

AEGON NV  
Form 20-F  
March 23, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F**

(Mark One)

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

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2011**

**OR**

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

**OR**

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

**AEGON N.V.**  
**(Exact name of Registrant as specified in its charter)**

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**Not Applicable**  
(Translation of Registrant's name into English)

**The Netherlands**  
(Jurisdiction of incorporation or organization)

**AEGONplein 50, PO Box 85, 2501 CB The Hague, The Netherlands**  
(Address of principal executive offices)

**C. Michiel van Katwijk**

**Executive Vice-President**

**AEGON N.V.**

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

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

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<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common shares, par value EUR 0.12 per share Securities registered or to be registered pursuant to Section 12(g) of the Act.	New York Stock Exchange

**Not applicable**  
(Title of Class)

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

**Not applicable**  
(Title of Class)

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

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

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

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

Large accelerated filer       Accelerated filer       Non-accelerated filer

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

U.S. GAAP       International Financial Reporting Standards as issued       Other

by the 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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**INTRODUCTION**

**FILING**

This document contains AEGON's Annual Report 2011 and will also be filed as AEGON's Annual Report on Form 20-F with the United States Securities and Exchange Commission (SEC).

**PRESENTATION OF CERTAIN INFORMATION**

AEGON N.V. is referred to in this document as AEGON, , or the company. AEGON N.V. together with its member companies are 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 document, 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, 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.

**ABOUT THIS REPORT**

This report serves as the Annual Report in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), with IFRS as issued by the International Accounting Standards Board (IASB), with Part 9 of Book 2 of the Netherlands Civil Code and as the Annual Report on Form 20-F as filed with the US Securities and Exchange Commission for the year ended December 31, 2011, for AEGON N.V. (the company) and its subsidiaries (collectively known as AEGON). This report presents the Consolidated Financial Statements of AEGON (pages 132-311) and Parent Company Financial Statements of AEGON (pages 312-325). Cross references to the prescribed sections of the Annual Report Form on 20-F are set out on pages 344 and 345 of this Annual Report.

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4 / LETTER OF THE CEO

**Alex Wynaendts, CEO**

**FULFILLING PROMISES**

No single factor is more critical to the success of a financial services company than the trust of its customers. At AEGON, we regard the trust and confidence of those who rely on us to help them take responsibility for their financial security as both a measure of our performance and the strength of our potential. In what continues to be a time of considerable economic uncertainty, we are committed to providing our customers reliable solutions that address the full range of financial security needs at every stage of life and for an increasingly longer retirement. This is both our mission and promise.

The severe economic crises that confronted the euro zone during 2011 forced governments to adopt drastic fiscal austerity measures, further undermining consumer confidence and dimming prospects for growth in the near-term. At the same time, in AEGON's largest market—the United States—economic recovery has been slow, with conditions improving in the last quarter of the year. The resulting historically low interest rate environment continues to pose particular challenges for our business. Despite these adverse factors, however, I am pleased to report that we achieved meaningful progress in delivering on AEGON's strategic priorities, not least of which was the full repurchase of the capital provided by the Dutch State in 2008. Our ability to fulfill this key objective—and within the time frame promised—is clear evidence that our strategy is delivering its intended results. Moreover, AEGON's continued strong balance sheet has enabled us to reaffirm our intention to propose a dividend to common shareholders related to the second half of 2011.

Over the past year, we pursued a broad range of actions to realign our operations to the new realities of today's environment and enable us to fully exploit the substantial opportunities for our core businesses of life insurance, pensions and asset management. These actions reflect our focus on four strategic areas that are critical to AEGON's long-term success.

In our efforts to fully Optimize our Portfolio, we completed the divestiture of AEGON's life reinsurance business, Transamerica Reinsurance, as well as the sale of Guardian, a closed book of life insurance business in the United Kingdom.

The reorganization of our operations in the United States that began in 2009 is now complete with the consolidation of 12 divisions into three core operating divisions. Going forward in the UK, we are well-positioned to capture new growth opportunities arising from changes in consumer trends and market developments. An essential component of our strategy is to expand in those markets that offer strong growth and high returns given favorable demographics as well as political and economic developments. This is why we have established a new regional headquarters in Hong Kong. Our new team there is now responsible for coordinating AEGON's activities throughout Asia and fully leveraging our capabilities to support our ambitions in China, Japan and India, as well as in our other Asian markets. In India we have been the first to introduce direct sales with the development of a new online life insurance product known as iTerm. This is an example of how we are exploiting innovation and technology to serve the growing demand for life insurance in this important emerging market for AEGON. We are also focused on capturing opportunities throughout the Central & Eastern Europe region where our businesses in Hungary, Poland and Turkey, in particular, are delivering strong results. Similarly, Latin America is a key market for AEGON where we are pursuing growth in Brazil through our partnership, Mongeral AEGON.

Our second key strategic objective is to Enhance Customer Loyalty. In every market around the world, individuals and families increasingly realize that their financial security depends on the decisions they make to build and protect their assets. As such, we are committed to providing simpler, more transparent products and high quality services.



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In order to track our progress, we have introduced a measurement tool known as Net Promoter Score which will enable us to measure more consistently our efforts to increase customer loyalty across our businesses. Recognizing the role which a strong brand plays in strengthening customer preference, a new multimedia campaign to reposition our lead retail brand in the United States *Transamerica* was launched during the year. The underlying premise of the campaign is to highlight our strong expertise in helping customers achieve their financial goals and longer-term ambitions. All of these efforts support our aim to establish an ongoing relationship with our customers, while also enhancing AEGON's competitive advantages.

Our commitment to fulfilling AEGON's third strategic priority *Delivering Operational Excellence* has been demonstrated over the past year by achieving substantial cost and operational efficiencies. In the United Kingdom, we achieved our 2011 target to reduce the overall cost base of operations by GBP 80 million, resulting in a more streamlined and focused organization. Supporting our aim to create a more responsive and efficient organization in the Netherlands, we implemented a significant restructuring program that will reduce costs by EUR 100 million – the majority of which will be realized in 2012. In the Dutch market, AEGON is a leading provider of pension products, and we aim to further solidify our position to capture opportunities arising in the market.

Reducing costs represents one aspect of how we are improving our operations; making critical investments for the future represents an equally important aspect. In our operations globally, we are investing in new web-based technology to enable us to deliver a broader range of retirement and savings products as well as facilitating greater ease of interaction for our customers. Also during past year, we established AEGON Global Technology (AGT) to leverage our investments in IT infrastructure for the benefit of all of AEGON's operations in Europe, the Americas and Asia.

Our fourth strategic objective *Empowering Employees* represents the most critical factor in our aim to differentiate AEGON. What we do and how we do it are the determining factors in our current and future success. This is why we are introducing new talent management programs to ensure that we attract the most promising individuals to lead and support our business. It is then our aim to retain them, enhance their capabilities and support them in helping our customers achieve financial security. Ensuring a more effective performance management approach across AEGON, management incentives have been aligned with our key strategic objectives.

AEGON is a company significantly transformed. We have taken decisive steps to ensure that our businesses continue to adapt and grow in today's rapidly changing environment. AEGON today is a much stronger company, both from a financial and operational point of view. We have substantially reduced our exposure to the volatility of financial markets while creating a more focused and efficient organization. Consequently, we are well-positioned to leverage our considerable expertise and resources for the benefit of our customers, business partners, employees and shareholders.

On behalf of the entire Management Board, I wish to express our gratitude to AEGON's dedicated employees who have made possible the progress highlighted in this report. I also thank our many shareholders and other stakeholders whose confidence is essential as we work to deliver the sustainable value which they have every reason to expect.

**Alex Wynaendts**  
Chief Executive Officer and Chairman

of the Executive Board of AEGON N.V.

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**COMPOSITION OF THE EXECUTIVE BOARD AND THE MANAGEMENT BOARD**

**ALEXANDER R. WYNAENDTS (1960, DUTCH)**

Chief Executive Officer

Chairman of the Executive Board

Chairman of the Management Board

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

**MARK MULLIN (1963, US CITIZEN)**

Member of the Management Board

Chief Executive Officer of AEGON Americas

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

**MARCO B.A. KEIM (1962, DUTCH)**

Member of the Management Board

Chief Executive Officer of AEGON The Netherlands

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

**JAN J. NOOITGEDAGT (1953, DUTCH)**

Chief Financial Officer

Member of the Executive Board

Member of the Management Board

Jan Nooitgedagt has worked in Europe's financial services sector for over 30 years. Formerly with PWC, he joined Ernst & Young in 1980, becoming a partner in the firm in 1989. Mr. Nooitgedagt headed Ernst & Young's financial services business in the Netherlands for five years until his appointment in 2005 to the firm's Executive Committee. A year later, Mr. Nooitgedagt was appointed Chairman of Ernst & Young in the Netherlands and became Managing Partner for the Netherlands and Belgium in July 2008. He was appointed member of AEGON's Executive

Board and Chief Financial Officer in April 2009.

**GÁBOR KEPECS (1954, HUNGARIAN)**

Member of the Management Board

Chief Executive Officer of AEGON Central & Eastern Europe

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

**ADRIAN GRACE (1963, BRITISH)**

Member of the Management Board

Chief Executive Officer of AEGON UK

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

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**AEGON'S STRATEGY**

AEGON is one of the world's leading providers of life insurance, pensions and asset management, with businesses in more than 20 countries in the Americas, Europe and Asia. AEGON employs over 25,000 people, who serve nearly 47 million customers and carries EUR 424 billion in revenue-generating investments.

The year 2011 was one of transformation for AEGON as its businesses continued to carry out significant restructuring programs to achieve greater operational and cost efficiencies and further sharpen the company's focus on its core businesses—life insurance, pensions and asset management. And continuing forward, the company is increasing efficiency by encouraging innovation, and focusing even more on providing products and services that serve its customers' changing needs.

**COMPLETION OF CAPITAL REPURCHASE FROM THE DUTCH STATE**

In June 2011, AEGON completed a key strategic priority—the full repurchase of the capital AEGON received from the Dutch State at the height of the financial crisis in 2008. The amount AEGON repaid totaled EUR 4.1 billion. Of this amount, EUR 3 billion covered the repurchase of the original issue of convertible core capital securities, while an additional EUR 1.1 billion was paid in premium and interest. With the repurchase completed, AEGON has now even more focus on achieving sustainable profitable growth with a substantially improved risk-return profile.

**MARKET CONDITIONS**

After a relatively positive start, the macroeconomic environment deteriorated significantly over the course of 2011. US economic growth was lower than previously expected. Economic growth in Europe was mixed, but in general was negatively impacted by a deepening of the sovereign debt crisis. Growth in the emerging markets of Asia and Latin America continued to be strong. In Central & Eastern Europe, the picture remained mixed with Poland experiencing strong growth and Hungary showing generally weak performance.

The differences in the growth profiles of the United States and Europe is reflected in the development of the main equity indices. In general, equity markets were negatively impacted by the earthquake in Japan in March, and by the worsening macroeconomic sentiment in July and August. Toward the end of the year, the US and main European indices strengthened. The S&P 500 closed the year at around the same level as it started. The FTSE ended slightly lower and the main continental European indices ended considerably lower. Equity volatility spiked in the third quarter and edged down again towards the end of the year.

Interest rates developments also differed. Safe haven countries (mainly the United States, Germany and the Netherlands) experienced a significant drop in long-term interest rates. At the end of the third quarter, 10-year interest rates dropped to below 2%, compared to around 3% at the start of 2011. At the same time, interest rates spreads of the pressured euro zone countries in relation to German bonds increased significantly. Greece and Portugal showed by far the largest spread increases. In the course of the year, Italy and, to a lesser degree France, also came under pressure. The spread of the crisis to Italy occurred more or less in line with a weakening of the euro versus the US dollar. Over the first four months of 2011, the euro strengthened against the US dollar from 1.33 to 1.49, after which it weakened to 1.30 at year-end.

The worsening economic environment also had an impact on corporate spreads. After initially trending down, corporate spreads increased strongly and remained elevated at year-end. The spreads rose to around 2002 recession levels, but remained clearly lower than the 2008 levels.

2012 began with some positive consumer confidence indicators and other favorable macroeconomic data, while equity markets continued to strengthen. However, in general the outlook for the year remains weak and there continues to be considerable economic uncertainty. Economic growth for the United States is expected to remain weak, but shows a positive trend. A shallow recession is expected for the euro zone. The actual outcome will be dependent on the development of the sovereign debt crisis, and as such, could be worse if the crisis deepens further.

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The difficult market environment and the persistently low interest rates in particular, had a negative impact on AEGON's sales and value of new business. On the other hand, the drop in interest rates had a positive effect on the revaluation reserve, as did the strengthening of the US dollar versus the euro. Nevertheless, the low interest rate environment will remain a challenge going forward. AEGON's exposure to peripheral European countries was reduced further during 2011, totaling 3% of AEGON's general account.

**LONG-TERM INDUSTRY TRENDS**

The financial crisis that began in 2008 brought a shift in financial market and economic conditions. AEGON initially focused on measures designed to combat the effects of the financial crisis. The company transformed its approach, strengthening its balance sheet, lowering costs and significantly improving its overall risk-return profile. These measures enabled AEGON to emerge from the financial crisis in a sound financial position and further positioned its businesses to withstand the continued turmoil throughout 2011.

The insurance and pensions industry is continuing to go through a period of significant change. AEGON's opportunity and challenge is to understand the nature of this change, and respond effectively in each of its markets. The industry also faces the challenge of further reforms to financial regulations and capital adequacy requirements.

There are several factors creating significant growth potential for AEGON's businesses:

In many countries, people are living longer, healthier lives. People are spending longer in retirement than before, and there is a growing demand for life insurance, private pensions and long-term investment products.

Working populations in many countries are shrinking. This means that there are fewer economically active people to fund traditional pay-as-you-go state pensions. As a result, governments, particularly in Western Europe, are under pressure to reform pension systems. At the same time, individuals are increasingly relying on private sector providers to help them finance their retirement. The private sector providers are well positioned to provide this service. However, they do have to face the challenge of low interest rates and low and volatile equity market returns.

Emerging markets are becoming more important. Economic growth and political reform have opened up new markets in Central & Eastern Europe, Asia and Latin America. In these markets, a new and ambitious middle class is emerging, and with it a rise in demand for life insurance, pensions and asset management products and services. The potential of these markets is substantial. China and India account for 40% of the world's population, but currently only 8% of the global life insurance market. The regulatory environment is one of the challenges of operating in these markets.

Distribution patterns are changing due to new technology and new laws and changes in regulatory environment. Customers are increasingly using the Internet and social media to locate and purchase financial services. In some countries, this has led to the emergence of new competitors using online distribution models, or non-traditional suppliers such as supermarkets and retailers. Established providers are under increasing pressure to reduce costs and adapt their systems of distribution.

Customer behavior is also changing. Customers are more aware of financial risk and they want simpler, more transparent products with clear guarantees. At the same time, public trust in the financial sector has diminished. In response, governments are introducing new regulations to protect consumers. The industry is responding by becoming more customer-centric.

**AEGON'S STRATEGY**

AEGON's ambition is to become a leader in all its chosen markets by 2015. This means becoming the most recommended life and pensions provider among customers, the preferred partner among distributors and the employer of choice for both current and prospective employees.

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In order to achieve its ambition, AEGON has defined four strategic areas of focus which it regards as essential to positioning its businesses for the growth opportunities it has identified in each of its markets:

**Optimize Portfolio** Focus on those businesses that reflect AEGON's core expertise and which adhere to AEGON's risk and return requirements.

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

**Deliver Operational Excellence** Fully leverage AEGON's significant expertise and resources across the organization; investing in technology to drive innovation and enable cost and operational efficiencies.

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

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During 2011, AEGON made clear progress with each of these key strategic objectives:

**OPTIMIZE PORTFOLIO**

AEGON completed the divestment of its life reinsurance business, Transamerica Reinsurance, to SCOR, the French reinsurance company, on August 9, 2011.

AEGON completed on November 24, 2011, the sale of Guardian, a UK-based life and pensions company that had been closed to new business since 2001.

In moves to increase the earnings derived from fee-based business, instead of spread-based business, AEGON achieved substantial growth in its retirement related products and services in the United States, including its strong variable annuity business.

**ENHANCE CUSTOMER LOYALTY**

In order to ensure that AEGON's businesses fully understand the developing needs of their customers, and regularly measure customer loyalty on a consistent basis, several of AEGON's businesses have adopted the Net Promoter Score (NPS) measurement system.

In the United States, AEGON's prominent retail brand, Transamerica, introduced a refreshed brand campaign, asserting its new positioning as the Tomorrow Makers. All of AEGON's US retail operations have now been brought together under the Transamerica brand.

With a focus on creating a new culture of innovation, AEGON's senior leaders have committed to identifying ways to leverage best practices in the areas of product development, online distribution, and technology.

AEGON rebranded its asset management business in the United Kingdom to Kames Capital in order to enhance distinctive third party proposition in the marketplace.

AEGON Religare in India launched the first online life insurance product in the country iTerm.

**DELIVER OPERATIONAL EXCELLENCE**

AEGON achieved its target to reduce costs in its operations in the United Kingdom by 25%, in order to improve returns, with GBP 80 million in cost reductions during 2011.

With the aim of creating a more focused and efficient organization in the Netherlands, AEGON initiated a major transformation program within AEGON The Netherlands, targeting EUR 100 million in cost reductions by 2013.

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AEGON in the United States continued its restructuring program, during the course of 2011, consolidating a number of operations and functions to create greater cost and operational efficiencies. These included the consolidation of its Louisville, Kentucky, office with two operations in Baltimore, Maryland.

AEGON Global Technology was formed to leverage IT investments, share best practices, and capture cost efficiencies. The European data center that was formed to coordinate the IT operations of AEGON's European businesses was made part of this new global IT organization.

### **EMPOWER EMPLOYEES**

Management incentives across AEGON's businesses have been aligned with clear performance targets.

AEGON has introduced a more structured, global approach for identifying, supporting and retaining the company's top talent.

AEGON has redesigned its leadership program known as AEGON University in cooperation with Duke Corporate Education of Duke University in the United States, ranked number one globally by the Financial Times and Business Week as a provider of custom executive education.

AEGON's global Employee Survey, resulted in 78% participation rate among employees internationally, and actions to address responses are being implemented on all business levels into 2012.

### **SUSTAINABILITY**

AEGON believes it makes a valuable contribution to society both as a provider of long-term financial products and services and as a responsible employer and investor. The company's approach to sustainability is based on two main considerations:

Responsible management of resources, whether financial, human or material resources.

Active engagement with the company's leading stakeholder groups – customers, business partners and distributors, employees, investors and the wider communities in which AEGON operates.

Sustainability is at the heart of AEGON's approach to business, its brand and values, as well as the company's four strategic priorities: Optimize Portfolio, Enhance Customers Loyalty, Deliver Operational Excellence, and Empower Employees. AEGON's key objective is to create a sustainable, profitable business by forging long-term relationships with its customers, and helping them build secure financial futures for themselves and their families.



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### **GOVERNANCE**

AEGON's Group Sustainability department is based in The Hague. This department is responsible for the company's policies and initiatives in this area, and coordinates the work of those managers responsible for sustainability at the company's individual country and operating units. The Global Head of Sustainability reports directly to AEGON's CEO and to the Management Board member responsible for sustainability issues. Questions of strategy and policy are subject to approval by AEGON's Executive and Management Boards. Sustainability is also regularly discussed by the company's Supervisory Board.

### **INTERNATIONAL COMMITMENTS AND INTERNAL POLICIES**

As part of its approach, AEGON has a number of international commitments with regard to sustainability reporting, environmental standards and responsible investment. AEGON is a signatory to both the United Nations Principles for Responsible Investment (UNPRI) and the Carbon Disclosure Project (CDP). The company is also an organizational stakeholder of the Global Reporting Initiative (GRI), which provides a common framework for sustainability and other non-financial reporting. AEGON has additional internal policies in this area, including a company-wide human rights policy, a statement on diversity and non-discrimination and a policy on responsible investment. AEGON is also a member of both the FTSE4Good index and the Dow Jones Sustainability World Index.

### **HIGHLIGHTS FROM 2011**

In 2011, AEGON took a number of important steps to strengthen its sustainability performance, particularly in customer loyalty, employee engagement and responsible investment.

AEGON became a founding member of the Global Coalition on Aging, an alliance of international companies formed to raise awareness of the social, economic and financial impact of global aging.

AEGON announced a target to reduce emissions of carbon dioxide from its main office buildings in the United States, the Netherlands and the United Kingdom by 10% over a three-year period from 2009 through 2012.

AEGON grouped together the company's North American businesses under a common brand name, Transamerica, as part of efforts to create a stronger, more consistent global brand portfolio.

AEGON organized a global Employee Survey, which was completed by nearly 17,000 employees worldwide.

AEGON launched a new policy on responsible investment, outlining environmental, social and governance standards for the company's investments.

AEGON updated its Code of Conduct to incorporate the company's renewed values and the latest developments in insurance and pension regulations.

AEGON adopted the Net Promoter Score (NPS) as its preferred measurement for customer loyalty, and extended the use of NPS to 55% of its businesses worldwide by the end of 2011.

### **PLANS FOR 2012**

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AEGON has set out several focus points for its sustainability strategy in 2012. Each of these builds on progress already achieved in 2011:

The development of key indicators to track the performance of the company's brand.

The extension of NPS to at least 70% of AEGON's businesses worldwide.

The roll-out of action plans, based on results from the 2011 global Employee Survey, to improve employee engagement throughout the company.

The extensions of AEGON's talent review to other levels of management within the company.

An assessment of AEGON's leading suppliers to identify possible environmental, governance or social risks as part of a more integrated approach to supply chain management.

For more information on AEGON's approach to sustainability, please see the company's 2011 Review, available at [www.aegon.com](http://www.aegon.com).

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**BUSINESS OVERVIEW**

**HISTORY AND DEVELOPMENT OF AEGON**

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 1800s.

AEGON N.V., through its member companies that are collectively referred to as AEGON or the AEGON Group, is an international life insurance, pensions and asset management company. AEGON is headquartered in the Netherlands and employs, through its subsidiaries, over 25,000 people worldwide. AEGON's common shares are listed on stock exchanges in Amsterdam (NYSE Euronext), New York (NYSE) and London (LSE).

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

The main operating units of AEGON are separate legal entities organized under the laws of their respective countries. The shares of those legal entities are directly or indirectly held by 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 serves as a holding company for the Group companies of all countries except the Netherlands and AEGON Asset Management.

AEGON's main markets are the United States, the Netherlands and the United Kingdom. AEGON operates in more than 20 countries in the Americas, Europe and Asia, serving about 47 million customers.

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

AEGON has the following reportable geographic segments: the Americas (which include the United States, Canada, Mexico and Brazil), the Netherlands, the United Kingdom and New Markets, which includes Central & Eastern Europe, Asia, Spain, France, Variable Annuities Europe and AEGON Asset Management.

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12 BUSINESS OVERVIEW / SELECTED FINANCIAL DATA

**SELECTED FINANCIAL DATA**

The business-results reviews is based upon AEGON's consolidated financial statements, which have been 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).

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.

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

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, 2011.

**Selected consolidated income statement information**

In million EUR (except per share amount)	2011	2010	2009	2008	2007
<b>Amounts based upon IFRS</b>					
Premium income	19,521	21,097	19,473	22,409	26,900
Investment income	8,167	8,762	8,681	9,965	10,457
Total revenues <sup>1</sup>	29,159	31,608	29,751	34,082	39,271
Income/(loss) before tax	916	1,914	(464)	(1,061)	3,077
<b>NET INCOME/ (LOSS)</b>	<b>872</b>	<b>1,760</b>	<b>204</b>	<b>(1,082)</b>	<b>2,551</b>
<b>Earnings per common share<sup>2</sup></b>					
Basic	(0.06)	0.76	(0.16)	(0.92)	1.47
Earnings per share, excluding premium on convertible core capital securities	0.34	0.86	(0.09)	(0.92)	1.47
Diluted	(0.06)	0.68	(0.16)	(0.92)	1.47

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

<sup>2</sup> Earnings reflect net income.

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, 2011. Diluted per share data gives effect to all dilutive securities.

**Selected consolidated balance sheet information**

In million EUR (except per share amount)	2011	2010	2009	2008	2007
<b>Amounts based upon IFRS</b>					
Total assets	345,577	332,222	298,540	289,156	314,227
Insurance and investment contracts	270,880	270,920	248,903	240,030	266,735

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Trust pass-through securities and (subordinated) borrowings <sup>1</sup>	10,040	8,604	7,314	4,824	5,152
Shareholders' equity	21,000	17,328	12,273	6,169	15,258

<sup>1</sup> Excludes bank overdrafts.

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**Number of common shares**

(in thousands)	2011	2010	2009	2008	2007
Balance at January 1	1,736,049	1,736,049	1,578,227	1,636,545	1,622,927
Share issuance	173,605		157,822		
Stock dividends				41,452	25,218
Share withdrawal				(99,770)	(11,600)
<b>BALANCE AT END OF PERIOD</b>	<b>1,909,654</b>	<b>1,736,049</b>	<b>1,736,049</b>	<b>1,578,227</b>	<b>1,636,545</b>

**DIVIDENDS**

AEGON declared interim and final dividends for the years 2006 through 2008 in the amounts set forth in the table below. AEGON paid no dividend in 2009 or 2010. At the annual General Meeting of Shareholders on May 16, 2012, the Executive Board will, absent unforeseen circumstances, propose a final dividend of EUR 0.10 per common share related to the second half of 2011. Dividends in US dollars are calculated based on the foreign exchange reference rate (the rate as published each working day at 14:15 hours by the European Central Bank) on the business day following the announcement of the interim dividend or on the business day following the 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
2007	0.30	0.32	0.62	0.41	0.50	0.91
2008	0.30		0.30	0.45		0.45
2009						
2010						
2011			0.10 <sup>2</sup>			

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

<sup>2</sup> Proposed.

The annual dividend on our class A and class B preferred shares is calculated on the basis of the paid-in capital on the preferred shares using a rate equal to the European Central Bank's fixed interest percentage for basic refinancing transactions plus 1.75%, as determined on NYSE Euronext Amsterdam's first working day of the financial year to which the dividend relates. Apart from this, no other dividend is paid on the preferred shares. This resulted in a rate of 2.75% for the year 2010. Applying this rate to the weighted average paid-in capital of our preferred shares during 2010, the total amount of annual distributions we made in 2011 on our preferred shares for the year 2010 was EUR 59 million.

The rate for annual dividends or distributions, if any, on preferred shares to be made in 2012 for the year 2011, as determined on January 1, 2011 is 2.75% and the annual dividends or distributions, if any, on preferred shares for the year 2011, based on the weighted average paid-in capital on the preferred shares during 2011 will be EUR 59 million.

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**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 NYSE 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 2, 2012 the USD exchange rate 1 was EUR 1 = USD 1.3202.

The high and low exchange rates 1 for the US dollar per euro for each of the last six months through February 2012 are set forth below:

	Sept. 2011	Oct. 2011	Nov. 2011	Dec. 2011	Jan. 2012	Feb. 2012
High (USD per EUR)	1.4283	1.4172	1.3803	1.3487	1.3192	1.3463
Low (USD per EUR)	1.3446	1.3281	1.3244	1.2926	1.2682	1.3087

The average exchange rates <sup>1</sup> for the US dollar per euro for the five years ended December 31, 2011, calculated by using the average of the exchange rates on the last day of each month during the period, are set forth below:

<b>Year ended December 31,</b>	<b>Average rate</b>
2007	1.3797
2008	1.4695
2009	1.3955
2010	1.3216
2011	1.2973

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

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**LINES OF BUSINESSES**

**AMERICAS**

Includes AEGON's business and operating units in the United States, Canada, Mexico and Brazil.

**Life and protection**

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

**Individual savings and retirement products**

Primarily fixed and variable annuity products and retail mutual funds.

**Employer solutions and pensions**

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

**Life reinsurance**

Includes business written by AEGON's subsidiary, Transamerica Reinsurance, until August 9, 2011 after which it has been divested.

**THE NETHERLANDS**

**Life and savings**

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

**Pensions**

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

**Distribution**

Includes commissions earned by AEGON's Unirobe Meeùs distribution business.



**Non-life insurance**

General insurance, including mainly automotive, liability and household insurance and fire protection.

**UNITED KINGDOM**

**Life**

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

**Pensions**

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

**Distribution**

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

**NEW MARKETS**

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

**Central & Eastern Europe**

Active in six countries: Czech Republic, Hungary, Poland, Romania, Slovakia and Turkey. Includes life insurance, individual and group pension products, savings and investments, as well as general insurance.

**Spain**

Distribution partnerships with leading Spanish savings banks. Products include life insurance and investment products.

**France**

Partnership with French insurer and pension specialist AG2R La Mondiale.

**Asia**

Joint ventures in China, India and Japan. Products include life insurance in China and India and variable annuities in Japan.

**Variable Annuities Europe**

Variable annuities offered by AEGON operating companies in Europe.

**AEGON Asset Management**

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

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**RESULTS OF OPERATIONS****RESULTS 2011 WORLDWIDE****Underlying earnings geographically**

Amounts in EUR million	2011	2010	%
Americas	1,310	1,459	(10%)
The Netherlands	298	385	(23%)
United Kingdom	5	72	(93%)
New markets	212	200	6%
Holdings and other activities	(303)	(283)	(7%)
<b>UNDERLYING EARNINGS BEFORE TAX</b>	<b>1,522</b>	<b>1,833</b>	<b>(17%)</b>
Net fair value items	(416)	221	
Gains / (losses) on investments	446	658	(32%)
Impairment charges	(388)	(452)	14%
Other income / (charges)	(267)	(309)	14%
Run-off businesses	28	(26)	
<b>Income before tax (excluding income tax from certain proportionately consolidated associates)</b>	<b>925</b>	<b>1,925</b>	<b>(52%)</b>
<i>Income tax from certain proportionately consolidated associates included in income before tax</i>	9	11	(18%)
Income tax	(53)	(165)	68%
<i>Of which income tax from certain proportionately consolidated associates</i>	(9)	(11)	18%
<b>NET INCOME</b>	<b>872</b>	<b>1,760</b>	<b>(50%)</b>
<b>Net underlying earnings</b>	<b>1,233</b>	<b>1,417</b>	<b>(13%)</b>
Commissions and expenses	6,272	6,145	2%
Of which operating expenses	3,442	3,397	1%

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

AEGON's senior management is compensated based in part on AEGON's results against targets using the non-IFRS measure presented herein. While many other insurers in AEGON's peer group present substantially similar non-IFRS measures, the non-IFRS measure presented in this document may nevertheless differ from the non-IFRS measures presented by other insurers. There is no standardized meaning to these measures under IFRS or any other recognized set of accounting standards and readers are cautioned to consider carefully the different ways in which AEGON and its peers present similar information before comparing them.

AEGON believes the non-IFRS measure shown herein, when read together with AEGON's reported IFRS financial statements, provides meaningful supplemental information for the investing public to evaluate AEGON's business after eliminating the impact of current IFRS accounting policies for financial instruments and insurance contracts, which embed a number of accounting policy alternatives that companies

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may select in presenting their results (i.e. companies can use different local GAAPs) and that can make the comparability from period to period difficult.

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**New life sales**

Amounts in EUR million	2011	2010	%
Americas	446	497	(10%)
The Netherlands	254	248	2%
United Kingdom	852	1,061	(20%)
New markets	283	275	3%
<b>TOTAL LIFE PRODUCTION</b>	<b>1,835</b>	<b>2,081</b>	<b>(12%)</b>

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

Amounts in EUR million	2011	2010	%
Americas	23,028	21,018	10%
The Netherlands	2,048	2,382	(14%)
United Kingdom	56	96	(42%)
New markets	6,556	9,082	(28%)
<b>TOTAL GROSS DEPOSITS</b>	<b>31,688</b>	<b>32,578</b>	<b>(3%)</b>

**Worldwide revenues geographically 2011**

Amounts in EUR million	Americas	The Netherlands	United Kingdom	New Markets	Holdings, other activities and eliminations	Total	Associates eliminations	Total
Total life insurance gross premiums	6,232	3,213	6,474	1,317		17,236	(383)	16,853
Accident and health insurance premiums	1,780	216		71		2,067		2,067
General insurance premiums		452		149		601		601
<b>Total gross premiums</b>	<b>8,012</b>	<b>3,881</b>	<b>6,474</b>	<b>1,537</b>		<b>19,904</b>	<b>(383)</b>	<b>19,521</b>
Investment income	3,638	2,192	2,154	247	7	8,238	(70)	8,168
Fees and commission income	749	329	137	464	(215)	1,464		1,464
Other revenues	1			1	4	6		6
<b>TOTAL REVENUES</b>	<b>12,400</b>	<b>6,402</b>	<b>8,765</b>	<b>2,249</b>	<b>(204)</b>	<b>29,612</b>	<b>(453)</b>	<b>29,159</b>

Number of employees, including agent-employees	12,547	4,839	3,203	8,354	327	29,270	(3,982)	25,288
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**By product segment**

Amounts in EUR million	2011	2010	%
Life	945	1,048	(10%)
Individual Savings and Retirement	474	500	(5%)

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Pensions	254	409	(38%)
Non-life	51	53	(4%)
Distribution		10	
Asset management	60	46	30%
Other	(303)	(283)	(7%)
Associates	41	50	(18%)
<b>UNDERLYING EARNINGS BEFORE TAX</b>	<b>1,522</b>	<b>1,833</b>	<b>(17%)</b>

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**RESULTS 2011 WORLDWIDE**

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

**NET INCOME**

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

**UNDERLYING EARNINGS BEFORE TAX**

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

Underlying earnings before tax in the Americas decreased 5% to USD 1,823 million. Earnings from Life & Protection decreased mainly as a result of unfavorable persistency and lower spreads. Individual Savings & Retirement earnings remained stable as increased earnings from variable annuities and retail mutual funds were offset by lower earnings from fixed annuities as the product is de-emphasized. Earnings from Employer Solutions & Pensions increased as a result of continued strong growth of the business.

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

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

In New Markets, AEGON reported underlying earnings before tax of EUR 212 million, an increase of 6% compared to 2010. The increase is primarily the result of higher underlying earnings before tax from AEGON Asset Management.

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

**FAIR VALUE ITEMS**

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

**REALIZED GAINS ON INVESTMENTS**

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

**IMPAIRMENT CHARGES**

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



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**OTHER CHARGES**

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

**RUN-OFF BUSINESSES**

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

**INCOME TAX**

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

**COMMISSIONS AND EXPENSES**

Commissions and expenses increased 2% in 2011 to EUR 6.3 billion. In 2011, operating expenses increased 1% to EUR 3,442 million as achieved costs savings and the positive effect of changes to employee benefit plans were more than offset by investments in new propositions and restructuring charges, mainly in the Netherlands and the United Kingdom.

**PRODUCTION**

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

**CAPITAL MANAGEMENT**

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

Shareholders' equity increased to EUR 21 billion mainly as a result of the appreciation of the US dollar against the euro reflected in the foreign currency translation reserves and a significant increase in the revaluation reserves during the year. The revaluation reserves at December 31, 2011 increased mainly the result of a decrease in interest rates which had a positive effect on the value of fixed income securities. Shareholders' equity per common share, excluding preferred capital, amounted to EUR 10.03 at December 31, 2011.

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

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

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

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20 BUSINESS OVERVIEW / RESULTS 2011 WORLDWIDE

In June 2011, AEGON completed the repurchase of convertible core capital securities from the Dutch State with a final payment of EUR 1.125 billion to repurchase of 187.5 million convertible core capital securities for EUR 750 million and EUR 375 million in premium. With this payment, AEGON fulfilled its key objective of repurchasing all of the EUR 3 billion core capital securities issued to the Dutch State at the height of the financial crisis in 2008. The total amount AEGON has paid to the Dutch State amounts to EUR 4.1 billion. Of this amount, EUR 3 billion covered the original issue of convertible core capital securities, while an additional EUR 1.1 billion was paid in premium and interest.

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**RESULTS 2010 WORLDWIDE****Underlying earnings geographically**

Amounts in EUR million	2010	2009	%
Americas	1,459	761	92%
The Netherlands	385	398	(3%)
United Kingdom	72	52	38%
New markets	200	170	18%
Holdings and other activities	(283)	(252)	(12%)
<b>UNDERLYING EARNINGS BEFORE TAX</b>	<b>1,833</b>	<b>1,129</b>	<b>62%</b>
Net fair value items	221	(544)	
Gains / (losses) on investments	658	518	27%
Impairment charges	(452)	(1,277)	65%
Other income / (charges)	(309)	(323)	4%
Run-off businesses	(26)	43	
<b>Income before tax (excluding income tax from certain proportionately consolidated associates)</b>	<b>1,925</b>	<b>(454)</b>	
<i>Income tax from certain proportionately consolidated associates included in income before tax</i>	<i>11</i>	<i>10</i>	<i>10%</i>
Income tax	(165)	658	
<i>Of which income tax from certain proportionately consolidated associates</i>	<i>(11)</i>	<i>(10)</i>	<i>(10)%</i>
<b>NET INCOME</b>	<b>1,760</b>	<b>204</b>	
<b>Net underlying earnings</b>	<b>1,417</b>	<b>934</b>	<b>52%</b>
Commissions and expenses	6,145	6,046	2%
Of which operating expenses	3,397	3,292	3%

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

AEGON's senior management is compensated based in part on AEGON's results against targets using the non-IFRS measure presented herein. While many other insurers in AEGON's peer group present substantially similar non-IFRS measures, the non-IFRS measure presented in this document may nevertheless differ from the non-IFRS measures presented by other insurers. There is no standardized meaning to these measures under IFRS or any other recognized set of accounting standards and readers are cautioned to consider carefully the different ways in which AEGON and its peers present similar information before comparing them.

AEGON believes the non-IFRS measure shown herein, when read together with AEGON's reported IFRS financial statements, provides meaningful supplemental information for the investing public to evaluate AEGON's business after eliminating the impact of current IFRS accounting policies for financial instruments and insurance contracts, which embed a number of accounting policy alternatives that companies may select in presenting their results (i.e. companies can use different local GAAPs) and that can make the comparability from period to period difficult.



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**New life sales**

Amounts in EUR million	2010	2009	%
Americas	497	416	19%
The Netherlands	248	239	4%
United Kingdom	1,061	1,010	5%
New markets	275	285	(4%)
<b>TOTAL LIFE PRODUCTION</b>	<b>2,081</b>	<b>1,950</b>	<b>7%</b>

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

Amounts in EUR million	2010	2009	%
Americas	21,018	19,188	10%
The Netherlands	2,382	3,434	(31%)
United Kingdom	96	177	(46%)
New markets	9,082	4,817	89%
<b>TOTAL GROSS DEPOSITS</b>	<b>32,578</b>	<b>27,616</b>	<b>18%</b>

Amounts in EUR million	Americas	The Netherlands	United Kingdom	New Markets	Holdings, other activities and eliminations	Total	Associates eliminations	Total
Total life insurance gross premiums	6,877	3,185	7,425	1,306		18,793	(427)	18,366
Accident and health insurance premiums	1,850	201		72		2,123	(2)	2,121
General insurance premiums		451		159		610		610
<b>Total gross premiums</b>	<b>8,727</b>	<b>3,837</b>	<b>7,425</b>	<b>1,537</b>		<b>21,526</b>	<b>(429)</b>	<b>21,097</b>
Investment income	4,073	2,161	2,340	234	26	8,834	(72)	8,762
Fees and commission income	998	348	164	479	(245)	1,744		1,744
Other revenues	1			4	1	6	(1)	5
<b>TOTAL REVENUES</b>	<b>13,799</b>	<b>6,346</b>	<b>9,929</b>	<b>2,254</b>	<b>(218)</b>	<b>32,110</b>	<b>(502)</b>	<b>31,608</b>
Number of employees, including agent-employees	13,362	5,122	4,138	8,216	316	31,154	(3,680)	27,474

**By product segment**

Amounts in EUR million	2010	2009	%
Life	1,048	931	13%
Individual Savings and Retirement Pensions	500	(10)	
Non-life	409	360	14%
Distribution	53	67	(21%)
	10	(2)	

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Asset management	46		
Other	(283)	(252)	(12%)
Associates	50	35	43%
<b>UNDERLYING EARNINGS BEFORE TAX</b>	<b>1,833</b>	<b>1,129</b>	<b>62%</b>

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**RESULTS 2010 WORLDWIDE**

During 2010, both AEGON's net income and underlying earnings improved considerably. The increases were the result of business growth, cost savings, further improvements in financial markets and strengthening of the dollar against the euro. Sales increased in most countries, while gross deposits also increased strongly. AEGON's capital position was further strengthened during the year, with core capital of EUR 18.7 billion at year-end 2010.

**NET INCOME**

AEGON's net income for 2010 amounted to EUR 1.8 billion, a significant increase compared with net income of EUR 204 million in 2009. The improvement was driven by higher underlying earnings before tax, a turnaround in fair value results, higher realized gains on investments and considerably lower impairments. These positive effects were partly offset by higher losses for the run-off businesses and tax charges, where 2009 had included tax benefits. Results from fair value items amounted to EUR 0.2 billion compared with a loss for the previous year of EUR 0.5 billion. Most of the turnaround was attributable to an improvement in the fair value of guarantees net of related hedges in the Netherlands. Impairments totaled EUR 452 million, a significant improvement in 2010 that reflected better market conditions. This was the lowest level of impairments in three years, but is still above AEGON's long-term expectations. Impairments were primarily related to US housing related securities. Other charges amounted to EUR 309 million and included a payment for settlement of a dispute related to a bank-owned life insurance policy in the United States and restructuring charges in the United States, the United Kingdom and Hungary. The charges were partly offset by a book gain from the sale of AEGON's funeral insurance business in the Netherlands. Income tax amounted to EUR 165 million for 2010, while 2009 had included a tax credit of EUR 658 million.

**UNDERLYING EARNINGS BEFORE TAX**

Underlying earnings before tax increased 62% to EUR 1.8 billion, mainly as a result of a strong recovery in the Americas. The improvement was the result of growth of the business, cost savings, higher fee income as a result of higher account balances driven by a recovery in financial markets and the absence of reserve strengthening in the Americas. Underlying earnings before tax in the Netherlands remained strong. AEGON's operations in the United Kingdom reported higher underlying earnings before tax, while underlying earnings before tax from New Markets increased mainly as a result of the inclusion of AEGON Asset Management, only partly offset by higher claim experience in the nonlife business in Hungary.

**COMMISSIONS AND EXPENSES**

Commissions and expenses increased 2% in 2010 to EUR 6.1 billion and operating expenses increased 3% to EUR 3.4 billion. The results of expense savings in AEGON's main operations in the United States, the Netherlands and the United Kingdom were more than offset by restructuring charges, project related costs (e.g. Solvency II) and investments in growth markets. At constant currency, excluding restructuring charges, operating expenses declined 2% in 2010 compared with the previous year.

**PRODUCTION**

AEGON's new life sales in 2010 increased 6% compared with 2009 to EUR 2.1 billion. Sales across the company showed improvements during the year. Spain was an exception, as a consequence of continued weak economic conditions that affected one of AEGON's joint venture partners there. Gross deposits excluding run-off businesses increased 18% to EUR 32.6 billion in 2010 as a result of continued strong growth in variable annuity, retail mutual fund and pension deposits in the United States, as well as new mandates for AEGON Asset Management.



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24 BUSINESS OVERVIEW / RESULTS 2011 AMERICAS

**RESULTS 2011 AMERICAS**

	2011	2010	%	2011	2010	%
	Amounts in USD million			Amounts in EUR million		
<b>Income by product segment</b>						
Life & Protection	779	897	(13%)	560	679	(18%)
<i>Fixed annuities</i>	286	439	(35%)	206	333	(38%)
<i>Variable annuities</i>	358	216	66%	258	164	57%
<i>Retail mutual funds</i>	22	9	144%	15	7	114%
Individual Savings and Retirement	666	664		479	504	(5%)
Employer Solutions & Pensions	326	307	6%	234	231	1%
Canada	51	54	(6%)	37	40	(8%)
Latin America	1	6	(83%)		5	
<b>Underlying earnings before tax</b>	<b>1,823</b>	<b>1,928</b>	<b>(5%)</b>	<b>1,310</b>	<b>1,459</b>	<b>(10%)</b>
Net fair value items	(665)	(32)		(478)	(24)	
Gains / (losses) on investments	172	502	(66%)	124	380	(67%)
Impairment charges	(352)	(506)	30%	(253)	(383)	34%
Other income / (charges)	(49)	(404)	88%	(35)	(306)	89%
Run-off businesses	39	(35)		28	(26)	
<b>Income before tax (excluding income tax from certain proportionately consolidated associates)</b>	<b>968</b>	<b>1,453</b>	<b>(33%)</b>	<b>696</b>	<b>1,100</b>	<b>(37%)</b>
<i>Income tax from certain proportionately consolidated associates included in income before tax</i>	<i>1</i>	<i>2</i>	<i>(50%)</i>	<i>1</i>	<i>2</i>	<i>(50%)</i>
Income tax	(35)	41		(26)	31	
<i>Of which income tax from certain proportionately consolidated associates</i>	<i>(1)</i>	<i>(2)</i>	<i>50%</i>	<i>(1)</i>	<i>(2)</i>	<i>50%</i>
<b>Net income</b>	<b>933</b>	<b>1,494</b>	<b>(38%)</b>	<b>670</b>	<b>1,131</b>	<b>(41%)</b>
<b>Net underlying earnings</b>	<b>1,368</b>	<b>1,419</b>	<b>(4%)</b>	<b>984</b>	<b>1,074</b>	<b>(8%)</b>
Life insurance gross premiums	8,668	9,085	(5%)	6,232	6,877	(9%)
Accident and health insurance premiums	2,475	2,443	1%	1,780	1,850	(4%)
<b>Total gross premiums</b>	<b>11,143</b>	<b>11,528</b>	<b>(3%)</b>	<b>8,012</b>	<b>8,727</b>	<b>(8%)</b>
Investment income	5,061	5,380	(6%)	3,638	4,073	(11%)
Fees and commission income	1,041	1,319	(21%)	749	998	(25%)
Other revenues	2	2		1	1	
<b>Total revenues</b>	<b>17,247</b>	<b>18,229</b>	<b>(5%)</b>	<b>12,400</b>	<b>13,799</b>	<b>(10%)</b>
Commissions and expenses	5,046	4,816	5%	3,628	3,646	
which includes operating expenses of	1,992	1,971	1%	1,432	1,492	(4%)

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	2011	2010	%	2011	2010	%
	Amounts in USD million			Amounts in EUR million		
<b>New life sales</b>						
Life & Protection	481	531	(9%)	345	402	(14%)
Employer solutions & Pensions	24	22	9%	17	16	6%
Canada	65	60	8%	47	46	2%
Latin America	51	44	16%	37	33	12%
<b>Total recurring plus 1/10 single</b>	<b>621</b>	<b>657</b>	<b>(5%)</b>	<b>446</b>	<b>497</b>	<b>(10%)</b>
New premium production accident and health insurance	846	773	9%	609	585	4%
<b>Gross deposits (on and off balance)</b>						
Life & Protection	12	10	20%	9	8	13%
<i>Fixed annuities</i>	<i>313</i>	<i>585</i>	<i>(46%)</i>	<i>225</i>	<i>443</i>	<i>(49%)</i>
<i>Variable annuities</i>	<i>5,314</i>	<i>3,830</i>	<i>39%</i>	<i>3,821</i>	<i>2,899</i>	<i>32%</i>
<i>Retail mutual funds</i>	<i>2,785</i>	<i>3,486</i>	<i>(20%)</i>	<i>2,002</i>	<i>2,639</i>	<i>(24%)</i>
Individual Savings and Retirement	8,412	7,901	6%	6,048	5,981	1%
Employer Solutions & Pensions	23,266	19,247	21%	16,727	14,570	15%
Canada	335	606	(45%)	241	459	(47%)
<b>TOTAL GROSS DEPOSITS</b>	<b>32,029</b>	<b>27,764</b>	<b>15%</b>	<b>23,028</b>	<b>21,018</b>	<b>10%</b>

**Exchange rates**

	Weighted average rate		Closing rate as of	
	2011	2010	Dec. 31, 2011	Dec. 31, 2010
Per 1 EUR				
USD	1.3909	1.3210	1.2982	1.3362
CAD	1.3744	1.3599	1.3218	1.3322

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**RESULTS 2011 AMERICAS**

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

**NET INCOME**

Net income from AEGON's businesses in the Americas declined to USD 933 million. This was the result of lower underlying earnings before tax, lower than expected results from fair value items and fewer gains on investments. Lower other charges and improved levels of impairments only partly offset the decline.

In the third quarter of 2011, to reflect the low interest rate environment, AEGON has lowered its long-term assumption for 10-year US Treasury yields by 50 basis points to 4.75% (graded uniformly from current yields over the next five years) and lowered the 90-day rate to 0.2% for the next two years followed by a three year grade to 3%. No change has been made to the long-term credit spread or default assumptions. In addition, AEGON has lowered its assumed return for separate account bond fund returns by 200 basis points to 4% over the next five years, followed by a return of 6% thereafter. The bond fund return is a gross assumption from which asset management and policy fees are deducted to determine the policyholder return. In total, these assumption changes led to a charge of USD 237 million in the third quarter of 2011.

**UNDERLYING EARNINGS BEFORE TAX**

Underlying earnings before tax amounted to USD 1,823 million, a decline of 5% compared with 2010.

Earnings from AEGON's Life & Protection business in the Americas decreased to USD 779 million mainly as a result of unfavorable persistency and lower spreads. Also higher Long Term Care provisions and a charge related to Executive Life of New York contributed unfavorably to the results. In addition, 2010 included an employee benefit release.

Individual Savings & Retirement earnings amounted to USD 666 million. Increased earnings from variable annuities of USD 358 million and retail mutual funds of USD 22 million in 2011, were offset by lower earnings from fixed annuities of USD 286 million as a result of declining asset balances as this product is de-emphasized. Variable annuity underlying earnings before tax increased as a result of continued inflows and higher asset balances and included a benefit related to updated assumptions for revenue sharing with third-party fund managers.

Earnings from Employer Solutions & Pensions increased to USD 326 million as a result of continued strong growth of the business and rate increases for synthetic guaranteed investment contracts.

Canada earnings decreased slightly compared to 2010 to USD 51 million, while earnings from AEGON's joint-ventures in Brazil and Mexico declined to USD 1 million.

**COMMISSIONS AND EXPENSES**

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

**PRODUCTION**

New life sales decreased 5% to USD 621 million, mainly the effect of the discontinuance of single premium universal life sales in the bank channel during the second half of 2010, as well as repricing of certain universal life products in 2011 to reflect the low interest rate environment. New premium production for accident & health insurance increased to USD 846 million, primarily the result of improved sales in the employer benefits and affinity marketing businesses.

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

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

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**RESULTS 2010 AMERICAS**

	2010	2009	%	2010	2009	%
	Amounts in USD million			Amounts in EUR million		
<b>Income by product segment</b>						
Life & Protection	897	903	(1%)	679	641	6%
<i>Fixed annuities</i>	439	334	31%	333	237	41%
<i>Variable annuities</i>	216	(348)		164	(248)	
<i>Retail mutual funds</i>	9	(16)		7	(11)	
Individual Savings and Retirement	664	(30)		504	(22)	
Employer Solutions & Pensions	307	172	78%	231	123	88%
Canada	54	32	69%	40	23	74%
Latin America	6	(6)		5	(4)	
<b>Underlying earnings before tax</b>	<b>1,928</b>	<b>1,071</b>	<b>80%</b>	<b>1,459</b>	<b>761</b>	<b>92%</b>
Net fair value items	(32)	(123)	74%	(24)	(87)	72%
Gains / (losses) on investments	502	89		380	63	
Impairment charges	(506)	(1,337)	62%	(383)	(950)	60%
Other income / (charges)	(404)	(4)		(306)	(3)	
Run-off businesses	(35)	61		(26)	43	
<b>Income before tax (excluding income tax from certain proportionately consolidated associates)</b>	<b>1,453</b>	<b>(243)</b>		<b>1,100</b>	<b>(173)</b>	
<i>Income tax from certain proportionately consolidated associates included in income before tax</i>	2			2		
Income tax	41	940	(96%)	31	669	(95%)
<i>Of which income tax from certain proportionately consolidated associates</i>	(2)			(2)		
<b>Net income</b>	<b>1,494</b>	<b>697</b>	<b>114%</b>	<b>1,131</b>	<b>496</b>	<b>128%</b>
<b>Net underlying earnings</b>	<b>1,419</b>	<b>917</b>	<b>55%</b>	<b>1,074</b>	<b>652</b>	<b>65%</b>
Life insurance gross premiums	9,085	8,388	8%	6,877	5,961	15%
Accident and health insurance premiums	2,443	2,377	3%	1,850	1,689	10%
<b>Total gross premiums</b>	<b>11,528</b>	<b>10,765</b>	<b>7%</b>	<b>8,727</b>	<b>7,650</b>	<b>14%</b>
Investment income	5,380	5,505	(2%)	4,073	3,913	4%
Fees and commission income	1,319	1,260	5%	998	896	11%
Other revenues	2	3	(33%)	1	2	(50%)
<b>Total revenues</b>	<b>18,229</b>	<b>17,534</b>	<b>4%</b>	<b>13,799</b>	<b>12,461</b>	<b>11%</b>
Commissions and expenses	4,816	5,065	(5%)	3,646	3,600	1%
which includes operating expenses of	1,971	2,249	(12%)	1,492	1,599	(7%)

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	2010	2009	%	2010	2009	%
	Amounts in USD million			Amounts in EUR million		
<b>New life sales</b>						
Life & Protection	531	480	11%	402	341	18%
Employer solutions & Pensions	22	25	(12%)	16	17	(6%)
Canada	60	61	(2%)	46	44	5%
Latin America	44	20	120%	33	14	136%
<b>Total recurring plus 1/10 single</b>	<b>657</b>	<b>586</b>	<b>12%</b>	<b>497</b>	<b>416</b>	<b>19%</b>
New premium production accident and health insurance	773	758	2%	585	539	9%
<b>Gross deposits (on and off balance)</b>						
Life & Protection	10	10		8	7	14%
<i>Fixed annuities</i>	585	4,730	(88%)	443	3,362	(87%)
<i>Variable annuities</i>	3,830	3,372	14%	2,899	2,396	21%
<i>Retail mutual funds</i>	3,486	2,408	45%	2,639	1,712	54%
Individual Savings and Retirement	7,901	10,510	(25%)	5,981	7,470	(20%)
Employer Solutions & Pensions	19,247	16,075	20%	14,570	11,422	28%
Canada	606	403	50%	459	287	60%
<b>TOTAL GROSS DEPOSITS</b>	<b>27,764</b>	<b>26,998</b>	<b>3%</b>	<b>21,018</b>	<b>19,186</b>	<b>10%</b>

**Exchange rates**

	Weighted average rate		Closing rate as of	
	2010	2009	Dec. 31, 2010	Dec. 31, 2009
Per 1 EUR				
USD	1.3210	1.4071	1.3362	1.4406
CAD	1.3599	1.5773	1.3322	1.5128

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**RESULTS 2010 AMERICAS**

AEGON's businesses in the Americas showed a strong increase in net income and underlying earnings before tax mainly as a result of improved market conditions in 2010. During the year, AEGON announced that it would explore strategic options regarding its life reinsurance business, Transamerica Reinsurance. This followed the restructuring process started in 2009 and the company's announcement in 2010 that it would sharpen its focus on its core businesses. AEGON also decided to discontinue its BOLI/COLI business in the United States and to pursue further operational and cost efficiencies by consolidating operations currently based in Louisville, Kentucky with other existing locations.

**NET INCOME**

Net income from the Americas more than doubled compared with 2009 to USD 1.5 billion. This was mainly the result of higher underlying earnings before tax and realized gains on investments, a better performance from fair value items and fewer impairments. The result was only partly offset by higher charges that were mainly related to restructuring, the settlement of a dispute related to a BOLI policy and losses from the run-off businesses.

**UNDERLYING EARNINGS BEFORE TAX**

Underlying earnings before tax increased 80% during the year to USD 1.9 billion.

Underlying earnings before tax from Life & Protection remained stable as cost savings were offset by lower margins.

Individual Savings & Retirement returned to profit, mainly a result of higher account balances driven by a recovery in financial markets and the absence of reserve strengthening

Underlying earnings before tax from Employer Solutions & Pensions increased as a result of continued strong growth of the business as well as an improvement in the financial markets.

**COMMISSIONS AND EXPENSES**

Total commissions and expenses decreased by 5% in 2010. Operating expenses declined 12% compared with 2009 to USD 2 billion, mainly as a result of significant cost reductions, lower restructuring charges, a decrease in employee benefit plan expenses and the transfer of asset management activities to AEGON Asset Management.

**PRODUCTION**

AEGON experienced a 12% increase in new life sales in the Americas during the course of 2010 Due to strong retail new life sales in the United States and Latin America.

Gross deposits excluding run-off businesses increased 3% to USD 27.8 billion in 2010. Continued strong growth in variable annuity, retail mutual fund and pension deposits was offset by a decline in fixed annuity deposits as sales of this product are de-emphasized. In the United States, one of AEGON's chosen markets and key growth drivers, the company's pension businesses experienced a year with more than USD 8 billion of net deposits for 2010. Total net deposits, excluding the run-off businesses, declined to USD 1.6 billion during the year, mainly due to the decision to de-emphasize sales of fixed annuities and stable value solutions outflows.

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**BACKGROUND AMERICAS**

AEGON Americas comprises AEGON USA, AEGON Canada and 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 is the largest of AEGON's country units. AEGON USA administers more than 33 million policies and employs approximately 10,000 people. AEGON USA companies can trace their roots back as far as the mid-19th century. AEGON USA operates under one of the best known names in the US insurance business: Transamerica. AEGON USA's main offices are in Cedar Rapids, Iowa, and Baltimore, Maryland, with affiliated companies' offices located throughout the United States.

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

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

**AEGON CANADA**

Based in Toronto, AEGON Canada offers a range of insurance products and financial services, primarily through its Transamerica Life Canada subsidiary, first established in 1927. Total employment of AEGON Canada on December 31, 2011 was approximately 700.

**AEGON MEXICO**

In 2006, AEGON acquired a 49% interest in Seguros Argos S.A. de C.V., a Mexican life insurance company.

**AEGON BRAZIL**

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

**ORGANIZATIONAL STRUCTURE**

**AEGON USA**

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

AEGON USA's primary insurance subsidiaries are:

Transamerica Life Insurance Company

Transamerica Financial Life Insurance Company



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Transamerica Advisors Life Insurance Company

Transamerica Advisors Life Insurance Company of New York

Monumental Life Insurance Company

Stonebridge Life Insurance Company

Stonebridge Casualty Insurance Company

Western Reserve Life Assurance Co. of Ohio

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

Life & Protection

Individual Savings & Retirement

Employer Solutions & Pensions

These lines of business, which are described in further detail below, represent groups of products that are sold through AEGON USA's operating companies by various distribution methods and sales channels. The 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.

<sup>1</sup> Throughout this report, "AEGON USA" refers to subsidiary and affiliate 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 Latin America—Mexico and Brazil—are referred to collectively as AEGON Americas.

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**AEGON CANADA**

In Canada, AEGON has three main operating subsidiaries:

Transamerica Life Canada

AEGON Capital Management Inc.

AEGON Fund Management Inc.

**OVERVIEW SALES AND DISTRIBUTION CHANNELS**

**AEGON USA**

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

Independent and career agents

Financial planners

Registered representatives

Independent marketing organizations

Banks

Regional and independent broker-dealers

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 more ways to access products and services. Generally, AEGON USA companies are focused on particular products or market segments, ranging from lower income to high net worth individuals and large corporations.

**AEGON CANADA**

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

Independent managing 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

**OVERVIEW LINES OF BUSINESS**

**LIFE & PROTECTION**

**GENERAL DESCRIPTION**

AEGON USA affiliates provide whole life, universal life, variable universal life, indexed life, term life insurance and supplemental health, special accident, and long-term care protection products.

Life & Protection (L&P) is the largest division within AEGON USA. Operating in a broad range of market segments and distribution channels, L&P services more than 15 million policies. Since the division was formed in 2009, significant progress has been made toward fully leveraging expertise and capabilities and achieving economies of scale. The diverse distribution channels within L&P are organized into business units that serve specific market segments. This focus, combined with a shared support platform, keeps L&P close to its customers.

**PRODUCTS**

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

**TERM LIFE INSURANCE**

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

**UNIVERSAL LIFE INSURANCE**

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

**WHOLE LIFE INSURANCE**

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

### OTHER LIFE INSURANCE

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

### SUPPLEMENTAL HEALTH AND SPECIALTY

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

### LONG TERM CARE

Long Term Care (LTC) insurance products provide benefits to policyholders who require care due to a chronic illness or cognitive impairment. LTC insurance serves as an asset

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protection tool by reimbursing policyholders for costly expenses associated with LTC services, and it may also help a family better manage the financial, health and safety issues that are associated with LTC.

### **SALES AND DISTRIBUTION**

The business units are organized by distribution type and each focuses on a particular market segment.

#### **AFFINITY MARKETS**

The Affinity Markets Group works with independent distributors as well as directly with associations, financial institutions, retailers and other sponsored groups, to offer products that add value to their customers or members, using a broad range of direct response, online and point-of-sale marketing methods.

#### **AGENCY**

Agency Distribution provides product and marketing services to closely tied distribution groups serving the middle income and small business markets through face-to-face consulting by service-oriented agents. The distribution groups include a captive agent sales force, a personal producing general agency system, and several independent marketing organizations.

#### **BROKERAGE**

The Brokerage Group is a sales and marketing organization offering life insurance products and services through independent brokerage distributors to high net worth, affluent and middle income individuals, families and businesses.

#### **INTERNATIONAL MARKETS**

International Markets makes its products and direct response marketing expertise available through brokers, alliances with financial institutions, retailers, telecommunications providers, insurance companies and other database owners in Asia Pacific, Europe and Latin America.

From the first quarter of 2012, AEGON will adjust its financial reporting to reflect changes in its organization. A number of businesses in Asia, which were previously managed by and reported to the United States, will be included in the Asia segment within New Markets, and will be managed from AEGON's regional head office in Hong Kong.

#### **BROKER-DEALER**

Transamerica Financial Advisors, Inc. is a full service, registered independent broker-dealer and Registered Investment Advisor that focuses on creating, growing and managing wealth through a range of financial products and services.

### **INDIVIDUAL SAVINGS & RETIREMENT**

#### **GENERAL DESCRIPTION**

AEGON USA offers a wide range of savings and retirement products and services, including mutual funds, fixed and variable annuities, as well as investment advice to people who are entering their retirement years. The Individual Savings and Retirement Division administers and distributes these products through a variety of channels: including wirehouse firms, banks, regional broker dealers, independent financial planners and direct distribution.

#### **PRODUCTS**

##### **VARIABLE ANNUITIES**

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

Variable annuities are sold to individuals and retirement plans in the United States.

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

Premiums paid on variable annuity contracts are invested in underlying funds chosen by the policyholder, including bond and equity funds as well as various types of asset-allocation funds. A fixed account is available on most products and in most cases, the investment options are selected by a policyholder, within certain boundaries, based on the policyholder's preferred level of risk. The assets and liabilities related to this product are legally segregated in separate accounts of the insurance company for the benefit of variable annuity policyholders. These separate accounts are classified as investments for the account of policyholders. 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.

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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 (which is no longer offered on new business) provides for minimum payments if the policyholder elects to convert to an immediate payout annuity. The guaranteed amount is calculated using the total deposits made by the policyholder, less any withdrawals and sometimes includes a roll-up or step-up feature that increases the value of the guarantee with interest or with increases in the account value.

These guaranteed benefits subject the company to equity market risk, since poor market performance may cause the guaranteed benefits to exceed the policyholder account value.

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

**MUTUAL FUNDS / ASSET MANAGEMENT**

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

**FIXED ANNUITIES**

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

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

Fixed deferred annuity contracts may be purchased on either a flexible or single premium basis. Deferred annuities are offered on a fixed interest crediting method or indexed basis. The policyholder can surrender the annuity prior to maturity and receive the cash value less surrender charges. Fixed deferred annuities have a specified crediting rate that can be reset periodically at the company's discretion after an initial guarantee period. Fixed deferred annuity contracts in the United States also offer guaranteed minimum surrender values and payout options. Upon maturity of the annuity, the policyholder can select payout options that include a lump sum payment, income for life, or payment for a specified period of time. In the event of the death of the policyholder prior to receiving the benefits of the policy, the beneficiary receives either

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an accumulated cash value death benefit or an enhanced death benefit in the event there are benefit riders attached to the base contract. Early withdrawal by the policyholder of the cash value of the annuity is subject to surrender charges. These surrender charges are generally not a large form of revenue as policyholder surrender rates are



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typically lower when a surrender charge penalty is still present. Any surrender charges collected are typically used to recoup unamortized deferred acquisition costs.

Minimum interest rate guarantees exist in all generations of deferred annuity products, as they are required by state non-forfeiture regulations. The average minimum interest rate guarantees of the in-force fixed annuity block is approximately 2.65%. Equity indexed annuities offer additional returns that are indexed to published stock market indices, with a minimum cash value equal to a percentage of the premium increased at a minimum rate that varies. Equity indexed annuities make up a small fraction of the in-force business, and AEGON currently offers no such products for new sales.

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.

AEGON USA has decided to de-emphasize the sale of fixed annuities.

**SALES AND DISTRIBUTION**

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

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

Transamerica Financial Advisors, part of AEGON USA, provides a range of financial and investment products, operating as a retail broker-dealer. These products include mutual funds, variable life insurance, variable 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. (TRM) in 2006. This division is focused on providing consumers with personalized financial advice, brokerage products and guidance to help them successfully transition into and throughout retirement. TRM 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. As of January 2012, this division will be part of Employer Solutions and Pensions.

**EMPLOYER SOLUTIONS & PENSIONS**

**GENERAL DESCRIPTION**

AEGON USA offers retirement plans, 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

## **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 line-up 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 mid-sized employers. These plans are predominantly supported by a group variable annuity product, where plan assets are invested primarily in separate account investment choices, including bond and equity investment choices, and cash equivalent choices. A fixed account cash vehicle may also be available on most plans. The investment choices are selected by the client or by the client's financial advisor.

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**Table of Contents****SINGLE PREMIUM GROUP ANNUITIES**

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

**LIFE AND SUPPLEMENTAL HEALTH**

Transamerica Employee Benefits offers life, supplemental health and Stop Loss products.

Life products include universal life insurance, whole life insurance and term life insurance. Supplemental health products include dental, accident, critical illness, cancer treatment, hospital indemnity and short-term disability policies. Some of these plans provide lump sum or specified income payments when hospitalized, disabled or diagnosed with a critical illness. 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. Stop Loss provides catastrophic coverage to self-insured employer health plans.

**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 can be terminated under certain conditions. Such a contract helps to reduce fluctuations in the value of the wrapped assets for plan participants, and provides book value benefit-responsiveness in the event that qualified plan benefit requests exceed plan asset values.

**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 15 million and USD 2 billion in retirement assets.

Transamerica Retirement Services serves more than 16,500 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 education.

Transamerica Retirement Services is also a leading provider of single premium group annuities (Terminal Funding) in the United States, which are 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 Employee Benefits, Transamerica offers voluntary payroll deduction life and supplemental health to companies ranging in size from just five employees to more than 100,000. Products and services are marketed to employees at their place of work and are designed to supplement employees existing benefit plans.

**CANADA****LIFE & PROTECTION**

Transamerica Life Canada is AEGON Canada's principal operating company. It offers a variety of individual life insurance products, predominantly universal life and term life insurance to consumers in the broad middle market. For a description of life insurance products offered by AEGON Canada, see description of life insurance products offered by Life & Protection in the United States.

INDIVIDUAL SAVINGS & RETIREMENT

Transamerica Life Canada's current product offerings comprise the following: segregated funds, mutual funds, guaranteed investment accounts and single premium immediate annuities.

SEGREGATED FUNDS

Segregated funds contracts provide minimum death and maturity value guarantees and allow the contract holders to invest in segregated investment funds managed by the company for their benefit. Transamerica Canada announced on January 18, 2012, that it would no longer sell its Five for Life segregated fund product and has discontinued sales and marketing support for all segregated fund products. These changes were made due to the current economic and competitive environment, and to strengthen the focus on the life side of its business.

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For a description of other individual savings and retirement products offered by AEGON Canada, see description of individual savings and retirement products offered in the United States.

#### **LATIN AMERICA**

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

#### **RUN-OFF BUSINESSES**

##### **INSTITUTIONAL SPREAD BASED BUSINESS**

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

##### **GUARANTEED INVESTMENT CONTRACTS AND FUNDING AGREEMENTS**

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

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

##### **MEDIUM-TERM NOTES**

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

AEGON Global Institutional Markets plc (AGIM) is domiciled in Ireland and was set up for the purpose of issuing MTNs 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.

##### **PAY-OUT ANNUITIES**

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

##### **BOLI/COLI**

AEGON USA services life insurance products sold to the bank and corporate owned life insurance (BOLI/COLI) market in the United States. BOLI/COLI helps institutional customers fund long-term employee benefits such as executive compensation and post-retirement medical plans.

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The corporation insures key employees and is the owner and beneficiary of the policies. New sales of BOLI/COLI were discontinued in 2010.

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

### LIFE REINSURANCE

In August 2011, AEGON announced that it had completed the divestment of its life reinsurance business, Transamerica Reinsurance, to SCOR, a global reinsurance company based in France.

The conclusion of the transaction followed the final approval of the relevant regulatory authorities. In addition to allowing the company to concentrate its activities on its core businesses—life insurance, pensions and asset management—the transaction will also contribute to a broader geographical allocation of capital.

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Under the sale agreement, AEGON divested its global life reinsurance activities with the exception of select blocks of business. The retained businesses comprise mainly variable annuity guarantee business.

**COMPETITION**

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

In the United States, Transamerica and related units deliver traditional life and protection products to a variety of markets, including the lower-middle, middle, upper-middle and affluent markets. The division faces competition from a broad range of competitors, including AIG, Genworth, John Hancock, Lincoln Benefit, Lincoln Financial and MetLife. The result is a highly competitive marketplace and increasing commoditization in many product categories. In the current environment, AEGON USA believes the best and most enduring competitive advantages are relationships and service.

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

AEGON USA has built long-term relations with many institutions, and these relations 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, New York Life, Protective, 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 Metropolitan Life, Prudential, Lincoln National, Nationwide and Jackson National.

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

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

In the defined contribution market, AEGON USA's main competitors are Fidelity, T. Rowe Price, Vanguard, Schwab, Principal Financial, Mass Mutual and New York Life. AEGON USA's main competitors in the defined benefit segment are Mass Mutual, New York Life, Principal Financial, and Prudential. In the small business retirement plan segment and the multiple employer plan segment, AEGON USA's main competitors are Principal Financial, John Hancock, American Funds, 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 as of the first two quarters for 2011).

**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 - Fourth Quarter 2011, issued February 2012). TLC's primary competitors in Canada are the following: Power Corporation (Canada Life, London Life, Great West Life), Manulife Financial, Sun Life Financial, Industrial-Alliance, RBC Life, Empire Life, Equitable Life, Desjardins Financial and BMO Life.

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TLC ranks sixth in overall individual life insurance sales (new business premiums) with a market share of 4.6%, up from 4.2% on December 31, 2010. TLC ranks fifth for universal life sales, representing 8.6% of the market and seventh for term sales representing 5.4% of the market (Source: LIMRA's Canadian Individual Life Insurance Sales Fourth Quarter 2011, issued February 2012).



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**REGULATION AND SUPERVISION****AEGON USA**

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

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

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

The NAIC is finalizing changes to its Model Holding Company Act and Regulation to enhance disclosure to regulators about risk exposure to insurers from within their holding company system, for potential adoption by jurisdictions in 2012. Existing insurance holding company statutes and the regulations of each insurer's domiciliary state in the United States already impose various limitations on investments in affiliates, and require prior approval of the payment of dividends above certain threshold levels by the licensed insurer to AEGON or its affiliates. The NAIC is also considering, in response to international developments, various other regulatory changes that may impact corporate governance, life insurance reserving and capital standards, and an Own Risk and Solvency Assessment by insurers.

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

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

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Federal laws, 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 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. Finally, proposed Federal Reserve Board disclosures regarding credit insurance provided in connection with a loan, if promulgated as proposed, would adversely impact the market for credit insurance.

Additionally, certain policies and contracts offered by AEGON USA insurance companies are subject to regulation under the federal securities laws administered by the Securities and Exchange Commission (the SEC) and under certain state securities laws. The SEC conducts regular examinations of the insurance companies' variable life insurance and variable annuity operations, and occasionally makes requests for information from these insurers in connection with examinations of affiliate and third party broker-dealers, investment advisers and investment companies. The SEC and other governmental regulatory authorities, including state securities administrators, may institute administrative or judicial proceedings that may result in censure, fines, issuance of cease-and-desist orders or other sanctions. Sales of variable insurance and annuity products are regulated by the SEC and the Financial Industry Regulatory Authority, Inc. (FINRA, formerly known as the National Association of Securities Dealers, Inc. or NASD). The SEC, FINRA and other regulators have from time to time investigated certain sales practices involving certain sales of variable annuities and transactions in which an existing variable annuity is replaced by, or exchanged for, a new variable annuity. Certain separate accounts of AEGON USA insurers are registered as investment companies under the Investment Company Act of 1940, as amended. Separate account interests under certain annuity contracts and insurance policies issued by the insurance companies are also registered under the Securities Act of 1933, as amended.

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. On July 21, 2010, the SEC proposed a framework to replace the requirements of Rule 12b-1 of the Investment Company Act with respect to how mutual funds and underlying funds of separate accounts collect and pay fees to cover the costs of selling and marketing their shares. The proposed changes are subject to public comment and, following any enactment, would be phased in over several years. Since these changes are still proposed, the impact of changes proposed by these regulations cannot be predicted at this time.

Some of the AEGON USA companies are registered as broker-dealers with the SEC under the Securities Exchange Act of 1934, as amended (the Securities Exchange Act) and are regulated by the FINRA. A number of AEGON USA companies are also registered as investment advisers under the Investment Advisers Act of 1940. AEGON USA insurance companies and other subsidiaries also own or manage other investment vehicles that are exempt from registration under the Securities Act and the Investment Company Act but may be subject to other requirements of those laws, such as anti-fraud provisions and the terms of applicable exemptions. The Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), enacted in 2010, reforms the regulatory structure of the financial services industry in the United States, including providing for additional oversight of systemically significant companies. Provisions of Dodd-Frank Act require the SEC to study the effectiveness of the legal and regulatory standards of care of broker-dealers, investment advisers and persons associated with these firms who are providing personalized investment advice. The study was completed in January, 2011 and regulations may be promulgated to address perceived gaps in the regulatory framework currently governing broker-dealers and investment advisers. Another study required by Dodd-Frank Act and conducted by the US Government Accounting Office in 2011 could result in the regulation, registration and examination of investment advisers by a new or existing self-regulatory organization. The impact of regulations resulting from these studies cannot be predicted at this time.

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The financial services industry, which includes businesses engaged in issuing, administering, and selling variable insurance products, mutual funds, and other securities, as well as broker-dealers, continues to be under heightened scrutiny and increased regulation in various jurisdictions. Such scrutiny and regulations have included matters relating to so-called producer compensation arrangements, suitability of sales, selling practices, unclaimed property reporting, revenue sharing, and valuation issues involving mutual funds and life insurance separate accounts and their underlying funds. AEGON USA companies, like other businesses in the financial services industry, have received inquiries, examinations, and requests for information from regulators and others relating to certain AEGON USA companies' historical and current practices with respect to these and other matters. Some of those inquiries have led to investigations, which remain open or have resulted in fines, corrective actions or restitution. AEGON USA companies continue to cooperate with these regulatory agencies. In certain instances, AEGON USA companies modified business practices in response to those inquiries or findings. Certain AEGON USA companies have paid or been informed that the regulators may seek restitution, fines or other monetary penalties or changes in the way that business is conducted. The impact of any such fines or other monetary penalties is not expected to have a material impact on AEGON USA's financial position, net income or cash flow. Since 2004, there has been an increase in litigation across the industry, new legislation, regulations, and regulatory initiatives aimed at curbing alleged improper annuity sales to seniors. As many of the estimated 77 million baby boomers are reaching the age of 60, the industry will likely see an increase in senior issues presented in various legal arenas. In addition, certain industry practices in respect of market conduct have been the subject of investigations by various state regulators. With the significant decline in financial markets in late 2008 and early 2009, management expects there will be further regulation and litigation which could increase costs and limit AEGON's ability to operate.

Some of AEGON USA companies offer products and services to individual retirement accounts, pension and welfare benefit plans that are subject to the federal Employment Retirement Income Security Act (ERISA). ERISA is administered by the US Department of Labor (DOL) and Internal Revenue Service (IRS). Accordingly, the DOL and IRS have jurisdiction to regulate the products and services sold by these AEGON USA businesses. DOL has issued regulations defining the nature of fees to be paid for investment advice in these plans, as well as requiring increased fee disclosure from defined contribution plan service providers and to plan participants. The DOL has also proposed regulations regarding the scope of a plan fiduciary in IRAs and defined contribution plans. Implementation of these and other regulations in the manner proposed could increase the cost and administrative burdens of AEGON USA companies providing administrative burdens to these plans. The proposed DOL rule on investment advice fiduciary, if promulgated as originally proposed, could adversely impact the manner in which certain AEGON USA companies sell products within an IRA, as well as the nature of services provided to plan participants and sponsors of a defined contribution plan.

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.

Although the insurance business is regulated on the state level, the US federal tax preferences of life insurance, pension and annuity products are governed by the US federal tax code. Proposals to remove or decrease the value of these tax 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 reduce the federal deficit. In addition, current discussions on major tax reform initiatives further increase the risk of changes to the tax incentives for short and long term savings products, as well as to the taxation of life insurers. These changes, if enacted, would directly impact the cost and competitiveness of life insurance, annuity and pension products sold to ensure Americans' financial retirement security.

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

There also have been occasional legislative proposals in the US Congress that target foreign owned companies, such as a

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proposal containing a corporate residency provision that threatens to redefine some historically foreign-based companies as US corporations for US tax purposes.

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

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

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

The Patient Protection and Affordable Care Act does not directly impact the business of life insurance. It is uncertain whether any of the new laws implementing regulations anticipated over the next several years will impact any of AEGON's supplemental products. One component of the new law, the Community Living Assistance Services and Support program (CLASS Act) has been withdrawn by the Department of Health and Human Services. The CLASS program could have had an adverse impact on the private LTC insurance market.

Many other federal tax laws affect the business in a variety of ways. At the end of 2010, the US congress reinstated the federal estate tax rate at 45% for those estates over USD 5 million. This will expire at the end of 2012. As a result, uncertainty remains in this area. 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.

**AEGON CANADA**

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

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

The life insurance operations of Transamerica Life Canada are also governed by policy statements and guidelines established by the Canadian Life & Health Insurance Association.

**ASSET LIABILITY MANAGEMENT**

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

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

The AEGON USA companies manage their asset liability matching through the work of several committees. These committees review strategies, define risk measures, define and review asset liability management studies, examine risk-hedging techniques, including the use of derivatives, and analyze the potential use of new asset classes. Cash flow testing analysis is performed using computer simulations, which model assets and liabilities under 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 four critical risk measures (capital charges, cash flows, present value of profits, and interest rate spreads) forms the foundation for modifying investment strategies, adjusting asset duration and mix, and exploring hedging opportunities. On the liability side, AEGON USA has some offsetting risks; some liabilities perform better in rising interest rate environments while others tend to perform well in falling interest rate environments. The amount of offset can vary depending on the absolute level of interest rates and the magnitude and timing of interest rate changes, but it generally provides some level of diversification. On the asset side, hedging instruments are continuously studied to determine whether their cost is commensurate to the risk reduction they offer.

**REINSURANCE CEDED****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 10 million per life insured.

AEGON USA remains contingently liable with respect to the amounts ceded should the reinsurance company not be able to meet its obligations. To minimize its exposure to such defaults, AEGON USA regularly monitors the creditworthiness of its reinsurers. 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. These contracts have been excluded from the company's consolidated financial statements.

**CANADA**

In the normal course of business, TLC reinsures part of its mortality and morbidity risk with third-party reinsurers. The maximum life insurance exposure retained is CAD 1.25 million per life insured.

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

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**RESULTS 2011 THE NETHERLANDS**

Amounts in EUR million	2011	2010	%
<b>Income by product segment</b>			
Life & Savings	185	186	(1%)
Pensions	98	153	(36%)
Non life	6	33	(82%)
Distribution	8	16	(50%)
Share in underlying earnings before tax of associates	1	(3)	
<b>Underlying earnings before tax</b>	<b>298</b>	<b>385</b>	<b>(23%)</b>
Net fair value items	156	361	(57%)
Gains / (losses) on investments	269	155	74%
Impairment charges	(15)	(11)	(36%)
Other income / (charges)	(164)	38	
<b>Income before tax</b>	<b>544</b>	<b>928</b>	<b>(41%)</b>
Income tax	(125)	(217)	42%
<b>Net income</b>	<b>419</b>	<b>711</b>	<b>(41%)</b>
<b>Net underlying earnings</b>	<b>238</b>	<b>292</b>	<b>(18%)</b>
Life insurance gross premiums	3,213	3,185	1%
Accident and health insurance premiums	216	201	7%
General insurance premiums	452	451	0%
<b>Total gross premiums</b>	<b>3,881</b>	<b>3,837</b>	<b>1%</b>
Investment income	2,192	2,161	1%
Fees and commission income	329	348	(5%)
<b>Total revenues</b>	<b>6,402</b>	<b>6,346</b>	<b>1%</b>
Commissions and expenses which includes operating expenses of	1,122 823	1,058 748	6% 10%
<b>New life sales</b>			
Amounts in EUR million	2011	2010	%
Life & Savings	81	83	(2%)
Pensions	173	165	5%
<b>Total recurring plus 1/10 single</b>	<b>254</b>	<b>248</b>	<b>2%</b>
New premium production accident and health insurance	27	26	4%
New premium production general insurance	27	26	4%
<b>Gross deposits (on and off balance)</b>			

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Life & Savings	1,968	2,036	(3%)
Pensions	80	346	(77%)
<b>TOTAL GROSS DEPOSITS</b>	<b>2,048</b>	<b>2,382</b>	<b>(14%)</b>



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**RESULTS 2011 THE NETHERLANDS**

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

**NET INCOME**

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

**UNDERLYING EARNINGS BEFORE TAX**

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

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

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

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

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

**COMMISSIONS AND EXPENSES**

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

**PRODUCTION**

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

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as mortgage production slowed down.

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

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

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**RESULTS 2010 THE NETHERLANDS**

Amounts in EUR million	2010	2009	%
<b>Income by product segment</b>			
Life & Savings	186	180	3%
Pensions	153	174	(12%)
Non life	33	29	14%
Distribution	16	16	
Share in underlying earnings before tax of associates	(3)	(1)	
<b>Underlying earnings before tax</b>	<b>385</b>	<b>398</b>	<b>(3%)</b>
Net fair value items	361	(374)	
Gains / (losses) on investments	155	351	(56%)
Impairment charges	(11)	(111)	90%
Other income / (charges)	38		
<b>Income before tax</b>	<b>928</b>	<b>264</b>	
Income tax	(217)	(23)	
<b>Net income</b>	<b>711</b>	<b>241</b>	<b>195%</b>
<b>Net underlying earnings</b>	<b>292</b>	<b>298</b>	<b>(2%)</b>
Life insurance gross premiums	3,185	3,066	4%
Accident and health insurance premiums	201	206	(2%)
General insurance premiums	451	457	(1%)
<b>Total gross premiums</b>	<b>3,837</b>	<b>3,729</b>	<b>3%</b>
Investment income	2,161	2,211	(2%)
Fees and commission income	348	383	(9%)
<b>Total revenues</b>	<b>6,346</b>	<b>6,323</b>	
Commissions and expenses which includes operating expenses of	1,058 748	1,181 873	(10%) (14%)
<b>New life sales</b>			
Amounts in EUR million	2010	2009	%
Life & Savings	83	82	1%
Pensions	165	157	5%
<b>Total recurring plus 1/10 single</b>	<b>248</b>	<b>239</b>	<b>4%</b>
New premium production accident and health insurance	26	17	53%
New premium production general insurance	26	26	
<b>Gross deposits (on and off balance)</b>			
Life & Savings	2,036	3,032	(33%)

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Pensions	346	402	(14%)
<b>TOTAL GROSS DEPOSITS</b>	<b>2,382</b>	<b>3,434</b>	<b>(31%)</b>

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**RESULTS 2010 THE NETHERLANDS**

AEGON's operation in the Netherlands reported strong results for 2010. Net income increased considerably as a result of lower impairments and improved results from fair value items. At the beginning of the year, AEGON sold its funeral insurance activities. During the fourth quarter the company announced a reorganization of its banking activities. This is part of AEGON's strategy to focus on its core businesses.

**NET INCOME**

Net income from AEGON's businesses in the Netherlands increased to EUR 711 million. This sharp increase was the result of a significant improvement in the performance of fair value items and lower impairments, somewhat offset by fewer realized gains on investments compared with 2009.

**UNDERLYING EARNINGS BEFORE TAX**

Underlying earnings before tax declined 3% during the year to EUR 385 million as increased underlying earnings before tax from Life & Savings and Non-life were more than offset by lower Pensions underlying earnings before tax.

Life & Savings increased to EUR 186 million as improved margins on savings account balances were only partly offset by a loss of underlying earnings before tax due to the sale of the funeral insurance business.

Underlying earnings before tax from Pensions declined to EUR 153 million, mainly as a result of lower investment income.

Non-life underlying earnings before tax increased to EUR 33 million as a result of more favorable Motor and Fire insurance claim levels.

Underlying earnings before tax from Distribution remained level at EUR 16 million.

**COMMISSIONS AND EXPENSES**

Commissions and expenses declined by 10% in 2010 due to lower operating expenses. Operating expenses declined 14% during the year to EUR 748 million. The decline was due mainly to cost savings measures and the transfer of asset management activities to AEGON Asset Management.

**PRODUCTION**

Total new life sales in the Netherlands increased 4%. AEGON successfully utilized its leading position in the Dutch pension market to secure a number of sizeable group pension contracts during the year. Individual life sales were level at EUR 83 million as a result of continued demand for mortgage-related products and immediate annuities. This was a strong result, given that the market as a whole is declining. Following changes in government regulations, the disability insurance market in the Netherlands is now more open to private sector insurers. As a result, AEGON accident & health premium production increased 53% to EUR 26 million for the year.

AEGON reported EUR 2.4 billion of gross deposits for 2010, a decrease of 31% compared with 2009 as a result of lower savings deposits. Net deposits turned negative for the year as a result of higher outflows from savings accounts due to lower interest rates offered on savings accounts.

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**BACKGROUND THE NETHERLANDS**

AEGON has a history in the Netherlands that dates 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 approximately 5,000 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 and offices in Leeuwarden and Groningen.

In September 2011, AEGON The Netherlands announced a restructuring plan that will result in a loss of 300 positions as part of previously announced strategic plans to reduce the size and costs of the Dutch business. This plan was also aimed at increasing the flexibility and strength of the organization. The reorganization, as well as other initiatives, will result in annual savings to the Dutch company of approximately EUR 100 million as compared to its costs in 2010. Most of the cost savings are expected to be achieved during 2012.

**ORGANIZATIONAL STRUCTURE**

AEGON is one of the most widely recognized brand names in the Dutch financial services sector (Source: Tracking Report Motivaction). Besides under the name AEGON, AEGON The Netherlands operates through a number of other brands, including TKP Pensioen, OPTAS and Meeùs.

AEGON The Netherlands' primary subsidiaries are:

AEGON Bank N.V.

AEGON Levensverzekering N.V.

AEGON Schadeverzekering N.V.

AEGON Spaarkas N.V.

OPTAS Pensioenen N.V.

AEGON Hypotheken B.V.

TKP Pensioen B.V.

Unirobe Meeùs Groep B.V.

In line with AEGON's strategic plan, TKP Investments was sold to AEGON Asset Management Holding B.V. in 2011.

AEGON The Netherlands is present in four lines of business:

Life and savings

Pensions

Non-life

Distribution

## **OVERVIEW SALES AND DISTRIBUTION CHANNELS**

AEGON The Netherlands sells its products through several different channels. Corporate & Institutional Clients, part of the business line Pensions, serves large corporations and financial institutions such as company and industry pension funds. AEGON's intermediary channel focuses on independent agents and retail sales organizations in the Netherlands. This channel is used by all business lines. The direct channel is used by AEGON Bank (mainly for savings) and a strategic partnership with the Dutch retailer Kruidvat.

## **OVERVIEW LINES OF BUSINESS**

### **LIFE AND SAVINGS**

#### **GENERAL DESCRIPTION**

AEGON The Netherlands provides a variety of individual savings products and a range of life insurance and personal protection products and services, including traditional, universal and term life. Life and savings is the largest line of business of AEGON The Netherlands, based on underlying earnings before tax.

#### **PRODUCTS**

The life and savings products of AEGON The Netherlands consist of the following products:

#### **ENDOWMENT INSURANCE**

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

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

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

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

There are different kinds of profit sharing arrangements. Bonuses are either paid in cash (mainly in pension business, as described 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. Together they 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 in the event of death of the insured during the term of the contract. Whole life insurance pays out death benefits in the event of death, regardless of the timing of this event. Premiums and amounts insured are established at inception of the contract and are guaranteed. The amount insured may be adjusted on request of the policyholder. In principle, term life insurance policies will not include profit sharing arrangements. Part of the portfolio of whole life insurance has profit-sharing features, which are based on external indices or return of related assets.

### ANNUITY INSURANCE

Annuity insurance includes products in the accumulation phase and in the payout phase. Payout commences at a date determined in the policy and usually continues until death of the insured or the beneficiary. Premiums are paid at inception of the policy or during the accumulation phase of the policy. The contracts contain minimum guarantees of 3% or 4%.

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

### VARIABLE UNIT-LINKED PRODUCTS

These products have a minimum benefit guarantee if premiums are invested in certain funds. The initial guarantee period is ten years.

### TONTINE PLANS

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

### MORTGAGE LOANS

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

### SAVINGS ACCOUNTS

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

### INVESTMENT CONTRACTS



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

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

### LEVENSLLOOP

Levensloop allows savers to put aside a certain amount each year, tax free, either to fund their retirement, retire early, or finance a sabbatical. Many companies in the Netherlands have decided to include Levensloop in their overall employee benefit packages. The Levensloop scheme will be replaced in 2012 by a Vitality scheme that encourages saving for care leave, education or part time pension. As the government wants to encourage people to work longer, early retirement will be excluded from this scheme.

### BANKSPAREN

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

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**SALES AND DISTRIBUTION**

Life and savings products are sold through AEGON's intermediary channel and AEGON Bank. The Levensloop contracts offered by large organizations to their employees are sold through AEGON's Corporate & Institutional Clients sales organization.

**PENSIONS****GENERAL DESCRIPTION**

Pensions provides a variety of full service pension products to pension funds and companies. In 2011, it accounted for approximately 30% of the AEGON The Netherlands total underlying earnings before tax.

**PRODUCTS**

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

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

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

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

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

**SALES AND DISTRIBUTION**

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

For the majority of company and industry customers, AEGON The Netherlands provides a full range of pension products and services. In addition, TKP Pensioen is specialized in pension administration for company and industry pension funds.

**NON-LIFE****GENERAL DESCRIPTION**

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

Non-life consists of general insurance and accident & health insurance. In 2011, Non-life accounted for approximately 2% of the AEGON The Netherlands total underlying earnings before tax.

### **PRODUCTS**

#### **GENERAL INSURANCE**

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

#### **ACCIDENT AND HEALTH INSURANCE**

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

#### **SALES AND DISTRIBUTION**

AEGON The Netherlands offers a limited range of non-life insurance products through the AEGON intermediary channel and the direct channel through AEGON Bank and partnerships.

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(White labelling, amongst others Kruidvat). Corporate & Institutional Clients also provides products for larger corporations in the Netherlands.

### **DISTRIBUTION**

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

### **COMPETITION**

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

AEGON The Netherlands has been a key player in the total life market for many years. The life insurance market in the Netherlands, comprising both pensions and life insurance, is very concentrated. The top six companies account for approximately 90% of premium income in the Netherlands (Source: DNB Supervision Returns 2010). In the pensions market, AEGON The Netherlands ranks first, based on gross premium income in 2010. In the individual life insurance market AEGON The Netherlands takes sixth place, based on gross premium income 2010, behind ING, SNS Reaal, Eureko, ASR and Delta Lloyd/OHRA (Source: DNB Supervision Returns 2010). Combined, in total life, AEGON The Netherlands ranks second after ING (Source: DNB Supervision Returns 2010).

AEGON The Netherlands is one of the smaller players on the non-life market. Achmea, ASR, Delta Lloyd/OHRA and ING hold substantial market shares, whereas the rest of the market is very fragmented. The non life market share of AEGON The Netherlands is around 4%, measured in premium income (Source: DNB Supervision Returns 2010).

In mortgage loans, AEGON The Netherlands holds a market share of approximately 6% based on new sales. Rabobank, ING and ABN AMRO are the largest parties in the mortgage loan market (Source: Kadaster). AEGON The Netherlands is currently the largest insurance company in this market. In the savings segment, AEGON The Netherlands holds approximately 2% of the savings of Dutch households and is small compared to banks like Rabobank, ING, ABN AMRO and SNS Bank (Source: DNB Statistisch Bulletin).

Several changes in regulations in recent years 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, low economic growth and the volatility of financial markets have created uncertainty among customers and a reluctance to commit to long-term contracts. These changed legal and market conditions have augmented competition. The result is competitive pricing, focus on service levels, client retention and product innovation.

In the non-life segment, especially the accident & health, opportunities are expected to grow as the Dutch government gradually withdraws from the subject market. In the pension segment, opportunities will come from pension funds, who will insure the whole or part of the fund.

### **REGULATION AND SUPERVISION**

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

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

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

DNB is responsible for safeguarding financial stability and supervises financial institutions and the financial sector. Regulations pertaining to the supervision of financial institutions is referred to as Wet Financieel Toezicht (Act on Supervision of the Financial System). This law pertains equally to banking and insurance operations and introduced a greater degree of consistency in both requirements and supervision.

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

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.

### **FINANCIAL SUPERVISION INSURANCE COMPANIES**

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

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Dutch law does neither permit a company to conduct both life insurance and non life insurance business within one legal entity, nor is a company allowed to carry out both insurance and banking business within the same legal entity.

Every life and non-life insurance company licensed by and falling under the supervision of DNB must file audited regulatory reports 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. DNB's regulatory reporting is based on a single entity focus and is designed to highlight risk assessment and risk management.

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

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

AEGON Levensverzekering N.V.

AEGON Schadeverzekering N.V.

AEGON Spaarkas N.V.

OPTAS Pensioenen N.V.

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

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.

The text above describes the current Solvency I framework. In the near future, the Solvency I framework will be replaced by the Solvency II framework.

**FINANCIAL SUPERVISION CREDIT INSTITUTIONS**

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

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

## **ASSET LIABILITY MANAGEMENT**

The investment strategy of AEGON The Netherlands is determined and monitored by the AEGON The Netherlands Risk and Capital Committee (AEGON NL RCC). The AEGON NL RCC meets at least on a quarterly basis. The focus of these meetings is, among other activities, to ensure an optimal strategic asset allocation, to decide on interest rate hedging strategies to reduce interest rate risks, and to decide on the need for securitizations of residential mortgage portfolios to 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. Various sub-classes such as commodities, hedge funds and private equity are also included in the analyses. The result is an optimal asset allocation representing different investment risk-return profiles. Constraints such as the minimum return on equity and the maximum solvency risk also determine alternative strategic asset allocations. Most of AEGON The Netherlands' investments are managed by AEGON Asset Management. For certain specialized investments, such as hedge funds and private equity, AEGON The Netherlands hires external

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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.

**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. 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 not be able 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 conditions 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 a reinsurer. Under this arrangement, AEGON The Netherlands retains exposure of up to a maximum of EUR 1.2 million per insured person with respect to death risk and EUR 50,000 per year for disability risk (increased by EUR 1,500 per year above the age of 40). Any amount in excess of this is transferred to the reinsurer. As of January 1, 2012, AEGON The Netherlands has ended this reinsurance contract and therefore retains the full death and disability risk.

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



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**RESULTS 2011 UNITED KINGDOM**

	2011	2010	%	2011	2010	%
	Amounts in GBP million			Amounts in EUR million		
<b>Income by product segment</b>						
Life	86	60	43%	99	71	39%
Pensions	(75)	6		(86)	7	
Distribution	(6)	(5)	(20%)	(8)	(6)	(33%)
<b>Underlying earnings before tax</b>	<b>5</b>	<b>61</b>	<b>(92%)</b>	<b>5</b>	<b>72</b>	<b>(93%)</b>
Net fair value items	(5)	(8)	38%	(6)	(9)	33%
Gains / (losses) on investments	44	12		51	14	
Impairment charges	(55)	(30)	(83%)	(62)	(36)	(72%)
Other income / (charges)	(49)	41		(57)	48	
<b>Income before tax</b>	<b>(60)</b>	<b>76</b>		<b>(69)</b>	<b>89</b>	
Income tax attributable to policyholder return	(37)	(57)	35%	(43)	(67)	36%
<b>Income before income tax on shareholders return</b>	<b>(97)</b>	<b>19</b>		<b>(112)</b>	<b>22</b>	
Income tax on shareholders return	52	53	(2%)	60	62	(3%)
<b>Net income</b>	<b>(45)</b>	<b>72</b>		<b>(52)</b>	<b>84</b>	
<b>Net underlying earnings</b>	<b>33</b>	<b>103</b>	<b>(68%)</b>	<b>38</b>	<b>120</b>	<b>(68%)</b>
Life insurance gross premiums	5,611	6,344	(12%)	6,474	7,425	(13%)
<b>Total gross premiums</b>	<b>5,611</b>	<b>6,344</b>	<b>(12%)</b>	<b>6,474</b>	<b>7,425</b>	<b>(13%)</b>
Investment income	1,867	1,999	(7%)	2,154	2,340	(8%)
Fees and commission income	119	140	(15%)	137	164	(16%)
<b>Total revenues</b>	<b>7,597</b>	<b>8,483</b>	<b>(10%)</b>	<b>8,765</b>	<b>9,929</b>	<b>(12%)</b>
Commissions and expenses	732	694	5%	844	812	4%
which includes operating expenses of	409	390	5%	472	456	4%
<b>New life sales</b>						
	Amounts in GBP million			Amounts in EUR million		
Life	66	81	(19%)	77	94	(18%)
Pensions	672	826	(19%)	775	967	(20%)
<b>Total recurring plus 1/10 single</b>	<b>738</b>	<b>907</b>	<b>(19%)</b>	<b>852</b>	<b>1,061</b>	<b>(20%)</b>
<b>Gross deposits (on and off balance)</b>						
Variable annuities	49	82	(40%)	56	96	(42%)
<b>TOTAL GROSS DEPOSITS</b>	<b>49</b>	<b>82</b>	<b>(40%)</b>	<b>56</b>	<b>96</b>	<b>(42%)</b>

Exchange rates	Weighted average rate		Closing rate as of	
	2011	2010	Dec. 31, 2011	Dec. 31, 2010
Per 1 EUR				
GBP	0.8667	0.8544	0.8353	0.8608

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**RESULTS 2011 UNITED KINGDOM**

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

**NET INCOME**

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

**UNDERLYING EARNINGS BEFORE TAX**

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

Earnings from Life increased to GBP 86 million, mainly as a result of one-time benefits related to the annuities business and a curtailment gain related to changes to the employee pension plan (GBP 8 million). In addition, the effect of cost reductions contributed to the increase.

Pensions recorded a loss of GBP 75 million, reflecting a charge of GBP 79 million related to the customer redress program. Expenses related to the execution of this program amounted to GBP 36 million during 2011. This was partly offset by a curtailment gain of GBP 38 million as a result of changes to the employee pension plan in the fourth quarter. Investments related to the development of AEGON's new pension proposition amounted to GBP 26 million. Additionally, 2010 included a full year of earnings from Guardian, which was sold in the third quarter of 2011.

Distribution recorded a loss of GBP 6 million, comparable with the loss in 2010.

**COMMISSIONS AND EXPENSES**

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

**PRODUCTION**

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

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**RESULTS 2010 UNITED KINGDOM**

	2010	2009	%	2010	2009	%
	Amounts in GBP million			Amounts in EUR million		
<b>Income by product segment</b>						
Life	60	38	58%	71	42	69%
Pensions	6	25	(76%)	7	23	(70%)
Distribution	(5)	(16)	69%	(6)	(18)	67%
<b>Underlying earnings before tax</b>	<b>61</b>	<b>47</b>	<b>30%</b>	<b>72</b>	<b>52</b>	<b>38%</b>
Net fair value items	(8)	25		(9)	28	
Gains / (losses) on investments	12	70	(83%)	14	79	(82%)
Impairment charges	(30)	(163)	82%	(36)	(184)	80%
Other income / (charges)	41	59	(31%)	48	67	(28%)
<b>Income before tax</b>	<b>76</b>	<b>38</b>	<b>100%</b>	<b>89</b>	<b>42</b>	<b>112%</b>
Income tax attributable to policyholder return	(57)	(59)	3%	(67)	(66)	(2%)
<b>Income before income tax on shareholders return</b>	<b>19</b>	<b>(21)</b>		<b>22</b>	<b>(24)</b>	
Income tax on shareholders return	53	29	83%	62	33	88%
<b>Net income</b>	<b>72</b>	<b>8</b>		<b>84</b>	<b>9</b>	
<b>Net underlying earnings</b>	<b>103</b>	<b>59</b>	<b>75%</b>	<b>120</b>	<b>66</b>	<b>82%</b>
Life insurance gross premiums	6,344	6,245	2%	7,425	7,014	6%
<b>Total gross premiums</b>	<b>6,344</b>	<b>6,245</b>	<b>2%</b>	<b>7,425</b>	<b>7,014</b>	<b>6%</b>
Investment income	1,999	2,045	(2%)	2,340	2,296	2%
Fees and commission income	140	155	(10%)	164	174	(6%)
<b>Total revenues</b>	<b>8,483</b>	<b>8,445</b>		<b>9,929</b>	<b>9,484</b>	<b>5%</b>
Commissions and expenses	694	662	5%	812	743	9%
which includes operating expenses of	390	413	(6%)	456	463	(2%)
<b>New life sales</b>						
	Amounts in GBP million			Amounts in EUR million		
Life	81	183	(56%)	94	206	(54%)
Pensions	826	716	15%	967	804	20%
<b>Total recurring plus 1/10 single</b>	<b>907</b>	<b>899</b>	<b>1%</b>	<b>1,061</b>	<b>1,010</b>	<b>5%</b>
<b>Gross deposits (on and off balance)</b>						
Variable annuities	82	158	(48%)	96	177	(46%)
<b>TOTAL GROSS DEPOSITS</b>	<b>82</b>	<b>158</b>	<b>(48%)</b>	<b>96</b>	<b>177</b>	<b>(46%)</b>

Exchange rates	Weighted average rate		Closing rate as of	
	2010	2009	Dec. 31, 2010	Dec. 31, 2009
Per 1 EUR				
GBP	0.8544	0.8903	0.8608	0.8881

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56 BUSINESS OVERVIEW / RESULTS 2010 UNITED KINGDOM

**RESULTS 2010 UNITED KINGDOM**

In the United Kingdom, underlying earnings before tax from AEGON's businesses improved substantially in 2010. This was mainly the result of improved financial markets and business growth. Net income also improved, mainly due to a decrease in impairment charges.

AEGON is taking significant steps to improve its return on capital in the United Kingdom. The company is on track to reduce costs by 25% in its life and pensions operation by the end of 2011, and is directing more resources to the key growth At Retirement and Workplace Savings markets, where AEGON has leading positions. AEGON's restructuring program in the United Kingdom is progressing well. The company has set a target for a reduction in operating expenses of GBP 80 to GBP 85 million.

**NET INCOME**

Net income amounted to GBP 72 million for 2010, a significant improvement compared with GBP 8 million the previous year. Higher underlying earnings before tax and significantly lower impairments during the year more than offset a decline in fair value item results and lower realized gains on investments. Net income in 2010 also benefitted from tax credits, in particular a GBP 25 million positive impact from the reduction of the corporate tax rate from 28% to 27% effective April, 1, 2011 with consequential impact on deferred taxes.

**UNDERLYING EARNINGS BEFORE TAX**

Underlying earnings before tax from AEGON's businesses in the United Kingdom increased 30% to GBP 61 million during 2010, as a result of growth of the business and improved financial markets.

Underlying earnings before tax from the Life business increased to GBP 60 million due to growth of the annuity book in previous periods and lower expenses following the closure of the Employee Benefits business.

However, results from Pensions declined to GBP 6 million. Benefits from further business growth and improved market conditions were more than offset by the transfer of asset management activities to AEGON Asset Management, higher deferred policy acquisition costs, amortization and expenses relating to AEGON's customer redress program. AEGON began to implement a program to identify and correct historical issues within its customer policy records in May 2009. The first priority has been to deal with issues that resulted in financial detriment to customers, and to return those affected to the financial position they would have been in had the issue not occurred. The program to determine the full scope of customer redress continues. 2010 results included a GBP 25 million customer redress charge (2009 GBP 38 million).

**COMMISSIONS AND EXPENSES**

Commissions and expenses increased by 5% in 2010. This was mainly due to higher asset management fees included in commissions as a result of the transfer of asset management activities to AEGON Asset Management. Operating expenses declined 6% during the year to GBP 390 million. The decline was mainly due to cost saving measures and the transfer of the asset management activities to AEGON Asset Management, partly offset by project-related costs and charges relating to the restructuring of AEGON's operations in the United Kingdom, announced in June 2010. The restructuring aims to reduce costs by 25% in the Life & Pensions operations by the end of 2011. Further restructuring charges are expected during 2011. As already noted, a significant proportion of the targeted reduction was achieved in 2010.

**PRODUCTION**

Compared with the previous year, new life sales increased 1% to GBP 907 million. Higher sales of pensions and retirement products were offset by a planned decrease in sales of immediate annuities following repricing. Sales during 2009 included existing AEGON group personal pension business which was transferred internally to new group pension contracts. AEGON decided in 2010 not to include these rewrites as part of new business reporting. The company believes that the exclusion of such rewrites provides a clearer indication of new premium secured.

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**BACKGROUND UNITED KINGDOM**

In the UK, AEGON is a leading provider of life insurance and pensions, and it also has a strong presence in the asset management market, through Kames Capital business unit, and in financial advice markets, through its owned adviser companies Origen and Positive Solutions. AEGON UK has some two million customers, around 3,000 employees and GBP 51 billion in revenue-generating investments. AEGON UK's main offices are in three locations: Edinburgh, London and Lytham St. Annes.

In 2011, AEGON UK successfully completed a restructuring of operations in the United Kingdom which reduced operating costs by 25 percent and refocused the business on two core markets – At Retirement and Workplace Savings. Both these markets present opportunities for growth and are markets where AEGON has a heritage of expertise. In November 2011, AEGON launched a new platform proposition, AEGON Retirement Choices, which it believes will enable it to achieve growth in the At Retirement and Workplace Savings markets as the UK market develops following the regulatory changes brought about by the Retail Distribution Review and by pensions reform.

As part of this refocusing strategy, in November 2011, AEGON completed the sale of the Guardian life and pensions business to leading private equity group Cinven, for a total consideration of GBP 275 million.

**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)

Origen Financial Services Ltd.

Positive Solutions (Financial Services) Ltd.

AEGON UK is organized into two distinct businesses:

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

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

**OVERVIEW SALES AND DISTRIBUTION CHANNELS**

AEGON UK's principal means of distribution is through the intermediated financial advice channel, which is the main sales route for long-term savings, protection and retirement products in the United Kingdom. These 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 30,000 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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In November 2011, AEGON UK launched a retail platform, AEGON Retirement Choices (ARC). ARC is a technology driven delivery system for pensions, individual savings accounts (ISAs), investment bonds and other tax wrappers. It provides access to a wide range of investments and is focused on providing income solutions to customers who are planning their retirement. It allows customers to plan for the future, prepare for retirement, take an income and adapt to changing circumstances while in retirement. AEGON UK plans to launch a platform to meet the savings needs of employers and employees in 2012.

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

### **OVERVIEW LINES OF BUSINESS**

AEGON UK has three lines of business:

Life

Pensions

Distribution



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**LIFE**

**GENERAL DESCRIPTION**

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

**PRODUCTS**

**INDIVIDUAL PROTECTION**

AEGON UK offers a range of products for individual customers, including life cover, critical illness and income protection. In addition, it also provides products for companies wishing to insure key personnel. AEGON UK is now established as one of the United Kingdom's ten leading providers of individual financial protection (according to Q3 2011 figures from the Association of British Insurers).

**IMMEDIATE ANNUITY**

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

**SALES AND DISTRIBUTION**

Individual protection and annuity products are distributed through intermediated advice channels.

**PENSIONS**

**GENERAL DESCRIPTION**

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

**PRODUCTS**

**INDIVIDUAL PENSIONS**

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

Flexible personal pensions.

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

Transfers from other retirement plans.

Phased retirement options and income drawdown.

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

As an alternative to annuities, AEGON UK also offers Income for life, a 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.

#### PLATFORM

AEGON Retirement Choices (ARC) was launched in November 2011. ARC enables advisers and their customers to plan for retirement efficiently and effectively through a technology driven platform. The leading edge technology that AEGON has employed delivers an intuitive method of saving for retirement, taking income in retirement and dealing with changing circumstances. It also provides valuable online reporting and lifestyle tools that enable advisers to demonstrate their professionalism and display their advice charges in a completely transparent way. These are the three main principals of the Retail Distribution Review (RDR) which will come into effect on January 1, 2013.

#### 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 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.

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 SIPP designed to extend to group pension customers the benefits associated with individual SIPPs, such as greater investment choice.

As noted previously, AEGON UK plans to launch a platform to meet the savings needs of employers and employees in 2012.

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**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 is 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.

**UNIT-LINKED GUARANTEES**

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

**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 Retirement Choices (ARC) is distributed through intermediated advice channels.

**DISTRIBUTION**

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

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

Positive Solutions, meanwhile, brings together around 1,000 individual partners in one of the largest adviser networks in the United Kingdom.

**COMPETITION**

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

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

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 Financial Services

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

### **REGULATION**

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.

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

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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.

**ASSET LIABILITY MANAGEMENT**

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

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

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

For unit-linked business, the matching philosophy results in close matching of the unit liabilities with units in the relevant underlying funds. A proportion of the unit-linked assets is invested in funds managed by external investment managers. 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 operation of with-profit funds is complex. What is set out below is a brief summary of AEGON's overall approach:

**GUARANTEES**

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

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

**SCOTTISH EQUITABLE PLC.**

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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.

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

**MANAGEMENT OF THE WITH-PROFIT 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. This helps avoid a tontine effect building up in the fund, as the number of with-profit policyholders declines.

**REINSURANCE CEDED**

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

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

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**RESULTS 2011 NEW MARKETS**

Amounts in EUR million	2011	2010	%
<b>Income by product segment</b>			
Central & Eastern Europe	96	95	1%
Asia	(41)	(39)	(5%)
Spain & France	88	87	1%
Variable Annuities Europe	9	11	(18%)
AEGON Asset Management	60	46	30%
<b>Underlying earnings before tax</b>	<b>212</b>	<b>200</b>	<b>6%</b>
Net fair value items	(29)	(10)	(190%)
Gains / (losses) on investments	2	13	(85%)
Impairment charges	(58)	(22)	(164%)
Other income / (charges)	7	(56)	
<b>Income before tax (excluding income tax from certain proportionately consolidated associates)</b>	<b>134</b>	<b>125</b>	<b>7%</b>
<i>Income tax from certain proportionately consolidated associates included in income before tax</i>	8	10	(20%)
Income tax	(50)	(34)	(47%)
<i>Of which income tax from certain proportionately consolidated associates</i>	(8)	(10)	20%
<b>Net income</b>	<b>84</b>	<b>91</b>	<b>(8%)</b>
<b>Net underlying earnings</b>	<b>157</b>	<b>152</b>	<b>3%</b>
Life insurance gross premiums	1,317	1,306	1%
Accident and health insurance premiums	71	72	(1%)
General insurance premiums	149	159	(6%)
<b>Total gross premiums</b>	<b>1,537</b>	<b>1,537</b>	
Investment income	247	234	6%
Fees and commission income	464	479	(3%)
Other revenues	1	4	(75%)
<b>Total revenues</b>	<b>2,249</b>	<b>2,254</b>	
Commissions and expenses which includes operating expenses of	725	735	(1%)
	547	562	(3%)



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**New life sales**

Amounts in EUR million	2011	2010	%
Life	255	229	11%
Associates	28	46	(39%)
<b>Total recurring plus 1/10 single</b>	<b>283</b>	<b>275</b>	<b>3%</b>
New premium production accident and health insurance	9	11	(18%)
New premium production general insurance	25	32	(22%)
<b>Gross deposits (on and off balance)</b>			
Central & Eastern Europe	662	948	(30%)
Asia	59	53	11%
Spain & France	61	89	(31%)
Variable Annuities Europe	530	663	(20%)
AEGON Asset Management	5,244	7,329	(28%)
<b>TOTAL GROSS DEPOSITS</b>	<b>6,556</b>	<b>9,082</b>	<b>(28%)</b>

**Exchange rates**

Per 1 EUR	Weighted average rate	
	2011	2010
Czech koruna	24.5636	25.1205
Hungarian forint	278.9417	273.9494
Polish zloty	4.1154	3.9771
Chinese rin bin bi yuan	9.0576	8.9699

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**RESULTS 2011 NEW MARKETS**

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

**NET INCOME**

Net income from AEGON's operations in New Markets declined 8% to EUR 84 million as higher underlying earnings before tax and lower other charges were more than offset by lower results on fair value items and higher impairment charges. Results on fair value items amounted to EUR (29) million, mainly as a result of hedge ineffectiveness in VA Europe. Impairment charges increased to EUR (58) million and were mainly driven by increased mortgage impairments in Central & Eastern Europe. Following new legislation in Hungary, customers are allowed to repay their Swiss franc denominated mortgages at pre-set foreign currency rate between the Swiss franc and the Hungarian forint. Other charges of EUR 56 million in 2010 included restructuring charges related to the restructuring in AEGON Asset Management and charges related to legislation changes in Central & Eastern Europe, which did not recur in 2011. In addition, 2011 included a favorable EUR 37 million following a settlement of a legal case in AEGON Asset Management.

**UNDERLYING EARNINGS BEFORE TAX**

In New Markets, AEGON reported underlying earnings before tax of EUR 212 million, an increase of 6% compared to 2010. The increase is mainly a result of higher underlying earnings from AEGON Asset Management.

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

Results from AEGON's operations in Asia declined to EUR (41) million, a decline of 5% as the positive impact from growth of the business and cost reductions have been offset by the inclusion of the expenses related to the Asian regional office. The results for the regional office in Asia have been included since the first quarter of 2011, following the implementation of the new operational structure for the Asian operations.

Earnings from Spain & France amounted to EUR 88 million and remained level compared to 2010. Earnings from Spain increased to EUR 66 million as a result of business growth in Spain and the inclusion of earnings from Caixa Sabadell Vida. Earnings contributions from partner La Mondiale in France declined to EUR 22 million.

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

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

**COMMISSIONS AND EXPENSES**

Commissions and expenses declined by 1% in 2011. Operating expenses declined 3% to EUR 547 million in 2011, as a result of lower operating expenses in AEGON Asset Management and incurred cost savings in Central & Eastern Europe.

**PRODUCTION**

New life sales increased 3% to EUR 283 million.

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

New life sales in Spain & France remained level at EUR 143 million, as the inclusion of Caixa Sabadell Vida offset lower production at one of our distribution partners in Spain.

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

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

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**RESULTS 2010 NEW MARKETS**

Amounts in EUR million	2010	2009	%
<b>Income by product segment</b>			
Central & Eastern Europe	95	117	(19%)
Asia	(39)	(14)	(179%)
Spain & France	87	71	23%
Variable Annuities Europe	11	(4)	
AEGON Asset Management	46		
<b>Underlying earnings before tax</b>	<b>200</b>	<b>170</b>	<b>18%</b>
Net fair value items	(10)	3	
Gains / (losses) on investments	13	5	160%
Impairment charges	(22)	(27)	19%
Other income / (charges)	(56)	(387)	86%

**Income before tax** (*excluding income tax from ce*)