, down from 190% at the end of 2007. AEGON's operations in the United States have a NAIC RBC<sup>1</sup> ratio of approximately 350%.

Business and economic conditions also worsened, leading to a decline in sales of certain products. Customers, in particular, became more cautious, while regulators took a significantly more conservative approach to capital and solvency requirements. AEGON's earnings for the year were also affected by a rise in impairments, linked mainly to US financial institutions, housing-related structured assets in the United States, high-yield corporate bonds and equity investments.

Despite the financial crisis, AEGON made significant progress toward its short-term objectives:

In the second half of 2008, AEGON released EUR 1.7 billion in additional capital from its existing businesses, primarily by reducing investment risk, optimizing asset and liability management and transferring risk through reinsurance;

AEGON also secured EUR 3 billion in additional core capital from Vereniging AEGON, funded by the Dutch State, part of a broader program to support healthy and viable banks and insurance companies in the Netherlands to counter the effects of the global financial crisis;

AEGON is implementing a program to reduce operating costs by approximately EUR 150 million in 2009. These savings will be achieved mainly by restructuring businesses in the company's three leading markets: the United States, the Netherlands and the United Kingdom.

<sup>1</sup> National Association of Insurance Commissioners Risk Based Capital

	2008 in million EUR	2007 Adjusted * in million EUR	%
<b>Underlying earnings geographically</b>			
Americas	1,073	1,993	(46)
The Netherlands	378	418	(10)
United Kingdom	141	271	(48)
Other countries	93	142	(35)
Holding and other	(112)	(185)	39
<b>Underlying earnings before tax</b>	<b>1,573</b>	<b>2,639</b>	<b>(40)</b>
By product segment			
Life and protection	911	1,295	(30)
Individual savings and retirement products	(146)	496	N.M.
Pensions and asset management	508	498	39
Institutional products	405	332	(98)
Life reinsurance	(63)	114	N.M.
Distribution	1	6	(83)
General insurance	45	47	(4)
Interest charges and other	(112)	(185)	N.M.
Share in net results of associates	24	36	(33)
<b>Underlying earnings before tax</b>	<b>1,573</b>	<b>2,639</b>	<b>(40)</b>
Over/(under) performance of fair value items	(1,619)	(272)	N.M.
<b>Operating earnings/(loss) before tax</b>	<b>(46)</b>	<b>2,367</b>	<b>(102)</b>
Gains/(losses) on investments <sup>1</sup>	35	746	(95)
Impairment charges <sup>1</sup>	(1,038)	(76)	N.M.
Other non-operating income/(charges) <sup>1</sup>	(12)	40	(130)
<b>Income/(loss) before tax</b>	<b>(1,061)</b>	<b>3,077</b>	<b>(134)</b>
Income tax	(21)	(526)	96
<b>Net income/(loss)<sup>2</sup></b>	<b>(1,082)</b>	<b>2,551</b>	<b>(142)</b>
<b>Net underlying earnings/(loss)</b>	<b>1,234</b>	<b>2,033</b>	<b>(36)</b>

<sup>1</sup> Together non-operating earnings before tax

<sup>2</sup> Net income refers to net income attributable to equity holders of AEGON N.V.

\* The difference between fair value movement on certain guarantees and the fair value changes of derivatives that hedge certain risks of these guarantees, amounting to EUR 325 million, are as of financial year 2008 reclassified from Gains and losses on investments to Operating earnings.

N.M. = not meaningful

**Revenues geographically 2008**

In million EUR	Americas	The Netherlands	United Kingdom	Other countries	Holdings, other activities and eliminations	Total
Total life insurance gross premiums	5,937	3,204	9,017	1,637		19,795
Accident and health insurance premiums	1,713	210		74		1,997
General insurance premiums		458	0	159		617
Total gross premiums	7,650	3,872	9,017	1,870		22,409
Investment income	4,677	2,387	2,521	282	98	9,965
Fees and commission income	938	416	239	110		1,703
Other revenues	2			2	1	5
<b>Total revenues</b>	<b>13,267</b>	<b>6,675</b>	<b>11,777</b>	<b>2,264</b>	<b>99</b>	<b>34,082</b>
Number of employees, including agent-employees	15,072	6,171	5,189	4,739	254	31,425

This report includes two non-GAAP financial measures: underlying earnings before tax and operating earnings before tax. The reconciliation of these measures to the most comparable GAAP measure is shown below in accordance with Regulation G. AEGON believes the non-GAAP measures shown herein, together with the GAAP information, provides meaningful measures for the investing public to evaluate AEGON's business relative to the businesses of our peers.

In million EUR	2008	2007
<b>Underlying earnings before tax</b>	<b>1,573</b>	<b>2,639</b>
Over/(under)performance of fair value items	(1,619)	(272)
<b>Operating earnings/(loss) before tax</b>	<b>(46)</b>	<b>2,367</b>
Gains/(losses) on investments	35	746
Other income	5	32
Impairment charges	(1,038)	(76)
Policyholder tax	(17)	8
<b>Income/(loss) before tax</b>	<b>(1,061)</b>	<b>3,077</b>

This review of operations should be read in conjunction with the consolidated financial statements and related notes in Item 18 of this Annual Report.

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## Earnings overview

The deterioration in world financial markets had a significant impact on AEGON's earnings for 2008. The company reported a net loss for the year of EUR 1.08 billion. Underlying earnings before tax declined 40% to EUR 1,573 million – the result primarily of the impact of lower markets, which resulted in reserve strengthening and accelerated amortization in the United States of DPAC. In general, fees on asset balances were also significantly lower. Net income for the year was affected by an increase in impairments. New life sales declined 20% to EUR 2.63 billion – a reflection of adverse currency movements and the impact of increased market turmoil, particularly on sales of unit-linked products and bank-owned and corporate owned life insurance and adverse currency movements. Total gross deposits were down 8% at EUR 40.75 billion, with lower sales of institutional products and pensions and asset management more than offsetting strong sales of fixed annuities in the United States.

## Net income

AEGON reported a net loss for 2008 of EUR 1.08 billion – the result of a steep decline in financial markets during the second half of the year. The underperformance of fair value investments and fair value losses related to guarantees led to a charge of EUR 1.62 billion. This charge reflected a sharp decline in equity markets, increases in equity volatility and a decrease in government bond rates. These factors were partly offset by the impact of the increase in the spread of credit risk on the valuation of the guarantees. Alternative investment classes in the Americas and the Netherlands, such as hedge funds, private equity and credit derivatives, also significantly underperformed their expected long-term returns. AEGON has taken steps to reduce its exposure to alternative assets, as well as wider credit and equity markets. Impairments also rose sharply during the year to EUR 1.04 billion – the result of a significant deterioration in business and economic conditions. Impairments stemmed primarily from investments in US financial institutions (AEGON's holdings in Lehman Brothers and Washington Mutual), housing-related structured assets, high-yield corporate bonds and equity investments. As expected, the credit crisis has resulted in impairments rising above their long-term expectations. Gains on investments declined sharply to EUR 35 million from EUR 746 million in 2007 and included gains on derivatives held at holding level. Income tax amounted to EUR 21 million despite a charge of EUR 490 million related to inter-company reinsurance treaties, which more than offset the tax benefit from the company's reported operational losses.

## Underlying earnings before tax

AEGON's underlying earnings before tax declined 40% in 2008 to EUR 1,573 million – a reflection primarily of the impact of lower markets, which resulted in reduced fees on asset balances, reserve strengthening and accelerated amortization of DPAC, particularly in the company's variable annuities business in the Americas. In the United Kingdom, lower equity and bond markets led to a decline in income from fees in the company's pension business. Changes in long-term assumptions with regard to equity market volatility also adversely impacted AEGON's earnings from the Americas. These factors were offset partly by gains from higher interest rates spreads and a one-off dividend payment of EUR 75 million received from an investment fund in the Netherlands.

## Interest charges and other

In 2008 interest charges and other recorded in income of EUR 113 million compared to an expense of EUR 185 million in 2007. This improvement is mainly a result of the increase in the spread of credit risk on certain issued bonds that are held at fair value through profit or loss. The change in AEGON's credit spread resulted in a gain of EUR 225 million in 2008.

## Commissions and expenses

Commissions and expenses rose 3% in 2008 to EUR 6 billion. This was due primarily to acceleration in DPAC amortization, as well as a number of one-off items, including restructuring charges, project expenses and provisions.

## Sales

New life sales declined 20% during the year to EUR 2.63 billion. Worsening financial market conditions clearly affected sales in the Americas, Central & Eastern Europe and Asia. In the Americas, there was also a decline in sales of both bank-owned and corporate-owned life insurance and life reinsurance. In the United Kingdom, sales held up well mainly due to continued growth in individual annuities and the corporate pension markets. Sales in Spain were boosted by changes to local pension legislation and an expansion of AEGON's bank distribution network in the country. In Central & Eastern Europe, sales of unit-linked products, in particular, were adversely affected by the decline in world equity markets, but AEGON's pension business in the region continued to grow. In Asia, unit-linked sales were also adversely affected by the decline in world equity markets.

## Deposits

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Total gross deposits decreased 8% in 2008 to EUR 40.75 billion. Overall sales of variable annuities, savings products, pensions and asset management all declined, mainly because of unprecedented volatility in the global financial markets. Sales of savings products were also affected by increased competition as interest rates declined. Fixed annuity deposits in the United States, however, showed gains, rising to EUR 4.1 billion in 2008 from EUR 1.1 billion the year before, as customers sought additional financial security amid significant equity market volatility.



**Capital position**

At the end of 2008, AEGON had core capital of EUR 9.1 billion. This consisted of EUR 6.1 billion in shareholders' equity and an additional EUR 3 billion from Vereniging AEGON, funded by the Dutch State. Core capital includes unrealized losses on available-for sale assets of EUR 7.2 billion. Excluding these unrealized losses, AEGON's core capital totaled EUR 16.3 billion, 78% of the capital base and well above AEGON's minimum target of 70%. In 2008, shareholders' equity on an IFRS basis declined by EUR 9.1 billion. AEGON's revaluation reserve declined by EUR 7.7 billion. In addition, the net loss for the year (EUR 1.08 billion) and the payment of dividend and coupons (EUR 970 million) contributed to the decline. Unrealized losses held in the company's revaluation reserve were due primarily to the unprecedented widening of credit spreads on corporate bonds seen during the year. This widening more than offset the effect of declines in government bond yields.

## AMERICAS

## Americas (includes AEGON USA and AEGON Canada)

	2008 in million USD	2007 in million USD	%	2008 in million EUR	2007 in million EUR	%*
<b>Income by product segment</b>						
Life and protection						
<i>Life</i>	769	847	(9)	524	619	(15)
<i>Accident and health</i>	363	428	(15)	247	313	(21)
Individual savings and retirement						
<i>Fixed annuities</i>	368	366	1	251	267	(6)
<i>Variable annuities</i>	(587)	288	N.M.	(400)	211	N.M.
<i>Retail mutual funds</i>	8	21	(62)	5	15	(67)
Pensions and asset management	150	166	(10)	103	122	(16)
Institutional products						
<i>Institutional guaranteed products</i>	544	374	45	371	273	36
<i>BOLI/COLI</i>	50	81	(38)	34	59	(42)
Life reinsurance	(93)	156	N.M.	(63)	114	N.M.
Share in net results of associates	1	0	N.M.	1	0	N.M.
<b>Underlying earnings/(loss) before tax</b>	<b>1,573</b>	<b>2,727</b>	<b>(42)</b>	<b>1,073</b>	<b>1,993</b>	<b>(46)</b>
Over/(under)performance of fair value items	(2,434)	149	N.M.	(1,660)	109	N.M.
<b>Operating earnings/(loss) before tax</b>	<b>(861)</b>	<b>2,876</b>	<b>N.M.</b>	<b>(587)</b>	<b>2,102</b>	<b>N.M.</b>
Gains/(losses) on investments	(103)	376	(127)	(71)	275	(126)
Impairment charges	(1,138)	(65)	N.M.	(776)	(48)	N.M.
Other income/(charges)	6	0	N.M.	4	0	N.M.
<b>Income/(loss) before tax</b>	<b>(2,096)</b>	<b>3,187</b>	<b>(166)</b>	<b>(1,430)</b>	<b>2,329</b>	<b>(161)</b>
Income tax	74	(1,003)	107	51	(733)	107
<b>Net income/(loss)</b>	<b>(2,022)</b>	<b>2,184</b>	<b>(193)</b>	<b>(1,379)</b>	<b>1,596</b>	<b>(186)</b>
<b>Net underlying earnings/(loss)</b>	<b>1,143</b>	<b>2,003</b>	<b>(43)</b>	<b>780</b>	<b>1,464</b>	<b>(47)</b>
<b>Revenues</b>						
Total life insurance gross premiums	8,704	10,885	(20)	5,937	7,955	(25)
Accident and health insurance	2,511	2,529	(1)	1,713	1,848	(7)
Total gross premiums	11,215	13,414	(16)	7,650	9,803	(22)
Investment income	6,856	7,486	(8)	4,677	5,471	(15)
Fee and commission income	1,375	1,445	(5)	938	1,056	(11)
Other revenue	3	13	(77)	2	10	(80)
<b>Total revenues</b>	<b>19,449</b>	<b>22,358</b>	<b>(13)</b>	<b>13,267</b>	<b>16,340</b>	<b>(19)</b>
Commissions and expenses	4,961	4,569	9	3,384	3,339	1
Of which operating expenses	2,167	2,124	2	1,478	1,552	(5)

\* N.M. not meaningful

	2008 in million USD	2007 in million USD	%	2008 in million EUR	2007 in million EUR	%
<b>New life sales</b>						
Life	669	742	(10)	456	542	(16)
BOLI/COLI	36	207	(83)	25	151	(83)
Reinsurance	240	327	(27)	163	239	(32)
<b>Total life production</b>	<b>945</b>	<b>1,276</b>	<b>(26)</b>	<b>644</b>	<b>932</b>	<b>(31)</b>
<b>New premium production accident and health</b>	<b>870</b>	<b>898</b>	<b>(3)</b>	<b>593</b>	<b>656</b>	<b>(10)</b>
<b>Gross deposits (on and off balance sheet)</b>						
Fixed annuities	5,947	1,567	N.M	4,057	1,145	N.M
Variable annuities	3,680	3,723	(1)	2,510	2,721	(8)
Pensions	11,423	11,862	(4)	7,792	8,669	(10)
Institutional guaranteed products	26,945	32,097	(16)	18,380	23,458	(22)
Reinsurance	4	3	33	2	2	0
Retail mutual funds	2,813	2,865	(2)	1,919	2,094	(8)
Managed assets	1,564	1,813	(14)	1,067	1,325	(19)
<b>Total gross deposits</b>	<b>52,376</b>	<b>53,930</b>	<b>(3)</b>	<b>35,727</b>	<b>39,414</b>	<b>(9)</b>
<b>Exchange rates</b>						

Per 1 EUR	Weighted average		Year-end	
	2008	2007	2008	2007
USD	1.4660	1.3683	1.3917	1.4721
CAD	1.5589	1.4681	1.6698	1.4449
<b>Net income/(loss)</b>				

Net income/(loss), which includes impairment charges and net gains/(losses) on investments, decreased to USD (2,022) million in 2008, from USD 2,184 million in 2007. Net losses on investments amounted to USD 103 million, compared with gains in 2007 of USD 376 million. Significant issues in the macro credit environment resulted in impairment charges for the year that were significantly higher than in recent history. Net impairment charges totaled USD 1,138 million for the year, primarily related to corporate bonds (including holdings in Lehman Brothers and Washington Mutual) and structured assets. The effective tax rate on net income declined to 4% in 2008, from 22% the previous year. Changes in the effective tax rate on net income mainly relate to the decrease in income before tax combined with relatively constant US permanent differences as well as non-operating tax expenses related to intercompany reinsurance treaties between Ireland and the United States, offsetting the tax benefit from the reported operational losses. These reinsurance treaties are accounted for at fair value in both tax jurisdictions, leading to a tax charge of USD 718 million caused by the tax rate differential.

### Revenues

AEGON Americas reported revenues in 2008 of USD 19.4 billion, a decrease of 13% compared with 2007. Life insurance gross premiums decreased 20% to USD 8.7 billion. Recurring premiums were up 3%, due mainly to growth in the reinsurance business. Single premiums, meanwhile, decreased by 68% compared with 2007, as a result of significantly lower terminal funding and BOLI/COLI sales in 2008. At USD 2.5 billion, accident and health premiums were stable compared with 2007. Investment income decreased 8%, largely due to lower yield in the bond portfolio, while fees and commissions were 5% lower, due primarily to declines in fees on variable products which are based generally upon account values. Variable product account values were negatively impacted throughout 2008 by the continuous decline in equity markets.

### Underlying earnings before tax

AEGON Americas reported underlying earnings before tax of USD 1,573 million in 2008, in comparison to USD 2,727 million for the previous year, as a result of several negative economic factors. Declines in equity markets caused significant negative earnings impacts in our variable annuity business from both increases in guarantee reserves and subsequent DAC unlocking.

### Life and protection

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Underlying earnings before tax from AEGON Americas' life and protection business declined 11% in 2008 to USD 1,132 million. This decrease was due primarily to negative DAC unlocking and declines in persistency in variable Universal Life due to the overall decline in equity markets as well as unfavorable claims experience compared to last year.

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### **Individual savings and retirement**

Underlying earnings before tax from AEGON Americas' individual savings and retirement business declined in 2008 to USD (211) million from USD 673 million mainly due to the negative income impacts of variable annuity guarantees driven by declining equity markets. Earnings from variable annuities fell by USD 875 million primarily due to the impact of guarantees leading to reserve strengthening charges and equity market performance related DAC unlocking.

### **Pensions and asset management**

AEGON Americas' pensions and asset management business reported underlying earnings before tax of USD 150 million in 2008, a decrease of 10%. The decline in earnings was mostly driven by lower fees on products which are a function of asset balances. These asset balances were negatively impacted by the decline in equity markets.

### **Institutional products**

Underlying earnings before tax from institutional products increased in 2008 to USD 594 million from USD 455 million in 2007. The decrease in short term rates continued to produce strong positive spreads on institutional guaranteed products.

### **Life reinsurance**

Underlying earnings before tax from AEGON Americas' life reinsurance business fell in 2008 to USD (63) million from USD 114 million in 2007. The primary drivers of the 2008 negative result were the earnings impact of variable annuity guarantee reserve increases driven by the market decline, a negative impact of model refinements as well as negative mortality compared to 2007.

### **Net underlying earnings**

AEGON Americas' net underlying earnings totaled USD 780 million in 2008, in comparison to USD 1,464 million for the previous year. The effective tax rate on underlying earnings increased slightly from 26.5% in 2007 to 27.3% in 2008. Changes in the effective tax rate on underlying earnings mainly relate to the decrease in operating earnings before tax, combined with relatively constant US permanent differences.

### **Over/(under) performance of fair value items**

AEGON Americas holds certain fair value assets, which can have a notable impact on operating earnings. These assets, valued at approximately USD 3.6 billion, include certain hedge funds, real estate limited partnerships and convertible bonds. The valuation of these assets contributed USD (794) million to AEGON Americas' operating earnings before tax in 2008, a decrease from USD 571 million in 2007. The expected return before tax totaled USD 371 million, up from USD 364 million. The impact of these assets is particularly significant for the life, fixed annuity and institutional guaranteed products lines of business. Lower interest rates, declining equity markets, increased equity market volatility and widening credit spreads contributed to a USD 1,211 million lower mark-to-market valuation for GMWB guarantees, total return annuities and Canadian segregated funds.

### **Commissions and expenses**

AEGON Americas' commissions and expenses increased by 9% in 2008 to USD 4,961 million. Operating expenses were 2% higher at USD 2,167 million. Most of the increase is attributable to an overall increase in headcount of 653 over the prior year.

### **Production**

New life sales decreased 10% in 2008 to USD 669 million. This decline was seen throughout the industry and was a result of lower production across all retail agency units.

Sales of accident and health coverage fell USD 28 million in 2008, largely because of lower credit and travel sales. These products are especially sensitive to overall economic conditions and sales results reflected the decline in the global economy.

Fixed annuity sales, meanwhile, were significantly higher at USD 5,947 million in comparison to prior year sales of USD 1,567 million, as a result of consumers' preference for fixed return products versus products subject to equity market risk. In contrast, variable annuity sales decreased 1% to USD 3,680 million due to the same environment.

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Pension deposits totaled USD 11,423 million in 2008, 4% lower than the previous year. This decline was a result of lower terminal funding deposits, offset somewhat by increases in retirement plan deposits.

Managed assets were 14% lower in 2008 at USD 1,564 million, following the challenging sales environment due to the current market turmoil.

Sales of institutional guaranteed spread-based products totaled USD 9,859 million in 2008, a decrease of 29% compared with the previous year. This decline was due to reduced production of both spread based products and structured products, with some offset due to increased synthetic GIC sales. BOLI-COLI standardized production was 83% lower in 2008 at USD 36 million. This market was highly impacted by the global banking crisis as banks represent the primary customer base for these products.

Reinsurance standardized life production was 27% lower in 2008 at USD 240 million. The decline was primarily in domestic sales and reflects client companies seeking alternatives to traditional reinsurance solutions.

**THE NETHERLANDS****AEGON The Netherlands**

	2008 in million EUR	2007 Adjusted <sup>1</sup> in million EUR	% to adjusted
<b>Income by product segment</b>			
Life and protection			
Life	43	189	(77)
Accident and health	23	39	(41)
Individual savings and retirement			
Saving products	(14)	0	N.M.
Pensions and asset management	308	163	89
Distribution	3	16	(81)
General insurance	8	8	0
Share in profit/(loss) of associates	7	3	133
<b>Underlying earnings before tax</b>	<b>378</b>	<b>418</b>	<b>(10)</b>
Over/(under) performance of fair value items	(165)	(381)	57
<b>Operating earnings before tax</b>	<b>213</b>	<b>37</b>	<b>N.M.</b>
Gains/(losses) on investments	20	465	(96)
Impairment charges	(138)	(24)	N.M.
Other Income / (charges)	0	30	(100)
<b>Income before tax</b>	<b>95</b>	<b>508</b>	<b>(81)</b>
Income tax	(1)	98	(101)
<b>Net income</b>	<b>94</b>	<b>606</b>	<b>(84)</b>
<b>Net underlying earnings</b>	<b>326</b>	<b>339</b>	<b>(4)</b>
<b>Revenues</b>			
Total life insurance gross premiums	3,204	3,175	1
Accident and health insurance	210	203	3
General insurance	458	432	6
Total gross premiums	3,872	3,810	2
Investment income	2,387	2,120	13
Fee and commission income	416	443	(6)
<b>Total revenues</b>	<b>6,675</b>	<b>6,373</b>	<b>5</b>
Commissions and expenses	1,269	1,188	7
Of which operating expenses	934	843	11
<b>New life sales</b>			
Life	97	94	3
Pensions	122	166	(27)
<b>Total life production</b>	<b>219</b>	<b>260</b>	<b>(16)</b>
<b>New premium production accident and health insurance</b>	<b>15</b>	<b>18</b>	<b>(17)</b>
<b>New premium production general insurance</b>	<b>28</b>	<b>26</b>	<b>8</b>
<b>Gross deposits (on and off balance sheet)</b>			
Saving deposits	2,473	2,648	(7)

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Mutual funds and other managed assets	228	390	(42)
<b>Total gross deposits</b>	<b>2,701</b>	<b>3,038</b>	<b>(11)</b>

<sup>1</sup> The difference between fair value movement on certain guarantees and the fair value changes of derivatives that hedge certain risks of these guarantees, amounting to EUR 325 million, are as of financial year 2008 reclassified from Gains and losses on investments to Operating earnings.



## **Net income**

AEGON The Netherlands net income, which includes impairment charges and net gains/(losses) on investments, decreased by EUR 512 million to EUR 94 million. In 2008, net gains on investments (before tax) amounted to EUR 20 million compared to EUR 465 million in 2007. The 2008 net gains on investments include realized gains and losses on shares and bonds and a fair value movement on real estate for EUR 46 million (EUR 794 million in 2007). Fair value movements on derivatives considered as economic hedges resulted in a loss of EUR 26 million compared to a loss of EUR 329 million in 2007. Impairment charges increased by EUR 114 million to EUR 138 million in 2008 compared to the previous year and were primarily related to equities and higher yield bonds.

## **Revenues**

Revenues of EUR 6,675 million increased by 5% in 2008 compared to 2007. Life premiums increased by 4% to EUR 1,451 million as a result of competitively priced immediate annuities. Pension premiums decreased by 2% to EUR 1,753 million reflecting the increased uncertainty among clients. Accident & health premium income increased by EUR 7 million to EUR 210 million. General insurance premiums increased 6% reflecting AEGON's continued focus on writing profitable business in a competitive market. Investment income, which includes direct investment income of both general account and account of policyholder investments, increased by 13% compared to 2007, due to the shift from shares to bonds following the de-risking of the portfolio.

Fees and commission income of EUR 406 million was 6% lower than in 2007 reflecting lower fee income from real estate transactions given the decline in the real estate market and lower income on asset management activities.

## **Underlying earnings before tax**

AEGON The Netherlands underlying earnings before tax decreased to EUR 378 million in 2008, compared with underlying earnings of EUR 418 million in 2007.

### *Life and protection*

Underlying earnings before tax from AEGON The Netherlands life business amounted to EUR 43 million in 2008, down from EUR 189 million the previous year. This decline was due to increased system and project related expenses, costs of modifying unit-linked insurance products, a one-time restructuring charge and the absence of one-off mortgage securitization gains of EUR 29 million in 2007. Accident and health underlying earnings totaled EUR 23 million, down from EUR 39 million the result of increased expenses and worsened claim experience.

### *Individual savings and retirement products*

AEGON The Netherlands underlying earnings in the individual savings business came to a loss of EUR 14 million before tax in 2008, compared to zero in the previous year. Competition in the savings market is fierce, putting pressure on margins and volumes. 2007 earnings include a one-off charge of EUR 15 million related to the accelerated amortization of deferred expenses.

### *Pensions and asset management*

Underlying earnings before tax from AEGON The Netherlands pensions and asset management operations totaled EUR 308 million in 2008, up from EUR 163 million the previous year, mainly due to improved technical results and an exceptional EUR 75 million dividend received in 2008.

### *Distribution*

Underlying earnings before tax from AEGON The Netherlands distribution business amounted to EUR 3 million in 2008, compared with EUR 16 million the year before. 2008 earnings include a restructuring charge of EUR 21 million related to the real estate brokerage business. Also, the slowdown in the real estate market led to lower overall revenues. These factors more than offset efforts to reduce operating expenses. Earnings in 2007 included a charge of EUR 12 million related to the harmonization of claw back provisions of the Unirobe Meeüs Groep.

### *General insurance*

Underlying earnings before tax from AEGON The Netherlands general insurance operations remained stable at EUR 8 million in 2008, compared to the year before. Improved claim experience offset expenses to improve and grow the business.

**Net underlying earnings**

AEGON The Netherlands net underlying earnings totaled EUR 326 million in 2008, a decrease from EUR 339 million the year before. The effective tax rate on underlying earnings decreased to 14%, due to a release of tax provisions.

**Over/(under) performance of fair value items**

The difference between the fair value movement on guarantees and the related hedge contributed EUR 214 million to operating earnings in 2008 and resulted in a loss of EUR 325 million in 2007. This improvement is partly offset by fair value movements in private equity investments as well as fair value movements on assets held at fair value through profit and loss backing liabilities of a specific portfolio of group pension contracts.

**Commissions and expenses**

Commissions and expenses increased 7% to EUR 1,269 million in 2008. Operating expenses amounted to EUR 934 million in 2008 compared with EUR 843 million in 2007. The increase was due to a number of one-off factors, including a rise in project expenses, systems-related spending and a restructuring charge for AEGON The Netherlands Distribution business.

**Production**

New life sales in the Netherlands decreased 16% to EUR 219 million. Retail life insurance sales held up well, despite a worsening economic climate. The Dutch group pensions market, however, declined significantly due to increased uncertainty among clients.

Accident & health sales decreased by EUR 3 million to EUR 15 million, mainly due to lower sales of the disability product WIA. General insurance sales increased EUR 2 million to EUR 28 million reflecting AEGON's continued focus on writing profitable business in a competitive market.

Savings deposits decreased 7% to EUR 2,473 million in 2008 due to worsening economic conditions. Net deposits amounted to EUR 228 million compared with EUR 380 million in 2007 also a reflection of the economic decline in 2008.

## UNITED KINGDOM

## AEGON United Kingdom

	2008	2007		2008	2007	
	in million	in million	%	in million	in million	%
	GBP	GBP		EUR	EUR	
<b>Income by product segment</b>						
Life and protection	46	54	(15)	58	79	(27)
Pensions and asset management	68	138	(51)	85	201	(58)
Distribution	(1)	(7)	86	(2)	(10)	80
Share in net results of associates	0	1	N.M.	0	1	N.M.
<b>Underlying earnings before tax</b>	<b>113</b>	<b>186</b>	<b>(39)</b>	<b>141</b>	<b>271</b>	<b>(48)</b>
Over/(under) performance of fair value items	(15)	0	N.M.	(19)	0	N.M.
<b>Operating earnings before tax</b>	<b>98</b>	<b>186</b>	<b>(47)</b>	<b>122</b>	<b>271</b>	<b>(55)</b>
Gains/(losses) on investments	(17)	(5)	N.M.	(21)	(8)	(163)
Impairment charges	(18)	(3)	N.M.	(22)	(4)	N.M.
Other non-operating income/(charges) <sup>1</sup>	(14)	5	N.M.	(17)	8	N.M.
<b>Income before tax</b>	<b>49</b>	<b>183</b>	<b>(73)</b>	<b>62</b>	<b>267</b>	<b>(77)</b>
Income tax attributable to policyholder return	14	(5)	N.M.	17	(7)	N.M.
<b>Income before income tax on shareholders return</b>	<b>63</b>	<b>178</b>	<b>(65)</b>	<b>79</b>	<b>260</b>	<b>(70)</b>
Income tax on shareholders return	1	5	(80)	1	7	(86)
<b>Net income</b>	<b>64</b>	<b>183</b>	<b>(65)</b>	<b>80</b>	<b>267</b>	<b>(70)</b>
<b>Net underlying earnings</b>	<b>104</b>	<b>188</b>	<b>(45)</b>	<b>131</b>	<b>275</b>	<b>(52)</b>
<b>Revenues</b>						
Total gross premiums	7,179	7,393	(3)	9,017	10,811	(17)
Investment income	2,007	1,751	15	2,521	2,560	(2)
Fee and commission income	190	219	(13)	239	321	(26)
<b>Total revenues</b>	<b>9,376</b>	<b>9,363</b>	<b>0</b>	<b>11,777</b>	<b>13,692</b>	<b>(14)</b>
Commissions and expenses	662	647	2	832	946	(12)
Of which Operating expenses	414	391	6	519	571	(9)
<b>New life sales <sup>2</sup></b>						
Life	251	210	20	316	307	3
Pensions	971	973	0	1,219	1,423	(14)
<b>Total life production</b>	<b>1,222</b>	<b>1,183</b>	<b>3</b>	<b>1,535</b>	<b>1,730</b>	<b>(11)</b>
<b>Gross deposits (on and off balance sheet)</b>						
Pensions and asset management	542	903	(40)	681	1,321	(48)
<b>Total gross deposits</b>	<b>542</b>	<b>903</b>	<b>(40)</b>	<b>681</b>	<b>1,321</b>	<b>(48)</b>

<sup>1</sup> Included in other non-operating income/(charges) are charges made to policyholders with respect to income tax. There is an equal and opposite tax charge which is reported in the line Income tax attributable to policyholder return.

<sup>2</sup> Includes production on investment contracts without a discretionary participation feature of which the proceeds are not recognized as revenues but are directly added to our investment contract liabilities.



**Exchange rates**

Per 1 EUR	Weighted average		Year-end	
	2008	2007	2008	2007
GBP	0.7961	0.6838	0.9525	0.7334
<b>Net income</b>				

Net income amounted to GBP 64 million compared to GBP 183 million in 2007. Most of the decrease is due to the impact of lower equity markets and in particular the impact of lower equity markets on fund related charges, losses on investments and higher impairment charges.

**Revenues**

Total gross premiums were down slightly by 3% from 2007 to 2008 to GBP 7,179 million. The reduction reflects lower single premiums from pensions business, offset by higher annuity premiums due to growth in annuity sales. Investment income increased by 15% from 2007 to 2008 primarily as a result of larger holdings of general account bonds backing the growing annuity portfolio. Fee and commission income decreased by 13% from 2007 to 2008 due to lower fee and commission income from investment contracts and the distribution businesses.

**Underlying earnings before tax**

Underlying earnings fell 39% from 2007 to 2008 to GBP 113 million. Most of the decrease is due to the impact of lower equity markets and in particular the impact of lower equity markets on fund related charges.

**Life and protection**

Underlying earnings from Life and Protection decreased by 15% from 2007 to 2008 to GBP 46 million. The 2007 Life and Protection underlying earnings included one-off income of GBP 21 million from the take on of a block of in-force annuities. Removing this one-off item in 2007 Life and Protection underlying earnings increased significantly in 2008 primarily as a result of the growth of the annuity business.

**Pensions and asset management**

Underlying earnings from Pensions and Asset Management decreased by 51% from 2007 to 2008 to GBP 68 million. The decrease was primarily due to lower corporate bond and equity markets, and in particular the impact of lower markets on fund related charges.

**Distribution**

Underlying earnings from the Distribution business amounted to a negative GBP 1 million, compared to a negative GBP 7 million in 2007. The increase in underlying earnings was primarily due to cost containment and a release of incentive payments reserves.

**Net underlying earnings**

Net underlying earnings amounted to GBP 104 million in 2008 compared to GBP 188 million in 2007. The decrease primarily reflects the decrease in underlying earnings described above. Additionally, in the second quarter of 2007 there was a one-time tax credit of GBP 38 million, as a result of a reduction in deferred tax liabilities following a change in the UK corporation tax rate from 30% to 28% which came into effect in April 2008.

**Over/(under) performance of fair value items**

The 2008 operating earnings included a negative GBP 15 million from the underperformance of fair value items, relating to fair value increases of guarantees embedded in 5 for Life variable annuity products, net of hedging.

**Commissions & expenses**

Commission and expenses rose 2% in 2008 to GBP 662 million. Operating expenses were 6% higher at GBP 414 million. The increase in operating expenses was due mainly to continued investment in AEGON UK's businesses and restructuring costs.

**Sales**

Despite a difficult market environment, AEGON UK increased new life sales in 2008 by 3% to GBP 1.22 billion. Life annualised premium production increased 20% to GBP 251 million due to continued strong sales of annuities and protection, reflecting AEGON UK's continued focus on its diversification strategy. Sales of pensions were flat at GBP 971 million. Group pensions continued to be strong but this was offset by lower individual pensions sales.

Total gross deposits were down 40% at GBP 542 million a reflection of unprecedented turmoil in world financial markets, which resulted in lower sales of mutual funds and third party managed assets.

**OTHER COUNTRIES**

	2008 in million EUR	2007 in million EUR	%
<b>Income by product segment</b>			
Life and protection			
Life	11	53	(79)
Accident and health	5	4	25
Individual savings and retirement products			
Variable annuities	(1)	0	N.M.
Savings products	0	(1)	N.M.
Mutual funds	13	4	N.M.
Pensions and asset management	12	11	N.M.
General insurance	37	39	(5)
Share in net results of associates	16	32	(50)
<b>Underlying earnings before tax</b>	<b>93</b>	<b>142</b>	<b>(35)</b>
Over/(under) performance of fair value items	0	0	N.M.
<b>Operating earnings before tax</b>	<b>93</b>	<b>142</b>	<b>(35)</b>
Gains/(losses) on investments	(10)	14	(171)
Impairment charges	(68)	0	N.M.
Other income/(charges)	1	0	N.M.
<b>Income before tax</b>	<b>16</b>	<b>156</b>	<b>(90)</b>
Income tax	(25)	(83)	(70)
<b>Net income/(loss)</b>	<b>(9)</b>	<b>73</b>	<b>(112)</b>
<b>Net underlying earnings</b>	<b>64</b>	<b>60</b>	<b>7</b>
<b>Revenues</b>			
Life reinsurance gross premiums	1,637	2,269	(28)
Accident and health insurance	74	71	4
General insurance	159	136	17
Total gross premiums	1,870	2,476	(24)
Investment income	282	241	17
Fee and commission income	110	80	38
Other revenues	2	1	100
<b>Total revenues</b>	<b>2,264</b>	<b>2,798</b>	<b>(19)</b>
Commissions and expenses	494	372	33
Of which Operating expenses	211	177	19
<b>New life sales <sup>1</sup></b>			
Life	232	352	(34)
Pensions	1	1	0
<b>Total life production</b>	<b>233</b>	<b>353</b>	<b>(34)</b>
<b>New premium production accident and health</b>	<b>6</b>	<b>6</b>	<b>0</b>
<b>New premium production general insurance</b>	<b>40</b>	<b>32</b>	<b>25</b>
<b>Gross deposits (on and off balance sheet)</b>			
Variable annuities	126	22	N.M.



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Retail mutual funds	729	518	41
Other managed assets	779	154	N.M.
Pensions	8	61	(87)
<b>Total gross deposits</b>	<b>1,642</b>	<b>755</b>	<b>117</b>

<sup>1</sup> Includes production on investment contracts without a discretionary participation feature of which the proceeds are not recognized as revenues but are directly added to our investment contract liabilities.

**Exchange rates**

Weighted average exchange rates for the currencies of the countries included in the Other Countries segment, and which do not report in euros, are summarized in the table below.

	2008	2007
<b>Per 1 EUR</b>		
Czech Republic Krona (CZK)	24.8931	27.5710
Hungarian Forint (HUF)	251.2908	251.231
New Taiwan Dollar (NTD)	46.1694	45.420
Polish Zloty (PLN)	3.5206	3.7900
Rin Min Bi Yuan (CNY)	10.2470	10.4610
Slovakian Koruna (SKK)	31.1190	33.6890

Please note that AEGON's Other Countries segment is accounted for in the financial statements in euros, but that the operating results for individual country units are accounted for, and discussed, in local currency terms.

**Net income/(loss)**

AEGON's Other countries reported a net loss for 2008 of EUR 9 million, compared with a profit the previous year of EUR 73 million. Net income was affected by losses on investments totaling EUR 10 million, a tax charge of EUR 25 million and EUR 68 million in impairments related primarily to equity investments. These factors offset a positive contribution from AEGON's businesses in Spain and Central & Eastern Europe.

**Overview**

Earnings from Other countries declined in 2008 largely the result of a significant decrease in earnings from AEGON's Life & Protection business in Taiwan. The company's operations in Spain and Central & Eastern Europe, however, proved resilient, despite a clear downturn in economic conditions and the impact of the global financial crisis. Underlying earnings before tax declined 35% to EUR 93 million, while AEGON's Other countries operations reported a net loss for the year of EUR 9 million.

**Underlying earnings before tax**

Underlying earnings before tax from AEGON's Other countries declined 35% to EUR 93 million in 2008. Underlying earnings were adversely affected by accelerated DPAC amortization in Taiwan, which offset a resilient performance from the company's operations in Spain and Central & Eastern Europe. Both AEGON's pension business in Central & Eastern Europe and its asset management business in China showed signs of further growth during the year. Higher contributions from the joint venture with Caja de Ahorros del Mediterráneo (CAM), AEGON's largest bank partner in Spain, were offset by additional start-up costs at the company's joint venture in India and lower income from La Mondiale, AEGON's French associate.

**Commissions and expenses**

Commissions and expenses in Other countries showed a sharp increase in 2008, up 33% to EUR 494 million, due primarily to an acceleration in DPAC amortization in Taiwan and higher operating expenses, which were 19% higher at EUR 211 million. The rise in operating expenses was due to continued growth in AEGON's pension business in Central & Eastern Europe and further investment in the company's bank distribution network in Spain.

**Sales and deposits**

New life sales declined 34% to EUR 233 million a reflection of continued extreme market volatility. In Central & Eastern Europe, sales of unit-linked products were adversely affected by the persistent weakness of equity markets. Spain posted a steep increase in sales, helped by recent changes to national pension legislation, as well as the expansion of AEGON's bank distribution network in the country.

Sales in Taiwan, on the other hand, declined significantly, offset only in part by growth in China. Total gross deposits for AEGON's Other countries rose sharply in 2008 to EUR 1.64 billion, due mainly to the company's strong asset management business in China and further growth in its pension operations in Central & Eastern Europe.



## 5.5 Liquidity and capital resources

### Basic principles

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

To ensure strong capital adequacy across the company.

To manage and allocate capital efficiently to maximize sustainable returns and facilitate growth objectives.

To manage the company's capital base and leverage so as to maintain and reflect capital strength while permitting an efficient capital structure.

To maintain sufficient liquidity to ensure AEGON is able to meet its obligations at a reasonable cost.

To ensure continued access to international money and capital markets on competitive terms, so that the company's overall cost of capital is minimized.

Taken together, these goals strengthen AEGON's ability to withstand losses from adverse business and market conditions, enhance its financial flexibility, and serve the interests of the company's stakeholders.

AEGON's Group Treasury & Capital Management department manages and coordinates liquidity and capital management strategy and processes under the remit of the Group Risk & Capital Committee (see Item 11).

### Highlights of 2009

In June 2008, AEGON set out a number of measures designed to release capital from the company's existing businesses over the next several years. These measures, however, were brought forward as part of the company's response to the global financial crisis, aimed at preserving capital and strengthening the company's overall position. The measures included a risk reduction program, steps to further improve capital efficiency, and the adoption of a more active approach to capital management.

As a result of these measures, AEGON was able to release EUR 3.3 billion in capital from its businesses in 2009, significantly above the company's target for the year of EUR 1.5 billion.

During 2009, AEGON carried out a number of transactions designed to further strengthen the company's capital and liquidity position and enhance overall financial flexibility:

In April, AEGON raised EUR 1 billion through the issue of a new 7% three-year bond under the company's USD 6 billion debt issuance program.

In August, AEGON completed a EUR 1 billion equity issue, using the proceeds to repay one third of the EUR 3 billion in capital provided by the Dutch State in December 2008 (please see below for further details).

In October, USD 650 million in additional regulatory capital was made available for AEGON's operations in the United States via a transaction that realized the value of a portion of future profits from an existing book of traditional life business.

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In November, a further USD 500 million was raised through the issue of senior unsecured notes in the United States under AEGON's US shelf registration.

In December, AEGON issued an additional GBP 400 million in senior unsecured notes in the United Kingdom, also under the company's debt issuance program.

Since the beginning of October 2009, AEGON has been subject to supplemental group supervision by the Dutch Central Bank in accordance with the requirements of the European Union's Financial Conglomerate Directive.

### **Liquidity management and debt funding**

#### **Liquidity management**

Liquidity management is a fundamental building block of AEGON's overall financial planning and capital allocation processes.

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 to pay dividends to AEGON N.V., if the subsidiary's capital position so allows.

At AEGON N.V., liquidity is sourced from internal payments by operating companies. Additional liquidity comes from capital raising, debt funding in the form of medium term note and commercial paper issuance, backed by credit facilities. AEGON N.V. uses its liquidity primarily to fund operating expenses, interest payments on its debt, investments in country units, and distributions to shareholders.

Liquidity is coordinated centrally and managed both at AEGON N.V. and at country unit levels. AEGON's liquidity position remained strong throughout 2009.

AEGON's aim is to ensure that liquidity is sufficient to meet cash demands even under extreme conditions. The amount of liquidity held is determined by the company's liquidity risk policy, which ensures that AEGON and its operating companies maintain a prudent liquidity profile. Liquidity is measured and stress-tested consistently across the company, and a liquidity stress management plan is maintained at Group Treasury and at individual country units. Stress tests combine a severe "surrender" scenario with an "impaired asset" scenario. AEGON's liquidity policy requires that all operating units measure the period they can maintain a projected positive cash balance without needing to sell any non-cash assets, while meeting all cash demands for a period of two years. At the end of 2009, AEGON N.V. held at group level a balance of EUR 3.7 billion in excess cash compared with EUR 2.9 billion twelve months previously.

### Debt funding

Most of AEGON's debt is issued by the parent company, AEGON N.V. In addition, a limited number of other AEGON companies have also issued debt securities that, for the large part, are guaranteed by AEGON N.V. AEGON N.V. has regular access to international capital markets under its USD 6 billion debt issuance program. Access to US markets is facilitated by a separate US shelf registration.

In addition, AEGON has access to domestic and international money markets through AEGON N.V.'s and AEGON Funding Company LLC's (also guaranteed by AEGON N.V.) combined USD 4.5 billion in euro and US commercial paper programs. At the end of 2009, AEGON had EUR 521 million outstanding under these programs.

AEGON maintains back-up credit facilities to support outstanding amounts under its commercial paper programs. The company's principal arrangement is a USD 5 billion syndicated facility, which matures in 2012. This arrangement includes a USD 3 billion back-up credit facility. In addition, AEGON maintains USD 475 million of shorter-dated bilateral back-up facilities. AEGON N.V. has not drawn any amounts under any of its liquidity back-up facilities.

AEGON N.V.'s excess liquidity is invested in highly liquid, short-term assets in accordance with internal risk management policies. The duration profile of AEGON's capital leverage is managed in line with the duration of surplus assets related to investments in its subsidiaries, subject to liquidity needs, capital and other requirements. AEGON considers its working capital, backed by external funding programs and facilities, to be ample for the company's present requirements.

Though operational leverage is not considered part of the capital base, it is an important source of liquidity and funding. Operational debt relates primarily to mortgage warehousing and the funding of US regulation XXX and Guideline AXXX redundant reserves.

### Capital management

AEGON's overall capital management depends on the following considerations:

**Capital requirements** AEGON defines capital adequacy as whichever is the most stringent of its relevant capital requirements (see below).

**Capital quality** AEGON stipulates that at least 70% of its capital base must be composed of core capital, which is of higher quality than other capital securities.

**Capital leverage** AEGON sets out clear guidelines on the amounts of capital securities and debt the company can use as part of its overall capital base.

In addition, AEGON also measures its EU Insurance Group Directive (IGD) ratio in accordance with the regulatory requirements of the Dutch Central Bank. The IGD ratio is a weighted average of Solvency I capital requirements for operations inside the European Union and local regulatory requirements for those outside. In the United States, for example, required capital for life insurance companies is equivalent to twice the upper end of the Company Action Level range of the Risk Based Capital requirement set by the US National Association of Insurance Commissioners. The IGD ratio also takes into account the capital of the insurance group as a whole.

### Capital adequacy

Capital adequacy is managed at company-wide, country and operating unit levels, as well as by individual legal entities within the organization.

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AEGON's goal is to ensure that all operating companies maintain a strong financial position, now and into the future, even after sustaining losses from adverse business and market conditions.

As a matter of policy, AEGON maintains operating companies' capital adequacy at whichever is the higher of the following:

Local regulatory requirements

Relevant local Standard & Poor's requirements for AA capital adequacy

Any additionally self-imposed internal requirements

In 2009, the capital position of AEGON's operating companies improved from the previous year, and remained strong. At the end of 2009, AEGON had an excess over and above its capital requirements of EUR 3.7 billion, up from EUR 2.9 billion twelve months previously. AEGON's IGD ratio stood at 204%.

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## Capital base and leverage tolerances

AEGON applies leverage tolerances to its capital base that are consistent with its financial strength objectives. Leverage is defined as the relative amount of non-core capital in AEGON's overall capital base. The capital base reflects the capital employed across the company and consists of:

Core capital (comprising shareholders' equity, excluding the company's revaluation reserve, plus the convertible core capital securities provided by the Dutch State in December 2008).

Perpetual capital securities (including currency revaluations).

Dated subordinated and senior debt.

AEGON's target is for its capital base to comprise at least 70% core capital, no more than 25% perpetual capital securities and up to 5% dated subordinated debt and senior debt. At the end of 2009, AEGON's capital base consisted of 74.5% core capital and 20.4% perpetual capital securities. Senior and dated subordinated debt accounted for the remaining 5.1%.

At the end of 2009, AEGON's core capital comprising shareholders' equity and the convertible core capital securities issued in 2008, but excluding the company's revaluation reserve totaled EUR 15.9 billion, compared with EUR 16.2 billion twelve months previously.

Group equity consists of core capital, including the revaluation reserve, plus other equity securities. These other securities include Perpetual Cumulative Capital Securities and Junior Perpetual Capital Securities, as well as other equity reserves. At the end of 2009, AEGON's group equity, totaled EUR 18.9 billion, up from EUR 13.8 billion twelve months previously. AEGON's other equity securities meanwhile amounted to EUR 4.7 billion.

## Financial flexibility

At the end of 2009, AEGON's financial flexibility—the company's excess capital plus its additional leverage capacity—amounted to EUR 3.7 billion. This figure gives an indication of the company's capacity to deploy capital internally either by using funds it already holds in the form of excess capital or else by obtaining additional funds through the issuance of further debt.

## Repaying the Dutch State

In December 2008, as part of the company's response to the financial crisis, AEGON secured EUR 3 billion in additional convertible core capital from Vereniging AEGON, funded by the Dutch State. AEGON obtained this additional capital at the height of the crisis as a necessary precaution against further sharp declines in world financial markets. The capital was provided by the Dutch State as part of a broader program to support fundamentally sound and viable banks and insurance companies in the Netherlands during the financial crisis.

At the end of November 2009, following a successful equity issue, AEGON repaid EUR 1 billion of the EUR 3 billion received. The equity issue was conducted in August 2009 under AEGON's US dollar shelf registration through the sale of just over 157.8 million new common shares and 32.7 million existing treasury shares. The shares were sold at EUR 5.25 per Dutch-registered share and USD 7.50 per New York-registered share. AEGON's priority is to repay the remaining EUR 2 billion as soon as it is feasible and responsible to do so.

<sup>4</sup> Please note that excess capital is the capital over and above the most stringent capital adequacy requirements adhered to by AEGON's operating companies plus any excess capital held by AEGON N.V. Additional leverage capacity, meanwhile, is a management-imposed limitation for assuming debt, and is defined as the maximum capacity to issue additional debt under the company's leverage tolerances.



## Ratings

In 2009, AEGON retained strong financial strength ratings from Standard & Poor's, Moody's and Fitch. Consistent with the credit rating agencies overall outlook for the industry, AEGON's financial strength ratings continue to carry a negative outlook.

At the end of 2009, Standard & Poor's (S&P), Moody's and Fitch insurance financial strength ratings (IFSR) and ratings outlook for AEGON's primary life insurance companies in its leading country units were as follows:

	AEGON USA IFSR	AEGON The Netherlands IFSR	AEGON Scottish Equitable IFSR	AEGON N.V. Senior debt rating
S&P rating	AA-	AA-	AA-	A-
S&P outlook	Negative	Negative	Negative	Negative
Moody's rating	A1	NR <sup>1</sup>	NR <sup>1</sup>	A3
Moody's outlook	Negative			Negative
Fitch rating	AA	NR <sup>1</sup>	NR <sup>1</sup>	A
Fitch outlook	Negative			Negative

During 2009, Standard & Poor's lowered its senior debt rating for AEGON N.V. to A-, Moody's lowered its senior debt rating to A3, while Fitch also lowered its senior debt rating to A. The outlook for all three credit ratings remained negative. At the same time, Standard & Poor's, Moody's and Fitch lowered the insurance financial strength ratings of AEGON USA by one notch, to AA-, A1 and AA respectively.

## 5.6 Research and development, patents and licences

Not applicable

## 5.7 Off-balance sheet arrangements

As part of the AEGON Levensverzekering N.V. funding program the company regularly enters into securitization contracts for its mortgage loans. At December 31, 2009 a total of five publicly placed and one privately placed securitization contracts were outstanding with a total value of EUR 3.9 billion (2008 EUR 4.0 billion).

In the last quarter of 2007 the first of the publicly placed securitizations (SAECURE 1) was called by the special purpose vehicle. In 2006, AEGON Levensverzekering N.V. terminated one of the two privately placed securitization transactions reported in prior years. Also, it completed one publicly placed securitization transaction in 2006, whereby the economic ownership of EUR 2.1 billion of aggregate mortgage receivables was conveyed to a special purpose company. The special purpose company funded the purchase of mortgages from AEGON Nederland with the issuance of mortgage-backed securities. The transfer of ownership title will take place only if the borrowers are duly notified by the special purpose company upon the occurrence of certain pre-defined notification events. At the same time AEGON entered into a fixed-to-floating swap agreement with the contract parties under which AEGON agreed to pay the floating rate (EURIBOR based) and receive the fixed rate (yield from the mortgage receivables). After a period of seven years, the interest of the notes issued by the special purpose company in respect of this transaction will step-up, together with a similar step-up in the fixed-to-floating swap agreement. At that same time, the special purpose company has the right to call the notes. A deferred purchase arrangement forming part of the contract to sell the mortgage loans to the special purpose company entitles AEGON Levensverzekering N.V. to any specified residual positive value of the special purpose entity at maturity.

In 2005, AEGON Levensverzekering N.V. completed one mortgage-related publicly placed securitization contract for EUR 1.2 billion that was structured similarly to the 2006 securitization described above. A 3.3% portion of securitized mortgage loans forming part of SAECURE 4 and amounting to EUR 13 million (2008: EUR 13 million) continues to be recognized as a financial asset on balance, representing the interest rate risk retained by AEGON in respect of the fourth publicly placed securitization contract.

**5.8 Contractual Obligations and Commitments****i Contractual obligations as per December 31, 2009**

In million EUR (payments due by period)	On Demand	Less than			More than 5 years	Total
		1 year	3 years	4 years		
Insurance contracts <sup>1</sup>		6,169	12,466	12,300	144,812	175,747
Insurance contracts for account of policyholders <sup>1</sup>		5,490	11,991	9,830	88,627	115,938
Investment contracts <sup>1</sup>		8,140	10,015	5,410	8,266	31,831
Investment contracts for account of policyholders <sup>1</sup>	77	3,698	8,025	8,439	99,221	119,460
TRUPS, subordinated borrowings and borrowings <sup>2</sup>		2,038	1,246	1,166	3,165	7,615
Scheduled interest payments on TRUPS, subordinated borrowings and borrowings		253	490	291	477	1,511
Operating leases <sup>3</sup>		86	146	93	351	676

<sup>1</sup> The projected cash benefit payments are based on managements' best estimates of the expected gross benefits and expenses partially offset by the expected gross premiums, fees and charges relating to the existing business in force. Estimated cash benefit payments are based on mortality, morbidity and lapse assumptions comparable with AEGON's historical experience, modified for recent observed trends. Actual payment obligations may differ if experience varies from these assumptions. The cash benefit payments are presented on an undiscounted basis and are before deduction of tax and before reinsurance. The liability amount in our consolidated financial statement reflects the discounting for interest as well as adjustments for the timing of other factors as described above. As a result, the sum of the cash benefit payments shown for all years in the table exceeds the corresponding liability amounts included in notes 18.20, 18.21, 18.22 and 18.23 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F. More details on the products, terms and conditions are included in item 4B.

<sup>2</sup> Long-term debt represents principal repayment obligations relating to Trust pass-through securities ( TRUPS ), subordinated borrowings and borrowings; they are described further in Notes 18.18, 18.19 and 18.24 of the notes to our consolidated financial statements in Item 18 of this Report.

<sup>3</sup> Operating leases are primarily related to agency and administration offices.

**ii Investments contracted**

In the normal course of business, the Group has committed itself through purchase and sale transactions of investments, mostly to be executed in the course of 2009. The amounts represent the future outflow and inflow, respectively, of cash related to these investment transactions that are not reflected in the consolidated balance sheet.

In million EUR	2009		2008	
	Purchase	Sale	Purchase	Sale
Real estate		(3)		
Mortgage loans	327		296	
Debt securities			11	
Private loans	36		569	
Other	807		1,119	

Mortgage loans commitments represent undrawn mortgage loan facility provided and outstanding proposals on mortgages. Other commitments include future purchases of interests in investment funds and limited partnerships.

**iii Other commitments and contingencies**

In million EUR	2009	2008
Guarantees	443	348
Standby letters of credit	109	106
Share of contingent liabilities incurred in relation to interests in joint ventures	717	480
Other guarantees	3	3
Other commitments and contingent liabilities	27	44

Guarantees include those given on account of asset management commitments and guarantees associated with the sale of investments in low-income housing tax credit partnerships in the United States. Standby letters of credit amounts reflected above are the liquidity commitment notional amounts. In addition to the guarantees shown in the table, guarantees have been given for fulfillment of contractual obligations such as investment mandates related to investment funds.

AEGON N.V. has entered into a net worth maintenance agreement with its indirect subsidiary AEGON Financial Assurance Ireland Limited (AFA), pursuant to which AEGON N.V. will cause AFA to have a tangible net worth of at least 3% of its total liabilities under financial guaranty policies which it issues up to a maximum of EUR 3 billion.

A group company entered into a net worth maintenance agreement with AEGON subsidiary Transamerica Life International (Bermuda) Ltd ensuring the company is adequately capitalized and has sufficient cash for its operations.

AEGON N.V. has guaranteed and is severally liable for the following:

Due and punctual payment of payables due under letter of credit agreements applied for by AEGON N.V. as co-applicant with its subsidiary companies Transamerica Corporation, AEGON USA, LLC and Commonwealth General Corporation. At December 31, 2009, the letter of credit arrangements amounted to EUR 3,492 million (2008: EUR 3,544 million); as at that date no amounts had been drawn, or were due under these facilities.

Due and punctual payment of payables by the consolidated Group companies Transamerica Corporation, AEGON Funding Company LLC, Commonwealth General Corporation and Transamerica Finance Corp. with respect to bonds, capital trust pass-through securities and notes issued under commercial paper programs (EUR 668 million; 2008: EUR 694 million), as well as payables with respect to certain derivative transactions of Transamerica Corporation (nominal amount EUR 1,870 million; 2008: EUR 1,003 million);

Due and punctual payment of any amounts owed to third parties by the consolidated group company AEGON Derivatives N.V. in connection with derivative transactions. AEGON Derivatives N.V. only enters into derivative transactions with counterparties with which ISDA master netting agreements including collateral support annex agreements have been agreed; net (credit) exposure on derivative transactions with these counterparties was therefore limited as at December 31, 2009.

AEGON is involved in litigation in the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are sought. In particular, certain current and former customers, and groups representing customers, have initiated litigation and certain groups are encouraging others to bring lawsuits in respect of certain products. The products involved in the Netherlands include securities leasing products and unit linked products (so called beleggingsverzekeringen including the KoersPlan product). AEGON has established litigation policies to deal with the claims defending when the claim is without merit and seeking to settle in certain circumstances. This and any other litigation AEGON has been involved in over the last twelve months have not had any significant effects on the financial position or profitability of AEGON N.V. or the Group. However, there can be no assurances that AEGON will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability.

In addition, in recent years, the insurance industry has increasingly been the subject of litigation, investigations, regulatory activity and challenges by various governmental and enforcement authorities and policyholder advocate groups concerning certain practices. AEGON subsidiaries have received inquiries from local authorities and policyholder advocate groups in various jurisdictions including the United States, the United Kingdom and the Netherlands. In the normal course of business, reviews of processes and procedures are undertaken to ensure that customers have been treated fairly, and to respond to matters raised by policyholders and their representatives. AEGON does not believe that material liabilities will arise from such reviews, however there is a risk that the Group is not able to resolve such matters in the manner that it

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expects. In certain instances, AEGON subsidiaries modified business practices in response to such inquiries or the findings thereof. Certain AEGON subsidiaries have been informed that the regulators may seek fines or other monetary penalties or changes in the way AEGON conducts its business.

On August 5, 2009, the Enterprise Chamber of the Amsterdam court of appeals in the Netherlands ruled in favor of AEGON in connection with a dispute with unions and employers in the harbors of Rotterdam regarding the consolidation of equity of OPTAS, a life insurance company AEGON acquired at the beginning of 2007. The court rejected a request to order a restatement of AEGON's financial statements over 2007. The foundation representing the employers and insured harbor employees in the harbors appealed to the Dutch Supreme Court. AEGON does not expect the Dutch Supreme Court decision to have a material adverse effect on the company's financial position or profitability.

**iv Collateral****Securities lending and repurchase activities**

The following table reflects the carrying amount of non-cash financial assets that have been transferred to another party under security lending and repurchase activities where the counterparty has the right to sell or repledge.

<b>In million EUR</b>	<b>2009</b>	<b>2008</b>
<b>Financial assets for general account</b>		
Available-for-sale	6,600	6,618
Financial assets at fair value through profit or loss	51	39
<b>Total</b>	<b>6,651</b>	<b>6,657</b>
<b>Financial assets for account of policyholders</b>	<b>3,592</b>	<b>947</b>

AEGON retains substantially all risks and rewards of the transferred assets, this includes credit risk, settlement risk, country risk and market risk. The assets are transferred in return for cash collateral or other financial assets.

The carrying amount of non-cash financial assets that have been transferred to another party under security lending and repurchase activities where the counterparty does not have the right to sell or repledge amount to EUR 57 million (2008: EUR 139 million).

**Assets accepted**

AEGON receives collateral related to securities lending and reverse repurchase activities. Non-cash collateral is not recognized in the balance sheet.

Cash collateral is recorded on the balance sheet as an asset and an offsetting liability is established for the same amount as AEGON is obligated to return this amount upon termination of the lending arrangement or repurchase agreement. Cash collateral is usually invested in pre-designated high quality investments. The sum of cash and non-cash collateral is typically greater than the market value of the related securities loaned.

The following table analyses the fair value of the collateral received in relation to securities lending and (reverse) repurchase activities:

<b>In million EUR</b>	<b>2009</b>	<b>2008</b>
Cash collateral on Securities lending	1,170	3,577
Cash received on Repurchase agreements	4,867	3,929
Non-cash collateral	2,817	436
<b>Total</b>	<b>8,854</b>	<b>7,942</b>
Non-cash collateral that can be sold or repledged in the absence of default	1,797	259
Non-cash collateral that has been sold or transferred		

In addition, AEGON can receive collateral related to derivative transactions that it enters into. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by AEGON or its counterparty. Transactions requiring AEGON or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit swaps.

The above items are conducted under terms that are usual and customary to standard derivative, and securities lending activities, as well as requirements determined by exchanges where the bank acts as intermediary.



### **Assets pledged**

AEGON pledges assets that are on its balance sheet in securities borrowing transactions, in repurchase transactions, and against long-term borrowings. In addition, in order to trade derivatives on the various exchanges, AEGON posts margin as collateral.

These transactions are conducted under terms that are usual and customary to standard long-term borrowing, derivative and securities borrowing activities, as well as requirements determined by exchanges where the bank acts as intermediary.

AEGON has pledged EUR 9,532 million (2008: EUR 9,034 million) financial assets as collateral for general account liabilities and contingent liabilities. None (2008: none) of the financial assets pledged can be sold or repledged by the counterparty.

EUR 235 million of the financial assets and other assets were pledged as collateral for liabilities and contingent liabilities for account of policyholders in 2009 (2008: EUR 56 million).

Non-cash financial assets that are borrowed or purchased under agreement to resell are not recognized in the balance sheet.

To the extent that cash collateral is paid, a receivable is recognized for the corresponding amount. If other non-cash financial assets are given as collateral, these are not derecognized.

AEGON has pledged EUR 420 million (2008: EUR 128 million) cash collateral on securities borrowed and derivative transactions and EUR 9 million (2008: EUR 8 million) on reverse repurchase agreements, refer to Item 18.13.2 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

### **5.9 Subsequent Events**

On February 2, 2010 AEGON announced the sale of its funeral insurance business in the Netherlands to Dutch investment firm Egeria for an amount of EUR 212 million. Under the agreement, the nineteen employees affected by the sale will retain their jobs, as well as maintain similar employment conditions. In 2009, AEGON's funeral insurance business generated approximately EUR 70 million in gross written premiums. The sale agreement is subject to the consultation of AEGON's Central Works Council, in addition to the approvals of the relevant regulatory authorities.

On February 26, 2010 AEGON announced that it will delist from the Tokyo Stock Exchange on March 27, 2010. AEGON applied for delisting as the volume of AEGON shares traded on the Tokyo Stock Exchange is negligible and does not justify the related expenses.

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## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### 6.1 Introduction

AEGON is a public company under Dutch law. It is governed by three corporate bodies: the General Meeting of Shareholders, which meets at least once every year, the Executive Board and the Supervisory Board<sup>5</sup>. As a listed company based in the Netherlands, AEGON is subject to the Dutch Corporate Governance Code.

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

### 6.2 General Meeting of Shareholders

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

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

#### *Agenda*

Those shareholders who alone, or jointly, represent at least 0.1% of AEGON's issued capital or a block of shares worth at least EUR 50 million may request items be added to the agenda of these meetings.

In accordance with AEGON's Articles of Incorporation, such requests will be granted, providing they are received in writing at least 60 days before the meeting and unless important interests of the company dictate otherwise.

#### *Attendance*

Every shareholder is entitled to attend the General Meeting of Shareholders, to speak and vote, either in person or by proxy granted in writing. This includes electronically submitted proxies. All shareholders wishing to take part must, however, provide proof of their identity and shareholding, and must notify the company ahead of time of their intention to attend the meeting.

When convening a meeting, the Executive Board may set a date, known as the record date. This is used to determine shareholders' entitlements with regard to their participation and voting rights.

AEGON is a member of the Stichting Communicatie kanaal Aandeelhouders ([www.communicatiekanaal.nl](http://www.communicatiekanaal.nl)), a Dutch foundation dedicated to improving communication between listed companies in the Netherlands and their shareholders and to encouraging greater shareholder participation at general meetings.

Shareholders may use the services of this foundation to vote by proxy. AEGON also solicits proxies from New York registry shareholders in line with common practice in the United States.

#### *Voting*

At the General Meeting, each share carries one vote. However, under certain circumstances<sup>7</sup>, AEGON's largest shareholder, Vereniging AEGON, may cast 25/12 votes for each preferred share. All resolutions are adopted by an absolute majority of votes cast, unless Dutch law or AEGON's Articles of Incorporation stipulate otherwise.

### 6.3 Executive Board

AEGON's Executive Board is charged with the overall management of the company and, as such, is responsible for achieving the company's aims, strategy and associated risk profile, as well as overseeing any relevant corporate sustainability issues and the development of the company's earnings.



- <sup>5</sup> 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 Corporate Governance section of AEGON's website at [www.aegon.com](http://www.aegon.com).
- <sup>6</sup> AEGON's Articles of Incorporation are available on the company's website at [www.aegon.com](http://www.aegon.com).
- <sup>7</sup> For further details, please see page Item 6.5d special control rights.

Each member of the Board has duties related to his or her specific area of expertise. The number of Executive Board members and their terms of employment are determined by the company's Supervisory Board. Executive Board members are appointed by the General Meeting of Shareholders following nomination by the Supervisory Board.

Pension arrangements for Executive Board members are based on a retirement age of 62. Dutch members of the Board have the option of stepping down at the age of 60.

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

AEGON's Executive Board is assisted in its work by the company's Management Board, which comprises six members, including the members of the Executive Board.

#### **6.4 Supervisory Board**

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

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

##### *Committees*

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

The Audit Committee

The Risk Committee

The Compensation Committee

The Nominating Committee.

##### *Composition of the Supervisory Board*

AEGON endeavors to ensure that the composition of the company's Supervisory Board is well balanced. A profile (available at [www.aegon.com](http://www.aegon.com)) has been drawn up outlining the required qualifications of its members. Supervisory Board members are no longer eligible for appointment after the age of 70, unless the Board itself decides to make an exception. Supervisory Board members' remuneration is determined by the General Meeting of Shareholders.

#### **6.5 Exercise of Control**

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

#### **A. CAPITAL STRUCTURE**

AEGON has authorized capital of EUR 610 million, divided into:

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3 billion common shares, each with a par value of EUR 0.12

1 billion class A and class B preferred shares, with a par value of EUR 0.25.

At the end of 2009, a total of 1,736,049,139 common shares and 280,710,000 preferred shares had been issued. These represent respectively 74.8% and 25.2% of AEGON's total issued and fully paid-up capital.

Of AEGON's common shares, approximately 88% were held by institutional investors at the end of 2009, and the remaining 12% by retail shareholders. More than three-quarters of AEGON's shareholders are located in North America, the Netherlands or the United Kingdom—the company's main markets. All preferred shares are held by Vereniging AEGON, the company's largest shareholder.

The capital contribution made by class A preferred shares is a reflection of the market value of AEGON's common shares at the time this contribution was made.

Preferred shares carry the right to a preferred dividend on the paid-in amount. No other dividend is paid on the preferred shares. In the event AEGON is liquidated, the paid-in amount on preferred shares will be reimbursed before any payments on common shares are made.

Each common share carries one vote. However, in line with their higher par value, Vereniging AEGON, the holder of preferred shares, may in certain circumstances carry 25/12, or approximately 2.08, votes per share (please see below for a further explanation). All preferred shares are held by Vereniging Aegon, the company's leading shareholder.

## **B. TRANSFER OF SHARES**

There are no restrictions on the transfer of common shares. As regards the transferability of preferred shares, please refer to clause 10.5 of the Amendment to the 1983 Merger Agreement, available on AEGON's corporate website.

## **C. SIGNIFICANT SHAREHOLDINGS**

Vereniging AEGON, AEGON's largest shareholder, holds:

171,974,055 common shares;

211,680,000 class A preferred shares;

69,030,000 class B preferred shares.

Together, this represents 33% of AEGON's voting capital, given that, as stated above, preferred shares carry multiple voting rights.

In the case of common shares being issued, Vereniging AEGON has the option, under the terms of the 1983 Merger Agreement<sup>8</sup>, to acquire additional class B preferred shares to prevent a dilution of its voting rights, unless, by exercising this option, the association increases its share of voting rights to more than 33%.

To AEGON's knowledge there are no other parties holding a capital or voting interest in AEGON N.V. in excess of the threshold established under Dutch securities law.

## **D. SPECIAL CONTROL RIGHTS**

Under the Preferred Shares Voting Rights Agreement<sup>9</sup>, Vereniging AEGON has voluntarily waived its right to cast 25/12 votes per preferred share, except in the event of a special cause.

These causes include<sup>10</sup>:

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 individually or as a group, other than in a transaction approved by the company's Executive and Supervisory Boards.

If Vereniging AEGON 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 the preferred shares for a period limited to six months. Based on its current shareholding, Vereniging AEGON would, for that limited period, command 33% of the votes at a General Meeting of Shareholders.

As a result of both this and the existence of certain qualified majority voting requirements specified in AEGON's Articles of Incorporation, Vereniging AEGON may effectively be in a position to block unfriendly actions by either a hostile bidder or others for a period of six months. In the absence of a special cause, Vereniging AEGON's share of the company's voting capital represents 22.8%. For more information on

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Vereniging AEGON, please refer to Item 18. Financial Statements in this Annual Report, or the website of Vereniging AEGON ([www.verenigingaeon.nl](http://www.verenigingaeon.nl)).

### **E. 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 18.54 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F. Under the terms of existing share option plans, AEGON cannot influence the exercise of granted rights.

### **F. RESTRICTIONS ON VOTING RIGHTS**

There are no restrictions whatsoever on the exercise of voting rights by holders of common shares, either with regard to the number of votes or the time period in which they may be exercised. The voting rights attached to preferred shares held by Vereniging AEGON, are however subject to restrictions (please see Special Control Rights, above). Depository receipts for AEGON shares are not issued with the company's cooperation.

<sup>8</sup> As amended, please see AEGON's corporate website ([www.aegon.com](http://www.aegon.com))

<sup>9</sup> The Preferred Shares Voting Rights Agreement is published on AEGON's website ([www.aegon.com](http://www.aegon.com)).

<sup>10</sup> These special causes are defined in greater detail in the Preferred Shares Voting Right Agreement, available on AEGON's website ([www.aegon.com](http://www.aegon.com)).

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## **G. SHAREHOLDER AGREEMENTS**

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

## **H. AMENDMENT OF THE ARTICLES OF INCORPORATION**

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

## **I. BOARD APPOINTMENTS**

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

Provisions on appointing Board members were included as part of a broader review of AEGON's corporate governance framework.

They were adopted at an Extraordinary General Meeting of Shareholders on May 9, 2003. Qualified majority voting provisions were included to give AEGON temporary protection against potential unfriendly actions by hostile bidders. Vereniging AEGON, AEGON's largest shareholder, may, in effect, block any hostile attempt to replace the company's Executive or Supervisory Board for a period of up to six months (please see section on Special Control Rights, above).

## **J. SUSPENDING OR DISMISSING BOARD MEMBERS**

Members of AEGON's Supervisory and Executive Boards may only 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 issued capital, unless the suspension or dismissal has first been proposed by the company's Supervisory Board. A member of the Executive Board may also be suspended by the Supervisory Board, though the General Meeting of Shareholders has the power to annul this suspension.

## **K. 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 of course it acts within existing legal requirements. Shareholders usually authorize the Executive Board to acquire the company's shares under terms and conditions determined by the General Meeting of Shareholders.

## **L. SIGNIFICANT AGREEMENTS AND CHANGE OF CONTROL**

AEGON is not party to any significant agreements which may take effect, alter or terminate, conditional on 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).

## **M. SEVERANCE PAYMENTS IN EMPLOYMENT AGREEMENTS**

The employment contracts with current members of the Executive Board contain provisions entitling them to severance payments, should their employment be terminated as the result of a merger or takeover<sup>11</sup>. As part of the capital support transaction agreed with the Dutch State in December 2008, severance payments for members of the Executive Board members are limited to a maximum of one year's fixed salary.

<sup>11</sup> Employment contracts for members of AEGON's Executive Board are available on the company's website ([www.aegon.com](http://www.aegon.com)).

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## 6.6 Dutch Corporate Governance Code

As a company based in the Netherlands, AEGON adheres to the Dutch Corporate Governance Code. AEGON endorses the Code and strongly supports its principles for sound and responsible corporate governance. AEGON regards the Code as an effective means of helping ensure that the interests of all stakeholders are duly represented and taken into account. The Code also promotes transparency in decision-making and helps strengthen the principles of good governance.

The original Code, dated December 2003, was amended in 2008 to take into account proposals put forward by the Monitoring Committee, which oversees the Code. The new, amended Code came into force on January 1, 2009. This review deals with the Dutch Corporate Governance Code in force from that date.

Overseeing AEGON's overall corporate governance structure is the responsibility of both the Supervisory and Executive Boards. Any substantial change to this structure is submitted to the General Meeting of Shareholders for discussion.

Generally, AEGON applies the best practice provisions set out in the Code. For an extensive review of AEGON's compliance with the Code, please refer to the Corporate Governance Statement on AEGON's corporate website ([www.aegon.com](http://www.aegon.com)). A detailed explanation is given below for those instances where AEGON does not fully apply the best practice provisions of the Code. In these few instances, AEGON adheres, as far as possible, to the spirit of the Code.

Code II.2.8: For members of the Executive Board the Dutch Corporate Governance Code recommends that the maximum compensation in the event of dismissal should be one year's salary, or two years' salary for cases when one year's salary would be manifestly unreasonable for a member who is dismissed in his or her first term of office.

### **AEGON's position**

AEGON is committed to applying this best practice provision to all new Executive Board appointments. In accordance with the capital transaction concluded with the Dutch State on December 1, 2008, the more favorable severance payment arrangements in CEO Alex Wynaendts' employment agreement have been waived and exit arrangements limited to a maximum of one year's fixed salary. As a result, AEGON is currently in full compliance with this provision. Details of Executive Board members' employment contracts may be found on AEGON's corporate website.

Code II.3.3: The Code recommends that a member of the Executive Board should not take part in discussions or decision-making related to a subject or a transaction in which he or she has a conflict of interest.

### **AEGON's position**

AEGON's CEO and CFO are members of the Executive Committee of the company's largest shareholder, Vereniging AEGON. This may be construed as a conflict of interest. However, under Vereniging AEGON's Articles of Association, AEGON's CEO and CFO are specifically excluded from voting on issues directly related to AEGON or their position within it. AEGON's Supervisory Board holds the view that, given the historic relationship between AEGON and Vereniging AEGON, it would not be in the company's best interests to prevent their participating in discussions and decision-making related to Vereniging AEGON.

For this reason, a protocol has been drawn up authorizing the CEO and CFO to continue their existing practice with respect to their dealings with Vereniging AEGON. The text of this protocol is available on AEGON's website.

Code III.3.5: The Code states that members of the Supervisory Board may be appointed for a maximum of three four-year terms.

### **AEGON's position**

In 2009, Dudley Eustace, Chairman of AEGON's Supervisory Board, was asked to remain in office for a further year despite having served the maximum term allowed by the Code. It was felt that Mr. Eustace's considerable experience would be invaluable at a time when a number of members had only recently joined the Supervisory Board. At the General Meeting of Shareholders on April 22, 2009, it was therefore decided to reappoint Mr. Eustace for one more year.



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**

AEGON s Articles of Incorporation provide for a larger majority and a higher quorum than those advocated by the Code. Given that the company has no specific antitakeover 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.

## **6.7 Executive Board**

### **i Members**

#### **Alexander R. Wynaendts (1960, Dutch)**

##### **Chief Executive Officer**

##### **Chairman of the Executive Board**

##### **Chairman of the Management Board**

Alex Wynaendts began his career in 1985 with ABN Amro, 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 Board. Mr. Wynaendts also has responsibility asset management, and AEGON's operations in Asia-Pacific.

#### **Jan J. Nooitgedagt (1953, Dutch)**

##### **Chief Financial Officer**

##### **Member of the Executive Board**

##### **Member of the Management Board**

Jan Nooitgedagt has worked in Europe's financial services sector for almost 30 years. Formerly with PriceWaterhouseCoopers, he joined Ernst & Young in 1980, becoming a partner in the firm in 1989. Mr. Nooitgedagt headed Ernst & Young's financial services business in the Netherlands for five years until his appointment in 2005 to the firm's Executive Committee. A year later, Mr. Nooitgedagt was appointed Chairman of Ernst & Young in the Netherlands and became Managing Partner for the Netherlands and Belgium in July 2008. He was appointed AEGON's Chief Financial Officer in April 2009.

**ii Ownership of AEGON N.V. shares**

At December 31, 2009, members of the Executive Board held an aggregate number of 44,210 AEGON common shares and 184,974 options and share appreciation rights on AEGON common shares. Refer to Note 18.50 of the notes to our consolidated financial statements in Item 18 of this Annual Report on Form 20-F.

	Grant date	Number of rights/options per January 1, 2009	Number of rights /options vested in 2009	Number of rights /options exercised in 2009	Number of rights/options expired/ forfeited in 2009	Number of rights/options per Dec. 31, 2009	Number of exercisable rights/options	Exercise price EUR	Shares held in AEGON at Dec. 31, 2009
Alexander R. Wynaendts	10-Mar-02	40,000 <sup>1</sup>			40,000			26.70	
	10-Mar-03	50,000 <sup>1</sup>				50,000	50,000	6.30	
	16-Mar-04	50,000				50,000	50,000	10.56	
	22-Apr-05	34,132				34,132	34,132	9.91	
	26-Apr-06		50,842						