AEGON NV
Form 20-F
March 22, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 20-F

-

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR(g) OF THE**

SECURITIES EXCHANGE ACT OF 1934

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

SECURITIES EXCHANGE ACT OF 1934

For the transition period from_____to_____

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-10882

-

Aegon N.V.

(Exact name of Registrant as specified in its charter)

-

Not Applicable

(Translation of Registrant s name into English)

The Netherlands

(Jurisdiction of incorporation or organization)

Aegonplein 50, PO Box 85, 2501 CB The Hague, The Netherlands

(Address of principal executive offices)

D. D. Button

Executive Vice-President

Aegon N.V.

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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.

Title of each class	Name of each exchange on which registered
Common shares, par value EUR 0.12 per share	**New York Stock Exchange**

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

Not applicable

(Title of Class)

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

Not applicable

(Title of Class)

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

x Yes No ¨

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

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

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

x Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer

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

¨ U.S. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other

If other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

¨ Item 17 ¨Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes No x

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Introduction

Filing

This document contains Aegon s Annual Report 2012 and will also be filed as Aegon s Annual Report on Form 20-F with the United States Securities and Exchange Commission (SEC).

About this report

This report serves as Aegon s Annual Report prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (IFRS), and with Part 9 of Book 2 of the Dutch Civil Code for the year ended December 31, 2012, for Aegon N.V. (the company) and its subsidiaries (collectively known as Aegon). This report presents the Consolidated Financial Statements of Aegon (pages 132-286) and the Parent Company Financial Statements of Aegon (pages 290-304). Cross references to Form 20-F are set out on pages I-II of this report.

Presentation of certain information

Aegon N.V. is referred to in this document as Aegon, or the company. Aegon N.V. together with its member companies are referred to as the Aegon Group. For such purposes, member companies means, in relation to Aegon N.V., those companies that are required to be consolidated in accordance with legislative requirements of the Netherlands relating to consolidated accounts.

References to the NYSE are to the New York Stock Exchange and references to the SEC are to the Securities and Exchange Commission. Aegon uses EUR and euro when referring to the lawful currency of the member states of the European Monetary Union; USD, and US dollar when referring to the lawful currency of the United States of America; GBP , UK pound and pound sterling when referring to the lawful currency of the United Kingdom; CAD and Canadian dollar whe referring to the lawful currency of Canada; PLN when referring to the lawful currency of Poland; CNY when referring to the lawful currency of the People s Republic of China; RON when referring to the lawful currency of Romania; HUF when referring to the lawful currency of Hungary; TRY when referring to the lawful currency of Turkey and CZK when referring to the lawful currency of Czech Republic.

Aegon prepares its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code for purposes of reporting with the U.S. Securities and Exchange Commission (SEC), including financial information contained in this Annual Report on Form 20-F. Aegon s accounting policies and its use of various options under IFRS are described in note 2 to the consolidated financial statements.

Other than for SEC reporting, Aegon prepares its Annual Accounts under International Financial Reporting Standards as adopted by the European Union, including the decisions Aegon made with regard to the options available under International Financial Reporting Standards as adopted by the EU (IFRS-EU). IFRS-EU differs from IFRS in respect of certain paragraphs in IAS 39 Financial Instruments: Recognition and Measurement regarding hedge accounting for portfolio hedges of interest rate risk. Under IFRS-EU, Aegon applies fair value hedge accounting for portfolio hedges of interest rate risk (fair value macro hedges) in accordance with the EU carve out version of IAS 39. Under IFRS, hedge accounting for fair value macro hedges cannot be applied to mortgage loans and ineffectiveness arises whenever the revised estimate of the amount of cash flows in scheduled time buckets is either more or less than the original designated amount of that bucket.

This information is prepared by reversing the hedge accounting impacts that are applied under the EU carve out version of IAS 39. Financial information under IFRS accordingly does not take account of the possibility that had Aegon applied IFRS as its primary accounting framework it might have applied alternative hedge strategies where those alternative hedge strategies could have qualified for IFRS compliant hedge accounting. These decisions could have resulted in different shareholders equity and net income amounts compared to those indicated in this Annual Report on Form 20-F.

A reconciliation between IFRS-EU and IFRS is included in note 2.1 to the consolidated financial statements.

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Letter of the CEO

There has never been a better time - or a greater need - for Aegon s core business of helping people achieve long-term financial security and peace of mind. I am therefore pleased to report that during 2012 we made meaningful progress in transforming Aegon s ability to better understand the needs of our customers.

Faced with lingering uncertainty over the current economic environment, individuals and families seek broader options in managing their finances and planning for retirement - not only with regard to the solutions available, but in how they access them. At the same time, both our current and future customers increasingly demand new ways of interacting with us, and with the ease that online technology makes possible in their many other commercial and social interactions. They also bring greater scrutiny to the products and services we provide - and are readily aware of alternatives available elsewhere. They expect higher levels of service, clearer communications and the assurance that the products we provide them actually address the specific needs they have identified. We believe these circumstances present a tremendous opportunity for Aegon, but they require that we change the way we think about and manage our business.

It is for these reasons that we have embarked on a journey to get much closer to the people who depend on us. During the past year, our management has taken a number of decisive steps to realign our businesses and improve our interactions with customers. These include working to re-establish and strengthen their trust; working to leverage the potential of digital technology to provide greater customer access, better service and a distinctive, positive experience, and at the same time, working to create greater simplicity and transparency in our products and services. Clear examples of how our customer-centric approach is being integrated in all parts of our businesses include involving actual customers in rewriting marketing brochures and correspondence so that they are easily understood by all customers, simplifying back-office systems, introducing new products and online distribution channels and using social media to strengthen customer relationships and Aegon s brand identity. We have also engaged Aegon employees through in-depth discussions about the basis of our strategy to ensure broad understanding and a clear view for how each and every person can contribute to our ambitions. We recognize the essential role our employees play in creating the level of customer loyalty that will distinguish Aegon as a leader in each of our markets. Consequently, we are committed to providing the training and tools necessary for personal and professional development, as well as fostering a culture of innovation whereby new ideas and approaches have the opportunity to be heard and implemented.

Aegon is today a company transformed by the actions we have taken to realign our entire organization to a very simple objective: putting the customer first in everything we do, as well as how we do it. In the Americas, the United Kingdom and the Netherlands we have been working to streamline our operations in order to improve our ability to respond to market opportunities. In these established markets, we are committed to further leveraging our strong capabilities to address the needs of the at-retirement population, those looking to retire in a few short years and needing to make provisions for a steady income during retirement. Given the continued shift in responsibilities of retirement security from governments and employers to individuals - and with people living longer than at any other time in history - we are determined to fully exploit our expertise in providing the long-term financial guarantees which create the possibility for a retirement with confidence and dignity.

Within our newer markets in Asia, Central & Eastern Europe and Latin America, we are making steady progress in building sustainable businesses, as well as strengthening and developing new approaches in digital distribution. In these markets the potential for protection and savings products is significant, and we intend to serve a larger share of the developing need.

Ensuring that our ability to keep the promises we make to our customers is never in doubt, we have substantially improved Aegon s risk profile, while maintaining a strong balance sheet and capital position - advantages that have served us well in the continuing economic turmoil. With interest rates at historic lows, we have repriced certain products, lowered guarantees of others, and ceased selling those that no longer offer value for our customers or reflect our risk-return discipline. We have likewise maintained a sharp focus on reducing our costs, recognizing that in this new environment we must now compete with non-traditional providers who increasingly sell financial products online or through retail outlets, and typically with a much lower cost base. Moreover, reducing costs is essential to our ability not only to improve the returns generated by our businesses, but on the capital our shareholders continue to provide.

During the course of 2012, we have further strengthened our broader commitments to society and defined additional criteria for measuring our performance, beyond financial metrics.

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Last year, we joined other leading insurance companies in signing the United Nations Principles for Sustainable Insurance. These four principles aim to incorporate sustainability measurers into the day-to-day management of business operations and we have established clear targets reflecting our commitment to them. In addition, we have developed a new Responsible Investment Policy to ensure that as a substantial investor we also take environmental, economic, social and governance factors into account - in addition to financial performance - when making decisions to invest in other companies.

Our ambition has not changed - it is to be a leader in all our chosen markets. This does not necessarily mean being the largest provider, though sufficient scale is necessary to offer products at competitive prices and also attract the most talented employees. Ultimately, we define leadership as being the most recommended by customers, by business partners and our intermediaries - and, equally important - being the most preferred employer in our sector.

On behalf of our management team, I wish to thank our talented and dedicated colleagues around the world who each day commit themselves to delivering on our promises, improving our operations and making a positive difference in the communities in which they

work and live. They have been responsible for changing Aegon for the better during these past several years and continue to be our greatest advantage in competing successfully in the new environment which is redefining our business.

We are likewise grateful for the continued confidence of our many other stakeholders and pledge our determined efforts to further justify that confidence, while creating the long-term value that they, and all who entrust us with their financial security needs, have every reason to expect.

Alex Wynaendts

Chief Executive Officer and Chairman

of the Executive Board of Aegon N.V.

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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.

Jan J. Nooitgedagt (1953, Dutch)

Chief Financial Officer

Member of the Executive Board

Member of the Management Board

Jan Nooitgedagt has worked in Europe s financial services sector for over 30 years. Formerly with PWC, he joined Ernst & Young in 1980, becoming a partner in the firm in 1989. Mr. Nooitgedagt headed Ernst & Young s financial services business in the Netherlands for five years until his appointment in 2005 to the firm s Executive Committee. A year later, Mr. Nooitgedagt was appointed Chairman of Ernst & Young in the Netherlands and became Managing Partner for the Netherlands and Belgium in July 2008. He was appointed member of Aegon s Executive Board and Chief Financial Officer in April 2009. Mr. Nooitgedagt will retire at the end of his current term (May 2013), in line with Aegon s retirement arrangements for Executive Board members. Mr. Nooitgedagt is a member of the Supervisory Board of Bank Nederlandse Gemeenten N.V. (not listed) and Chairman of the Supervisory Board of Nyenrode Foundation (not listed).

Adrian Grace (1963, British)

Member of the Management Board

Chief Executive Officer of Aegon UK

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

Tom Grondin (1969, Canadian)

Member of the Management Board

Chief Risk Officer of Aegon N.V.

Tom Grondin began his career working in various positions in Canadian insurance companies. In 1997 he moved to the United States to take up a position at Tillinghast-Towers Perrin as a consultant. Mr. Grondin joined Aegon in 2000 as Director of Product Development and Risk Management and was later promoted to Chief Actuary of Aegon USA s Institutional Markets operating unit. Mr. Grondin was appointed Chief Risk Officer of Aegon N.V. in August 2003 and a member of Aegon s Management Board on January 1, 2013.

Marco B.A. Keim (1962, Dutch)

Member of the Management Board

Chief Executive Officer of Aegon the Netherlands

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

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Gábor Kepecs (1954, Hungarian)

Member of the Management Board

Chief Executive Officer of Aegon Central & Eastern Europe

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

Mark Mullin (1963, American)

Member of the Management Board

Chief Executive Officer of Aegon Americas

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

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Aegon s strategy

Aegon is an international provider of life insurance, pensions and asset management products, with businesses in more than 20 markets in the Americas, Europe and Asia and EUR 458 billion in revenue-generating investments. Aegon employs over 24,000 people, who serve millions of customers across the globe.

Aegon s ambition is to become a leader in all its chosen markets by 2015. This means becoming the most recommended life and pensions provider among customers, the preferred partner among distributors, and the employer of choice for both current and prospective employees. Aegon is focused on reshaping its business, forging new direct relationships and earning customers trust.

Since the 2008 financial crisis, Aegon has undergone a significant financial transformation, including rationalizing its portfolio (for example divestment of its reinsurance business in the United States and Guardian in the United Kingdom), major cost restructurings in its main markets and running-off or de-emphasizing several of its US-based businesses, due to the historically low interest rate environment. In 2011, Aegon completed full repayment of the capital support provided by the Dutch government at the beginning of the financial crisis.

These actions have enabled Aegon to achieve a solid financial position and deal effectively with the persistent market uncertainty, while reshaping its businesses to better serve the developing and varied needs of its customers seeking long-term financial security. During 2012, Aegon continued its divestment of non-core businesses, while capturing new business opportunities and further strengthening business prospects in its main markets. This includes increasing earnings generated from fee-based business (versus earnings derived from spread business dependent on interest rate spreads) as one of the key elements of the company s strategy to reduce its exposure to financial markets.

Market conditions

The global economy weakened over the course of 2012. The United States continued its moderate recovery, however, the eurozone dropped back into recession.

The US growth rate of approximately 2% compares favorably to Western Europe. However, it is seen as too weak to significantly improve labor market conditions. To support economic growth the Federal Reserve in September 2012 announced its third quantitative easing program. Furthermore, the Federal Reserve stated its intention to keep the Federal funds rate near zero until at least mid-2015. Toward the end of 2012, further economic uncertainty arose over the legislative budget impasse in the United States and the prospect of the fiscal cliff. This refers to automatic austerity measures of roughly 5% of the Gross

Domestic Product being enacted in the event that Congress and the Administration are unable to reach agreement on measurers to address the sizeable budget deficit. A positive development in 2012 was the early improvement experienced in the US housing market.

In Europe, economic growth deteriorated due to the eurocrisis and the severe austerity measures being implemented. Greece, Italy, Portugal and Spain all experienced deep recessions, but other countries were also negatively affected. The German economy grew by approximately 1%, France experienced stagnant growth, while the United Kingdom, the Netherlands and the southern peripheral economies were in a state of recession. Growth also slowed in Central & Eastern Europe, Asia and Latin America. The emerging markets were adversely impacted by a combination of effects from the advanced economies and unfavorable domestic developments.

At the start of 2012, spreads on peripheral bonds decreased due to large liquidity operations by the European Central Bank (ECB). The positive sentiment proved to be short-lived. Toward the summer, the eurocrisis deepened as financial market pressures intensified, especially with respect to Spain, and to a lesser extent to Italy. The deepening of the crisis necessitated additional policy measures at national and European level. National authorities expanded their austerity programs. The European Council started negotiations on the banking union and agreed on broadening of the European Stability Mechanism (ESM) mandate. Mario Draghi, the president of the ECB, pledged to do whatever it takes to save the euro and the ECB announced the possibility to undertake so-called Outright Monetary Transactions (OMTs), through which it can purchase government securities of countries requesting assistance from the European Financial Stability Facility /ESM. The eurozone members progressed toward a solution for troubled Greece. The combination of measures resulted in a significant easing of market pressures.

The safe haven German 10-year interest rates dropped to below 1.2% at the height of the eurozone crisis. With the easing of market pressures, interest rates increased somewhat, but remain at very low levels. At the short end of the yield curve, German interest rates remained close to, or below, zero.

The deepening of the eurocrisis resulted in a weakening of the euro against the US dollar, which was reversed with the easing

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of the crisis. The euro ended the year at approximately the same level against the US dollar as at the beginning of 2012.

Despite the difficult economic environment and a drop over the second quarter of 2012, the main equity markets ended the year higher than at the beginning of the year.

The easing of financial market conditions is a welcome development. However, the continuing fragile economic environment, the large degree of uncertainty and, especially the low interest rate environment, remain challenges going forward. It would be helpful if, in 2013, further progress is made in resolving the broad range of macroeconomic difficulties and the outlook for economic growth improves.

Long-term industry trends

The life insurance and pensions industry is still going through a period of significant change, with increasing and changing customer demands and the resulting impact of new digital technologies. Moreover, the industry will continue to face further regulatory reforms and changing capital requirements under Solvency II.

These conditions notwithstanding, there are several factors creating significant growth potential for Aegon s businesses:

- **People are living longer, healthier lives.** In many countries, people are spending longer in retirement than before, and there is a growing demand for life insurance, private pensions and long-term investment products.
- **Reduced safety net.** Fewer economically active people fund the traditional safety net of pay-as-you-go state pensions. As a result, governments, particularly in Europe, are under pressure to reform pension systems. At the same time, individuals increasingly rely on private sector providers to help them finance their retirement. The private sector providers are well-positioned to offer this service, while facing the challenge of low interest rates and volatile equity market returns.
- **Customer behavior is changing.** Customers are more aware of financial risk and consequently demand simpler, more transparent products with clear financial guarantees. At the same time, public trust in the financial sector has diminished. Governments are introducing new regulations to protect consumers while there is increasing pressure for the industry to become more customer-centric.
- **Distribution patterns are changing due to new technology and changes in the regulatory environment.** Customers are increasingly using the internet and social media to identify, research and purchase financial products. In some countries, this has led to the emergence of new competitors using online distribution models, or non-traditional suppliers such as supermarkets and retailers. Established providers are under increasing pressure to reduce costs and adapt their distribution mix. Tighter government regulation to reduce commission-based selling (for example the Retail Distribution Review in the United Kingdom, new regulation in the Netherlands) will lead to changes in business models across the industry.
- **Emerging markets are becoming more important**. Economic growth and political reform have opened up new markets in Central & Eastern Europe, Asia and Latin America. In these markets, a new and ambitious middle class is emerging, creating an increased demand for life insurance, pensions and asset management products and services. Given that these fast-growing markets have the lowest life insurance penetration, the potential in these markets is substantial. China and India account for 40% of the world s population, but currently only 8% of the global life insurance market.

Aegon s strategy

Aegon s purpose is to help people take responsibility for their financial future. The company focuses on offering understandable products and services in the protection, savings and retirement market. Aegon has successfully transformed its risk profile, strengthened its capital base and simultaneously reduced its overall cost base. As a result, Aegon is now well-positioned to meet the rapidly changing demands of aging populations and an increasingly affluent developing world.

Aegon s services have never been more needed, **yet it is still adapting to the new reality.** The company is actively identifying new and growing market opportunities, as well as working to better understand the essential financial needs of all its customers, while adjusting products and services accordingly. Simultaneously, it is transforming itself further to compete in the new environment and respond effectively to new competitors and regulation.

Aegon has to get much closer to the people who depend on its products and services. A key element of Aegon s strategy is to get closer to its customers by utilizing technology and investing in innovative capabilities to address customer needs at every stage of the life cycle. Bringing established protection and saving products to new and emerging markets in Central & Eastern Europe, Asia and Latin America, as well as continuing to develop Aegon s products to meet changing customer needs remains to be one of the company s most immediate and important goals.

Aegon is pursuing these objectives by:

- Reshaping its businesses,
- Forging new direct relationships and
- Earning customers trust by putting them first in everything it does.

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Aegon s ambition is to become a leader in all its chosen markets by 2015.

In order to achieve its ambition, Aegon has defined four strategic areas of focus which it regards as essential to positioning its businesses for the future. During 2012, the company continued to make clear progress within each of these key strategic objectives:

Optimize portfolio - Focus on those businesses that reflect Aegon s core expertise and which adhere to Aegon s risk and return requirements.

- ¿ Despite challenging market conditions, Aegon s market share has been growing in various segments or remains stable across most of its businesses.
- ¿ Continuing its business transformation, Aegon divested its stake in Prisma (a 3rd party asset manager in the United States) and exited its Spanish joint venture with Banca Civica, while continuing to actively manage its other joint venture relationships in Spain given the structural reform program that has been implemented in Spain s financial sector, which triggered a wave of mergers and acquisitions among Aegon s distribution partners. In early 2013, Aegon also reached an agreement to exit its partnership with Unnim, another of its bank joint ventures in the Spanish market. In December, Aegon entered into an exclusive 25- year strategic partnership with Banco Santander, Spain s largest financial group, to distribute both protection and general insurance products through the group s extensive network of over 4,600 bank branches (including Banesto, Banif and Openbank). This partnership provides Aegon access to a potential client base of over twelve million customers. Also in December, Aegon entered into its seventh market in the Central Eastern European region with its acquisition of Fidem Life in Ukraine, the country s fifth largest life insurance provider. This newest market entry is consistent with Aegon s focus on those developing markets with a growing need for its core products and services and strong economic development prospects.
- ¿ Intent on developing a closer and ongoing relationship with customers to serve their broader financial needs, Aegon is making substantial investments in digital technology to increase direct access to customers and provide intermediaries with the necessary means to do so as well. In 2012, the company launched several initiatives focusing on building digital customer relationships, including its Retirement Choices platform in the United Kingdom, online bank Knab in the Netherlands, LifeQuote in the United States - an online platform to assess personal need and secure a preliminary pricing quote - and iHealth, the first online health product launched in India.
- ¿ Aegon continues to extend its at-retirement propositions in the company s main markets to better address the needs of its customers intent on accumulating assets even while facing retirement, and then manage those assets for a longer period of time once having fully entered retirement. Aegon achieved substantial growth in retirement-related products and services, including its strong variable annuity business. This further supports the company s shift from spread-based business to fee-based business.

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

- ¿ In order to ensure that Aegon fully understands the developing needs of its customers, Aegon s businesses have continued to adopt the Net Promoter Score (NPS) methodology to regularly measure customer loyalty on a consistent basis. NPS is now measured in 74% of the company s businesses. The results are used to further enhance service levels and increase client satisfaction.
- ¿ Aegon successfully rolled-out a branding campaign around the Transform Tomorrow theme for its Transamerica businesses and adopted this same tagline in its own brand positioning.

Deliver operational excellence - Fully leverage Aegon s significant expertise and resources across the organization; investing in technology to drive innovation and further enable cost and operational efficiencies.

- ¿ In restructuring its main businesses in the United States, the United Kingdom and the Netherlands, Aegon has significantly reduced operating costs. In the United States the company lowered expenses in its main Life & Protection business by USD 100 million; in the United Kingdom costs have been reduced by 25%; in the Netherlands, Aegon will save an additional EUR 100 million.
- ¿ Aegon received the Life Transaction of the Year Award for excellence and innovation in the insurance sector. The award is based on a transaction with Deutsche Bank to offset tail risk related to longevity. The innovative swap transaction was the first of its kind in Europe.
- ¿ Aegon continues to improve service quality across its local businesses.

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

- ¿ Actions to address the results of the Global Employee Survey in 2011 have been successfully implemented. The second Employee Survey was launched in January 2013.
- ¿ To ensure that Aegon s employees are in a position to fully understand customer needs, the company launched Customer License Programs in several businesses, whereby non-customer facing employees are able to engage directly with customers or experience Aegon from a customer perspective.
- ¿ As part of its global approach for identifying and supporting Aegon s talent, the company conducted talent reviews in all its businesses in order to identify those with the highest potential in the organization and to ensure that they are fully supported in their professional development.
- ¿ Senior management committed to a broad engagement program to ensure that employees within their country and business units understand the strategic direction of Aegon, and importantly, how the strategy relates to individual roles and responsibilities. A series of Town Hall meetings, as well as intranet-based tools and insight articles were created to support alignment across the organization.

Solvency II

Despite the continued uncertainty around the implementation date of Solvency II, Aegon has continued to remain on track with its preparations. Aegon has allocated considerable resources to the development of its partial internal model. This model is currently in the pre-application phase with Aegon s College of Supervisors. Through its engagement with several industry bodies, Aegon actively participates in discussions surrounding Solvency II with the aim of contributing to the resolution of outstanding issues. In particular, it provides input to discussions around appropriate measures to address long-term guarantee issues. A number of Aegon companies were requested by their national supervisory authorities to participate in the recent long-term guarantees assessment. Aegon has set up risk management processes and governance structures in line with Solvency II requirements so as to actively manage its business in a market-consistent and risk-sensitive manner. These processes and structures include product pricing, asset and liability management, capital management, and business strategy setting. Aegon is also continuing with refining its Own Risk and Solvency Assessment (ORSA). Aegon has started analyzing the reporting requirements in order to optimize its reporting process and align it with the requirements expected to be introduced by Solvency II. To ensure Aegon is not put at a competitive disadvantage in the way that Solvency II is implemented, Aegon is contributing to the discussions with European and US regulators and supervisors. The outcome of the EU-US Dialogue Project agreement at the end of 2012 - to pursue seven common objectives over the next five years - is an important step towards convergence between EU and US prudential regimes and will be the basis for equivalence recognition. In addition, Aegon is actively participating in a global initiative by the International Association of Insurance Supervisors (IAIS) to establish a common framework for the supervision of internationally active insurance groups (ComFrame). Aegon is on track with the ongoing transition of embedding Solvency II requirements into its existing business processes in a business as usual environment, while simultaneously keeping abreast of the latest regulatory developments.

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Business overview

History and development of Aegon

Aegon N.V., domiciled in the Netherlands, is a public limited liability company organized under Dutch law. Aegon N.V. was formed in 1983 through the merger of AGO and Ennia, both of which were successors to insurance companies founded in the 1800s.

Aegon N.V., through its member companies that are collectively referred to as Aegon or the Aegon Group, is an international life insurance, pensions and asset management company. Aegon is headquartered in the Netherlands and employs, through its subsidiaries, approximately 24,000 people worldwide. Aegon s common shares are listed on stock exchanges in Amsterdam (NYSE Euronext) and New York (NYSE).

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

The main operating units of Aegon are separate legal entities organized under the laws of their respective countries. The shares of those legal entities are directly or indirectly held by three intermediate holding companies incorporated under Dutch law: Aegon Europe Holding B.V., the holding company for all European activities, Aegon International B.V., which serves as a holding company for the Group companies of all non-European countries and Aegon Asset Management B.V., the holding company for some of its asset management entities.

Aegon operates in more than 20 countries in the Americas, Europe and Asia, serving millions of customers. Its main markets are the United States, the Netherlands and the United Kingdom.

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

Aegon has the following reportable operating segments: the Americas (which include the United States, Canada, Brazil and Mexico), the Netherlands, the United Kingdom, and New Markets, which includes a number of countries in CEE and Asia, Spain, France, Aegon Asset Management, and Variable Annuities Europe.

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Selected financial data

The financial results in this Annual Report are based on Aegon s consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

Application of the accounting policies in the preparation of the financial statements requires management to apply judgment involving assumptions and estimates concerning future results or other developments, including the likelihood, timing or amount of future transactions or events. There can be no assurance that actual results will not differ materially from those estimates. Accounting policies that are critical to the presentation of

the financial statements and that require complex estimates or significant judgment are described in the notes to the financial statements.

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

Selected consolidated income statement information					
In EUR million (except per share amount)	**2012**	2011	2010	2009	2008
Amounts based upon IFRS					
Premium income	19,526	19,521	21,097	19,473	22,409
Investment income	8,501	8,167	8,762	8,681	9,965
Total revenues [1)]	29,937	29,159	31,608	29,751	34,082
Income/ (loss) before tax	1,852	916	1,914	(464)	(1,061)
Net income/ (loss)	**1,532**	**872**	**1,760**	**204**	**(1,082)**
Earnings per common share					
Basic	0.67	(0.06)	0.76	(0.16)	(0.92)
Diluted	0.67	(0.06)	0.68	(0.16)	(0.92)

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

Selected consolidated balance sheet information					
In million EUR (except per share amount)	**2012**	2011	2010	2009	2008
Amounts based upon IFRS					
Total assets	366,066	345,576	331,995	298,540	289,156

Insurance and investment contracts	278,266	270,679	270,693	248,903	240,030
Trust pass-through securities and (subordinated) borrowings [1)]	12,881	10,040	8,604	7,314	4,824
Shareholders equity	24,630	21,000	17,328	12,273	6,169

[1] Excludes bank overdrafts

Number of common shares					
In thousands	**2012**	2011	2010	2009	2008
Balance at January 1	1,909,654	1,736,049	1,736,049	1,578,227	1,636,545
Share issuance	-	173,605	-	157,822	-
Stock dividends	62,376	-	-	-	41,452
Share withdrawal	-	-	-	-	(99,770)
Balance at end of period	**1,972,030**	**1,909,654**	**1,736,049**	**1,736,049**	**1,578,227**

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14 Business overview **Selected financial data**

Dividends

Aegon declared interim and final dividends on common shares for the years 2008 through 2011 in the amounts set forth in the following table. The 2012 interim dividend amounted to EUR 0.10 per common share. The interim dividend was paid in cash or stock at the election of the shareholder. The interim dividend was payable as of September 14, 2012. At the General Meeting of Shareholders on May 15, 2013, the Supervisory Board will, absent unforeseen circumstances, propose a final dividend of

EUR 0.11 per common share (at each shareholders option in cash or in stock), which will bring the total dividend for 2012 to EUR 0.21. Dividends in US dollars are calculated based on the foreign exchange reference rate as published each working day at 14:15 hours by the European Central Bank on the business day following the announcement of the interim dividend or on the business day following the General Meeting of Shareholders approving the relevant final dividend.

	EUR per common share [1]			USD per common share [1]		
Year	Interim	Final	Total	Interim	Final	Total
2008	0.30	-	0.30	0.45	-	0.45
2009	-	-	-	-	-	-
2010	-	-	-	-	-	-
2011	-	0.10	0.10	-	0.13	0.13
2012	0.10	0.11[2]	0.21	0.12	-	-

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

The annual dividend on Aegon s class A and class B preferred shares is calculated on the basis of the paid-in capital on the preferred shares using a rate equal to the European Central Bank s fixed interest percentage for basic refinancing transactions plus 1.75%, as determined on NYSE Euronext Amsterdam s first working day of the financial year to which the dividend relates. Apart from this, no other dividend is paid on the preferred shares. This resulted in a rate of 2.75% for the year 2011. Applying this rate to the weighted average paid-in capital of its preferred shares during 2011, the total amount of annual dividends Aegon made in 2012 on its preferred shares for the year 2011 was EUR 59 million. The rate for annual dividends, if any, on preferred shares to be made in 2013 for the year 2012, as determined on January 1, 2012, is 2.75% and the annual dividends, if any, on preferred shares for the year 2012, based on the weighted average paid-in capital on the preferred shares during 2012 will be EUR 59 million.

Exchange rates

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

As of March 1, 2013, the USD exchange rate was EUR 1 = USD 1.2988.

The high and low exchange rates for the US dollar per euro for each of the last six months through February 2013 are set forth below:

Closing rates	Sept. 2012	Oct. 2012	Nov. 2012	Dec. 2012	Jan. 2013	Feb. 2013
High (USD per EUR)	1.3142	1.3133	1.3010	1.3260	1.3584	1.3692
Low (USD per EUR)	1.2566	1.2876	1.2715	1.2930	1.3047	1.3054

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The average exchange rates for the US dollar per euro for the five years ended December 31, 2012, calculated by using the average of the exchange rates on the last day of each month during the period, are set forth below:

Year ended December 31,	Average rate[1]
2008	1.4695
2009	1.3955
2010	1.3216
2011	1.4002
2012	1.2909

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

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Business lines

Americas

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

- **Life & Protection**

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

- **Individual Savings & Retirement**

Primarily fixed and variable annuity products and retail mutual funds.

- **Employer Solutions & Pensions**

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

The Netherlands

- **Life & Savings**

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

- **Pensions**

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

- **Non-life**

General insurance, consisting mainly of automotive, liability, disability, household insurance and fire protection.

- **Distribution**

Aegon s Unirobe Meeùs distribution business.

United Kingdom

¿ **Life**

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

¿ **Pensions**

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

¿ **Distribution**

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

New Markets

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

¿ **Central & Eastern Europe**

Active in six countries: Czech Republic, Hungary, Poland, Romania, Slovakia and Turkey. Includes life insurance, individual and group pension products, savings and investments, as well as general insurance. At the end of 2012, Aegon entered into an agreement to acquire a life insurance company in Ukraine.

¿ **Spain**

Distribution partnerships with Spanish banks, offering life insurance, accident and health insurance and investment products.

¿ **France**

Partnership with French insurer and pension specialist AG2R La Mondiale.

¿ **Asia**

Direct and affinity products are marketed in Asia through Aegon Direct & Affinity Marketing Services. Aegon offers life insurance to high-net-worth individuals via the Transamerica brand Transamerica Life Bermuda. There are joint ventures in China, India and Japan. Products include (term) life insurance in China and India and variable annuities in Japan.

¿ **Variable Annuities Europe**

Variable annuities offered by Aegon companies operating in Europe and international/offshore bonds for the UK market.

¿ **Aegon Asset Management**

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

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Results of operations

Results 2012 worldwide

Underlying earnings geographically			
Amounts in EUR millions	**2012**	2011	%
Net underlying earnings	**1,382**	**1,233**	**12%**
Tax on underlying earnings	405	289	40%
Underlying earnings before tax geographically			
Americas	1,317	1,273	3%
The Netherlands	315	298	6%
United Kingdom	105	5	-
New markets	274	249	10%
Holding and other activities	(224)	(303)	26%
Underlying earnings before tax	**1,787**	**1,522**	**17%**
Net Fair value items	-	(416)	-
Gains / (losses) on investments	407	446	(9%)
Impairment charges	(176)	(388)	55%
Other income / (charges)	(162)	(267)	39%
Run-off businesses	2	28	(93%)
Income before tax (excluding income tax from certain proportionately consolidated associates)	**1,858**	**925**	**101%**
Income tax from certain proportionately consolidated associates included in income before tax	6	9	(33%)
Income tax	(326)	(53)	-
Of which Income tax from certain proportionately consolidated associates included in income before tax	(6)	(9)	33%
Net income	**1,532**	**872**	**76%**
Commissions and expenses	5,829	6,272	(7%)
of which operating expenses	3,241	3,442	(6%)

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

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

Aegon s senior management is compensated based in part on Aegon s results against targets using the non-IFRS measure presented herein. While many other insurers in Aegon s peer group present substantially similar non-IFRS measures, the non-IFRS measure presented in this document may nevertheless differ from the non-IFRS measures presented by other insurers.

There is no standardized meaning to these measures under IFRS or any other recognized set of accounting standards and readers are cautioned to consider carefully the different ways in which Aegon and its peers present similar information before comparing them. Aegon believes the non-IFRS measure shown herein, when read together with Aegon s reported IFRS financial statements, provides meaningful supplemental information for the investing public to evaluate Aegon s businesses after eliminating the impact of current IFRS accounting policies for financial instruments and insurance contracts, which embed a number of accounting policy alternatives that companies may select in presenting their results (that is companies can use different local GAAPs) and that can make the comparability from period to period difficult.

As of the first quarter of 2012, Aegon has revised its financial reporting to reflect changes in its organization. Businesses in Asia, which were previously managed by Aegon Americas, are included in the Asia line of business within the New Markets segment. For the full year 2011, the underlying earnings before tax generated by the Asian operations totaling EUR 37 million were previously reported under the Americas segment.

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New life sales			
Amounts in EUR millions	**2012**	2011	%
Americas	520	418	24%
The Netherlands	246	254	(3%)
United Kingdom	936	852	10%
New markets	253	311	(19%)
Total life production	**1,955**	**1,835**	**7%**

Gross deposits (on and off balance)			
Amounts in EUR millions	**2012**	2011	%
Americas	27,042	23,028	17%
The Netherlands	1,484	2,048	(28%)
United Kingdom	37	56	(34%)
New markets	10,909	6,556	66%
Total gross deposits	**39,472**	**31,688**	**25%**

Worldwide revenues

geographically 2012								
Amounts in EUR millions	Americas	The Netherlands	United Kingdom	New Markets	Holding, other activities and eliminations	Segment total	Associates eliminations	Consolidated
Total life insurance gross premiums	6,541	3,004	6,047	1,374	(73)	16,893	(227)	16,666
Accident and health insurance premiums	1,833	220	-	188	-	2,241	-	2,241
General insurance premiums	-	475	-	144	-	619	-	619
Total gross premiums	**8,374**	**3,699**	**6,047**	**1,706**	**(73)**	**19,753**	**(227)**	**19,526**
Investment income	3,654	2,212	2,337	319	-	8,522	(21)	8,501
Fees and commision income	1,177	329	133	524	(263)	1,900	-	1,900
Other revenue	5	-	-	3	5	13	(3)	10
Total revenues	**13,210**	**6,240**	**8,517**	**2,552**	**(331)**	**30,188**	**(251)**	**29,937**
Number of employees, including agent employees	11,967	4,457	2,793	7,160	473	26,850	(2,443)	24,407

By product segment			
Amounts in EUR millions	**2012**	2011	%
Life	986	945	4%
Individual Savings and Retirement	481	474	1%
Pensions	383	254	51%
Non-life	13	51	(75%)
Distribution	14	-	-
Asset management	101	60	68%
Other	(224)	(303)	26%
Associates	33	41	(20%)
Underlying earnings before tax	**1,787**	**1,522**	**17%**

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Results 2012 worldwide

Aegon s 2012 net income of EUR 1,532 million and underlying earnings before tax of EUR 1,787 million were higher than in 2011 resulting from business growth, implemented cost reduction programs, the non-recurrence of certain charges in the United Kingdom, and favorable markets. Sales and deposits increased compared to 2011 despite repricing and product changes made to reflect the continued low interest rate environment. Growth was driven mostly by pensions, variable annuities, mortgages and asset management. Aegon has continued to maintain a strong capital position while maintaining its commitment to delivering sustainable earnings growth with an improved risk-return profile.

Net income

Net income increased to EUR 1,532 million driven by higher underlying earnings, more favorable results on fair value items, lower impairments and lower other charges. These were only partly offset by higher tax charges and lower realized gains.

Underlying earnings before tax

Aegon s underlying earnings before tax increased 17% to EUR 1,787 million in 2012. This is the result of business growth, implemented cost reduction programs, the non-recurrence of certain charges in the United Kingdom, and favorable equity markets and currency movements.

Underlying earnings before tax from the Americas rose to EUR 1,317 million. The 3% increase compared to 2011 is mainly due to growth of the business and a strengthening of the US dollar against the euro. The positive effect of business growth and favorable equity markets was partly offset by lower fixed annuity earnings (as the product is de-emphasized) and lower Life & Protection earnings mostly the result of the non-recurrence of favorable items in 2011, recurring charges for Corporate Center expenses implemented in 2012, higher performance-related expenses and an increase in employee benefit expenses.

In the Netherlands, underlying earnings before tax increased to EUR 315 million. The 6% increase compared to 2011 was mainly due to cost savings, lower funding costs, and the wind up of several contracts in Pensions, partly offset by a higher claim ratio and investments in banking activities. Higher earnings in Life & Savings driven by lower funding costs on its growing mortgage portfolio more than offset lower earnings in Pensions and Non-life mostly driven by unfavorable claim experience.

In the United Kingdom, underlying earnings before tax increased to EUR 105 million. This improvement in earnings compared to 2011 was driven by the implementation of the cost reduction program and the non-recurrence of charges and execution expenses related to a program to correct historical issues within

customer policy records, partly offset by the benefit of changes to employee benefit plans recorded in 2011. Earnings were negatively impacted in 2012 by additional DAC amortization related to adverse persistency and investments in new propositions in the pension business.

Underlying earnings before tax from New Markets increased 10% to EUR 274 million as higher earnings from Aegon Asset Management and Asia more than offset lower underlying earnings from Spain and Central & Eastern Europe. Results in Spain were impacted by the divestment of the joint venture with Banca Cívica and the exclusion of results from Aegon s partnership with CAM pending the exit from this joint venture.

For the holding, underlying earnings before tax amounted to a loss before tax of EUR 224 million. This EUR 79 million improvement compared to 2011 was driven mostly by lower expenses as Aegon s Corporate Center expenses are now being charged, in part, to operating units. These charges reflect the services and support provided to operating units by the Corporate Center and amounted to EUR 64 million in 2012. Funding costs were also lower in 2012.

Fair value items

Results from fair value items amounted to EUR 0 million driven by positive results on the guarantee portfolio in the Netherlands, offset by negative results in the Americas and in the United Kingdom on hedges, due to higher equity markets.

Realized gains on investments

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

Impairment charges

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

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Other charges

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

Run-off businesses

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

Income tax

Net income contained a tax charge of EUR 326 million in 2012 (including a tax charge of EUR 6 million related to profits of associates), resulting in an effective tax rate of 18%. Deviation from the nominal tax rate is largely the result of tax exempt items in the United States and the Netherlands, tax credits which primarily relate to low income housing and renewable energy in the United States (EUR 69 million), benefits from a tax rate reduction in the United Kingdom (EUR 70 million), benefits from cross border intercompany reinsurance transactions (EUR 38 million) and a benefit related to the run-off of the company s institutional spread-based activities in Ireland (EUR 51 million). These benefits were partly offset by charges for non recognition and impairment of deferred tax assets (EUR 56 million) mainly in the United Kingdom.

Commissions and expenses

Commissions and expenses in 2012 decreased by 7% compared to 2011 to EUR 5,829 million, largely driven by lower operating expenses. Operating expenses decreased 6% compared to 2011 to EUR 3,241 million mainly as a result of the implementation of cost savings programs in the United Kingdom, the Netherlands and the Americas.

Production

New life sales increased in 2012 compared to 2011 in the Americas and the United Kingdom, partially offset by decreases in the Netherlands and New Markets. Gross deposits increased by 25% driven by variable annuity, retail mutual fund, retirement plan and asset management deposits. New premium production for accident & health insurance increased by 19% for the year mainly driven by travel and supplemental health insurance sales in the Americas and growth in Central & Eastern Europe.

Capital management

Aegon s core capital excluding revaluation reserves amounted to EUR 18.5 billion, equivalent to 76.7% of the company s total capital base at December 31, 2012 (2011: 73.5%) . This is above the company s capital base ratio target of at least 75% by the end of 2012.

Shareholders equity increased to EUR 24.6 billion, mainly as a result of net income and an increase in the revaluation reserves. The revaluation reserves increased EUR 2.6 billion during the year to EUR 6.1 billion, mainly a reflection of lower interest rates and credit spreads. Shareholders equity per common share, excluding preference capital and revaluation reserves, amounted to EUR 8.45 at December 31, 2012 (2011: EUR 8.19).

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

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

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Results 2011 worldwide

Underlying earnings geographically			
Amounts in EUR millions	2011	2010	%
Net underlying earnings	1,233	1,417	(13%)
Tax on underlying earnings	289	416	(31%)
Underlying earnings before tax geographically			
Americas	1,273	1,414	(10%)
The Netherlands	298	385	(23%)
United Kingdom	5	72	(93%)
New markets	249	245	2%
Holding and other activities	(303)	(283)	(7%)
Underlying earnings before tax	**1,522**	**1,833**	**(17%)**
Net Fair value items	(416)	221	-
Gains / (losses) on investments	446	658	(32%)
Impairment charges	(388)	(452)	14%
Other income / (charges)	(267)	(309)	14%
Run-off businesses	28	(26)	-
Income before tax (excluding income tax from certain proportionately consolidated associates)	**925**	**1,925**	**(52%)**
Income tax from certain proportionately consolidated associates included in income before tax	9	11	(18%)
Income tax	(53)	(165)	68%
Of which income tax from certain proportionately consolidated associates included in income before tax	(9)	(11)	18%
Net income	**872**	**1,760**	**(50%)**
Commissions and expenses	6,272	6,145	2%
of which operating expenses	3,442	3,397	1%

New life sales			
Amounts in EUR millions	2011	2010	%
Americas	418	459	(9%)
The Netherlands	254	248	2%
United Kingdom	852	1,061	(20%)
New markets	311	313	(1%)
Total life production	**1,835**	**2,081**	**(12%)**

Gross deposits (on and off balance)			
Amounts in EUR millions	2011	2010	%
Americas	23,028	21,018	10%
The Netherlands	2,048	2,382	(14%)
United Kingdom	56	96	(42%)
New markets	6,556	9,082	(28%)
Total gross deposits	**31,688**	**32,578**	**(3%)**

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Worldwide revenues geographically 2011

Amounts in EUR millions	Americas	The Netherlands	United Kingdom	New Markets	Holding, other activities and eliminations	Segment total	Associates eliminations	Consolidated
Total life insurance gross premiums	6,004	3,213	6,474	1,600	(55)	17,236	(383)	16,853
Accident and health insurance premiums	1,672	216	-	179	-	2,067	-	2,067
General insurance premiums	-	452	-	149	-	601	-	601
Total gross premiums	**7,676**	**3,881**	**6,474**	**1,928**	**(55)**	**19,904**	**(383)**	**19,521**
Investment income	3,565	2,192	2,154	320	7	8,238	(70)	8,168
Fees and commision income	766	329	137	469	(237)	1,464	-	1,464
Other revenue	1	-	-	1	4	6	-	6
TOTAL REVENUES	**12,008**	**6,402**	**8,765**	**2,718**	**(281)**	**29,612**	**(453)**	**29,159**
Number of employees, including agent employees	12,242	4,839	3,203	8,659	327	29,270	(3,982)	25,288

By product segment

Amounts in EUR millions	2011	2010	%
Life	945	1,048	(10%)
Individual Savings and Retirement	474	500	(5%)
Pensions	254	409	(38%)
Non-life	51	53	(4%)
Distribution	-	10	-
Asset management	60	46	30%
Other	(303)	(283)	(7%)
Associates	41	50	(18%)
Underlying earnings before tax	**1,522**	**1,833**	**(17%)**

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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 United Kingdom and business restructuring in its established markets. New life sales volumes were below those of 2010 as a result of repricing of products, however, deposits continued to be strong, particularly in the Americas. Aegon maintained a strong capital position during the year and by completing the repurchase of convertible core capital securities, the company has turned its focus on carrying out a strategy to deliver sustainable earnings growth with an improved risk-return profile.

Net income

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

Underlying earnings before tax

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

Underlying earnings before tax in the Americas decreased 5% to USD 1,771 million. Earnings from Life & Protection decreased mainly as a result of unfavorable persistency and lower spreads. Individual Savings & Retirement earnings remained stable as increased earnings from variable annuities and retail mutual funds were offset by lower earnings from fixed annuities as the product is de-emphasized. Earnings from Employer Solutions & Pensions increased as a result of continued strong growth of the business.

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

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

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

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

Fair value items

In 2011, fair value items recorded a loss of EUR 416 million. The significant decline compared to 2010 was driven mainly by lower results from fair value items in the Americas as Aegon lowered its interest rate assumptions which negatively impacted results during the third quarter with EUR 168 million. In addition, lower interest rates, spread widening and volatile equity markets also negatively affected results on fair value items. Less favorable results on fair value movements in the Netherlands also contributed to the decline.

Realized gains on investments

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

Impairment charges

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

Other charges

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

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Run-off businesses

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

Income tax

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

Commissions and expenses

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

Production

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

Capital management

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

Shareholders equity increased to EUR 21 billion, mainly as a result of the appreciation of the US dollar against the euro -reflected in the foreign currency translation reserves - and a significant increase in the revaluation reserves during the year. The revaluation reserves at December 31, 2011, increased mainly as the result of a decrease in interest rates which had a positive effect on the value of fixed income securities. Shareholders equity per common share, excluding preferred capital, amounted to EUR 8.19 at December 31, 2011.

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

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

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

In June 2011, Aegon completed the repurchase of convertible core capital securities from the Dutch State with a final payment of EUR 1.125 billion to repurchase 187.5 million of convertible core capital securities for EUR 750 million and EUR 375 million in premium. With this payment, Aegon fulfilled its key objective of repurchasing all of the EUR 3 billion core capital securities issued to the Dutch State at the height of the financial crisis in 2008. Aegon has paid to the Dutch State a total amount of EUR 4.1 billion, which included EUR 1.1 billion in premium and interest payments.

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Results 2012 Americas

	Amounts in USD millions			Amounts in EUR millions		
	2012	2011	%	**2012**	2011	%
Net underlying earnings	**1,248**	**1,331**	**(6%)**	**971**	**957**	**1%**
Tax on underlying earnings	444	440	1%	346	316	9%
Underlying earnings before tax by product segment						
Life & Protection	647	727	(11%)	504	523	(4%)
Fixed annuities	253	286	(12%)	197	206	(4%)
Variable annuities	352	358	(2%)	274	258	6%
Retail mutual funds	22	22	-	17	15	13%
Individual Savings and Retirement	627	666	(6%)	488	479	2%
Employer Solutions & Pensions	366	326	12%	285	234	22%
Canada	40	51	(22%)	31	37	(16%)
Latin America	12	1	-	9	-	-
Underlying earnings before tax	**1,692**	**1,771**	**(4%)**	**1,317**	**1,273**	**3%**
Net Fair value items	(98)	(663)	85%	(76)	(477)	84%
Gains / (losses) on investments	225	166	36%	175	119	47%
Impairment charges	(151)	(349)	57%	(117)	(250)	53%
Other income / (charges)	(37)	(49)	24%	(28)	(35)	20%
Run-off businesses	3	39	(92%)	2	28	(93%)
Income before tax (excluding income tax from certain proportionately consolidated associates)	**1,634**	**915**	**79%**	**1,273**	**658**	**93%**
Income tax from certain proportionately consolidated associates included in income before tax	4	1	-	3	1	-
Income tax	(318)	(20)	-	(248)	(15)	-
Of which Income tax from certain proportionately consolidated associates included in income before tax	(4)	(1)	-	(3)	(1)	-
Net income	**1,316**	**895**	**47%**	**1,025**	**643**	**59%**
Life insurance gross premiums	8,405	8,350	1%	6,541	6,004	9%
Accident and health insurance premiums	2,356	2,326	1%	1,833	1,672	10%
Total gross premiums	**10,761**	**10,676**	**1%**	**8,374**	**7,676**	**9%**
Investment income	4,694	4,959	(5%)	3,654	3,565	2%
Fees and commission income	1,512	1,066	42%	1,177	766	54%
Other revenues	6	2	-	5	1	-
Total revenues	**16,973**	**16,707**	**2%**	**13,210**	**12,008**	**10%**
Commissions and expenses	4,341	4,941	(12%)	3,378	3,553	(5%)
of which operating expenses	1,887	1,950	(3%)	1,469	1,402	5%

	Amounts in USD millions			Amounts in EUR millions		
New life sales	**2012**	2011	%	**2012**	2011	%
Life & Protection	532	442	20%	414	317	31%
Employer Solutions & Pensions	31	24	29%	24	17	41%
Canada	60	65	(8%)	47	47	-
Latin America	45	51	(12%)	35	37	(5%)
Total recurring plus 1/10 single	**668**	**582**	**15%**	**520**	**418**	**24%**

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	Amounts in USD millions			Amounts in EUR millions		
	2012	2011	%	**2012**	2011	%
New premium production accident and health insurance	905	812	11%	705	584	21%

	Amounts in USD millions			Amounts in EUR millions		
Gross deposits (on and off balance)	**2012**	2011	%	**2012**	2011	%
Life & Protection	12	12	-	9	9	-
Fixed annuities	371	313	19%	289	225	28%
Variable annuities	5,350	5,314	1%	4,163	3,821	9%
Retail mutual funds	3,437	2,785	23%	2,675	2,002	34%
Individual Savings and Retirement	9,158	8,412	9%	7,127	6,048	18%
Employer Solutions & Pensions	25,383	23,266	9%	19,755	16,727	18%
Canada	177	335	(47%)	138	241	(43%)
Latin America	17	4	-	13	3	-
Total gross deposits	**34,747**	**32,029**	**8%**	**27,042**	**23,028**	**17%**

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

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Results 2012 Americas

Aegon s businesses in the Americas[1] continued to perform well in 2012. Sales of life, accident and health insurance all increased over 2011 on expanded distribution capabilities. Variable annuity, pension and retail mutual fund balances increased while fixed annuity balances continued to decline, a direct result of Aegon s efforts to grow its fee-based earnings.

Net income

Net income from Aegon s businesses in the Americas increased to USD 1,316 million in 2012. Better results from fair value items, lower impairments and higher realized gains on investments more than offset lower underlying earnings, lower earnings from run-off businesses and higher taxes.

Results from fair value items improved from USD (663) in 2011 to USD (98) million in 2012 as better than expected alternative asset performance and the impact of tightening credit spreads more than offset by the negative impact of the macro hedge caused by higher equity markets and the continued low interest rate environment. In addition, Aegon lowered its interest rate assumptions in 2011 which led to a charge of USD 237 million in 2011.

Gains on investments of USD 225 million were realized as a result of normal trading activity. Net impairments amounted to USD 151 million, down from USD 349 million in 2011, and continue to be primarily caused by mortgage related securities.

Underlying earnings before tax

Underlying earnings before tax from the Americas amounted to USD 1,692 million in 2012, a decrease of 4% compared to 2011. The positive effect of business growth and favorable equity markets was offset by lower Life & Protection earnings mostly the result of the non-recurrence of favorable items in 2011, recurring charges for Corporate Center expenses and higher employee benefit expenses.

- Life & Protection underlying earnings before tax decreased by 11% to USD 647 million, mostly the result of the non- recurrence of favorable items in 2011.
- Underlying earnings before tax from Individual Savings & Retirement decreased by 6% to USD 627 million in 2012 driven mostly by lower fixed annuity earnings due to declining account balances as the product is de-emphasized. Earnings from variable annuities were down slightly to USD 352 million as the benefit of higher account balances was offset mainly by the negative effect of policyholder assumption changes of
USD 55 million. Earnings from retail mutual funds were flat at USD 22 million.
- Employer Solutions & Pensions underlying earnings before tax increased by 12% to USD 366 million in 2012 driven mostly by growing retirement plan account balances.
- Underlying earnings before tax from Canada decreased to USD 40 million in 2012. In Latin America underlying earnings before tax increased to USD 12 million driven by improvements in both Brazil and Mexico.

Commissions and expenses

Commissions and expenses decreased by 12% to EUR 4,341 million in 2012, mainly due to lower amortization of deferred policy acquisition costs. Operating expenses decreased by 3% to USD 1,887 million, as cost savings and lower expenses related to the divestment of the life reinsurance business were only partly offset by higher performance related employee expenses, an increase in employee benefit expenses and costs to support growth.

Production

New life sales increased 15% to USD 668 million in 2012, primarily driven by strong indexed universal life sales as distribution expanded into the brokerage channel and by higher sales of certain products as they were withdrawn from the market. New premium production for accident & health insurance amounted to USD 905 million, up 11% on increased travel insurance sales following the addition of a new distribution partner in the second half of 2011.

Gross deposits amounted to USD 34.7 billion in 2012 compared to USD 32.0 billion in 2011. Gross deposits in variable annuities, retail mutual funds and retirement plans were all higher than in 2011. Variable annuities gross deposits increased in 2012 despite product re-pricing throughout the year to reflect the continued low interest rate environment and subsequent higher hedging costs. The increase in retirement plan deposits was driven by higher takeover deposits and successful efforts to increase inflows from the existing client base through higher contributions and larger participation count.

1 As of the first quarter of 2012, Aegon has revised its financial reporting to reflect changes in its organization. Businesses in Asia, which were previously managed by Aegon Americas, are included in the Asia line of business within the New Markets segment. For the full year 2011, the underlying earnings before tax generated by the Asian operations totaling EUR 37 million were previously reported under the Americas segment. The 2011 and 2010 figures have been revised to reflect this change.

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Results 2011 Americas

	Amounts in USD millions			Amounts in EUR millions		
	2011	2010	%	2011	2010	%
Net underlying earnings	**1,331**	**1,383**	**(4%)**	**957**	**1,047**	**(9%)**
Tax on underlying earnings	440	485	(9%)	316	367	(14%)
Underlying earnings before tax by product segment						
Life & Protection	727	837	(13%)	523	634	(18%)
Fixed annuities	286	439	(35%)	206	333	(38%)
Variable annuities	358	216	66%	258	164	57%
Retail mutual funds	22	9	144%	15	7	114%
Individual Savings and Retirement	666	664	-	479	504	(5%)
Employer Solutions & Pensions	326	307	6%	234	231	1%
Canada	51	54	(6%)	37	40	(8%)
Latin America	1	6	(83%)	-	5	-
Underlying earnings before tax	**1,771**	**1,868**	**(5%)**	**1,273**	**1,414**	**(10%)**
Net Fair value items	(663)	(32)	-	(477)	(24)	-
Gains / (losses) on investments	166	497	(67%)	119	376	(68%)
Impairment charges	(349)	(504)	31%	(250)	(382)	35%
Other income / (charges)	(49)	(402)	88%	(35)	(304)	88%
Run-off businesses	39	(35)	-	28	(26)	-
Income before tax (excluding income tax from certain proportionately consolidated associates)	**915**	**1,392**	**(34%)**	**658**	**1,054**	**(38%)**
Income tax from certain proportionately consolidated associates included in income before tax	1	2	(50%)	1	2	(50%)
Income tax	(20)	66	-	(15)	50	-
Of which Income tax from certain proportionately consolidated associates included in income before tax	(1)	(2)	50%	(1)	(2)	50%
Net income	**895**	**1,458**	**(39%)**	**643**	**1,104**	**(42%)**
Life insurance gross premiums	8,350	8,584	(3%)	6,004	6,499	(8%)
Accident and health insurance premiums	2,326	2,308	1%	1,672	1,748	(4%)
Total gross premiums	**10,676**	**10,892**	**(2%)**	**7,676**	**8,247**	**(7%)**
Investment income	4,959	5,282	(6%)	3,565	3,999	(11%)
Fees and commission income	1,066	1,341	(21%)	766	1,015	(25%)
Other revenues	2	2	-	1	1	-
Total revenues	**16,707**	**17,517**	**(5%)**	**12,008**	**13,262**	**(9%)**
Commissions and expenses	4,941	4,720	5%	3,553	3,574	(1%)
of which operating expenses	1,950	1,931	1%	1,402	1,463	(4%)

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	Amounts in USD millions			Amounts in EUR millions		
New life sales	2011	2010	%	2011	2010	%
Life & Protection	442	481	(8%)	317	364	(13%)
Employer Solutions & Pensions	24	22	9%	17	16	6%
Canada	65	60	8%	47	46	2%
Latin America	51	44	16%	37	33	12%
Total recurring plus 1/10 single	**582**	**607**	**(4%)**	**418**	**459**	**(9%)**

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

	Amounts in USD millions			Amounts in EUR millions		
Gross deposits (on and off balance)	2011	2010	%	2011	2010	%
Life & Protection	12	10	20%	9	8	13%
Fixed annuities	313	585	(46%)	225	443	(49%)
Variable annuities	5,314	3,830	39%	3,821	2,899	32%
Retail mutual funds	2,785	3,486	(20%)	2,002	2,639	(24%)
Individual Savings and Retirement	8,412	7,901	6%	6,048	5,981	1%
Employer Solutions & Pensions	23,266	19,247	21%	16,727	14,570	15%
Canada	335	606	(45%)	241	459	(47%)
Total gross deposits	**32,029**	**27,764**	**15%**	**23,028**	**21,018**	**10%**

	Weighted average rate		Closing rate as of	
Exchange rates				
			December 31,	December 31,
Per 1 EUR	**2011**	2010	**2011**	2010
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 895 million. This was the result of lower underlying earnings before tax, lower than expected results from fair value items and fewer gains on investments. Lower other charges and improved levels of impairments only partly offset the decline.

In the third quarter of 2011, to reflect the low interest rate environment, Aegon lowered its long-term assumption for 10-year US Treasury yields by 50 basis points to 4.75% (graded uniformly from current yields over the next five years) and lowered the 90-day rate to 0.2% for the next two years followed by a three year grade to 3%. No change was made to the long-term credit spread or default assumptions.

In addition, Aegon lowered its assumed return for separate account bond fund returns by 200 basis points to 4% over the next five years, followed by a return of 6% thereafter. The bond fund return is a gross assumption from which asset management and policy fees are deducted to determine the policyholder return. In total, these assumption changes led to a charge of USD 237 million in the third quarter of 2011.

Underlying earnings before tax

Underlying earnings before tax amounted to USD 1,771 million, a decline of 5% compared with 2010.

- Earnings from Aegon s Life & Protection business in the Americas decreased to USD 727 million, mainly as a result of unfavorable persistency and lower spreads. Also higher Long Term Care provisions, and a charge related to Executive Life of New York, contributed unfavorably to the results. In addition, 2010 included an employee benefit release.
- Individual Savings & Retirement earnings amounted to USD 666 million. Increased earnings from variable annuities of USD 358 million and retail mutual funds of USD 22 million in 2011 were offset by lower earnings from fixed annuities of USD 286 million as a result of declining asset balances as this product was de-emphasized. Variable annuity underlying earnings before tax increased as a result of continued inflows and higher asset balances and included a benefit related to updated assumptions for revenue sharing with third-party fund managers.
- Earnings from Employer Solutions & Pensions increased to USD 326 million as a result of continued strong growth of the business and rate increases for synthetic guaranteed investment contracts.
- Earnings from Aegon Canada decreased slightly compared to 2010 to USD 51 million, while earnings from Aegon s joint-ventures in Brazil and Mexico declined to USD 1 million.

Commissions and expenses

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

Production

New life sales decreased 5% to USD 582 million, mainly the effect of the discontinuance of single premium universal life sales in the bank channel during the second half of 2010, as well as repricing of certain universal life products in 2011 to reflect the low interest rate environment. New premium production for accident & health insurance increased to USD 812 million, primarily the result of improved sales in the employer benefits and affinity marketing businesses.

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

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

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Overview Americas

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

Aegon USA

Aegon USA is one of the leading[1] life insurance organizations in the United States and is the largest of Aegon s operating units. Aegon USA administers millions of policies and employs approximately 11,000 people. Aegon USA companies can trace their roots back as far as the mid-19th century. Aegon USA operates under one of the best known names[2] in the US insurance business: Transamerica. Aegon USA s main offices are in Cedar Rapids, Iowa, and Baltimore, Maryland, with affiliated companies offices located throughout the United States.

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

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

Aegon Canada

Based in Toronto, Aegon Canada offers a range of insurance products and financial services, primarily through its Transamerica Life Canada subsidiary. At December 31, 2012, Aegon Canada had approximately 600 employees.

Aegon Brazil

In 2009, Aegon acquired a 50% interest in Mongeral Aegon S.A. Seguros e Previdência, Brazil s sixth largest independent life insurer. At December 31, 2012, Aegon Brazil had approximately 400 employees.

Aegon Mexico

In 2006, Aegon acquired a 49% interest in Seguros Argos S.A. de C.V., a Mexican life insurance company. At December 31, 2012, Aegon Mexico had approximately 200 employees.

Organizational structure

Aegon USA

Aegon USA was founded in 1989 when Aegon brought all of its operating companies in the United States under a single financial services holding company, Aegon USA, LLC. Business

is conducted through its subsidiaries. Aegon USA has operating licenses in every US state, the District of Columbia, Puerto Rico, the Virgin Islands and Guam.

Aegon USA s primary insurance subsidiaries are:

- Transamerica Life Insurance Company
- Transamerica Financial Life Insurance Company
- Transamerica Advisors Life Insurance Company
- Transamerica Advisors Life Insurance Company of New York
- Monumental Life Insurance Company

- Stonebridge Life Insurance Company
- Stonebridge Casualty Insurance Company
- Western Reserve Life Assurance Co. of Ohio

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

- Life & Protection
- Individual Savings & Retirement
- Employer Solutions & Pensions

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

Aegon Canada

In Canada, Aegon has two main operating subsidiaries:

- Transamerica Life Canada
- Canadian Premier Life

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

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Overview sales and distribution channels

Aegon USA

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

- Independent and career agents
- Financial planners
- Registered representatives
- Independent marketing organizations
- Banks
- Regional and independent broker-dealers
- Benet consulting firms
- Wirehouses
- Affinity groups
- Institutional partners
- Third party administrators

In addition, Aegon USA provides a range of products and services online, and uses direct and worksite marketing. This approach allows Aegon USA customers more ways to access products and services. Generally, Aegon USA companies are focused on particular products or market segments, ranging from lower income to high-net-worth individuals and from small to large corporations.

Aegon Canada

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

- Independent and career agents
- Independent managing general agencies
- Agencies owned by Transamerica Life Canada
- Bank-owned national broker-dealers and mutual fund dealers

Overview business lines

Aegon USA

Life & Protection

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

Products

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

Life & Protection (L&P), the largest of the Aegon USA divisions, serves customers in a broad range of market segments. Consumers can choose to purchase directly or through career/ independent agents or sponsored/affinity groups. L&P offers a wide array of life, health and specialty insurance with a common purpose: to protect families and their dreams.

Term life insurance

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

Universal life insurance

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

Whole life insurance

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

Other life insurance

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

Supplemental health and specialty insurance

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

Long-term care insurance

Long-term care (LTC) insurance products provide benefits to policyholders who require care due to a chronic illness or cognitive impairment. LTC insurance serves as an asset protection tool by reimbursing policyholders for costly expenses associated with LTC services, and it may also help a family better manage the financial, health and safety issues that are associated with LTC.

Sales and distribution

The Life & Protection division is organized by distribution channel, with a shared services support platform. Each channel focuses on a specific type of distribution method and target market. The L&P distribution channels include affinity markets, agency group, brokerage, international markets, and broker-dealer.

Affinity Markets

The Affinity Markets group markets directly to consumers through either the broad market or affinity relationships, including associations, employers, financial institutions, retailers, and other sponsor groups. Life, supplemental health, and

specialty accident and membership products are offered through a variety of direct response marketing channels, including mail, phone, digital, direct response TV and point-of-sale.

Agency Group

Transamerica Agency Group includes Transamerica Agency Network - Independent Group, Transamerica Agency Network - Career Agency, Transamerica Senior Markets, Carillon Financial Network, ORBA Financial Management and several independent marketing organizations. This group provides life insurance, health insurance and securities products, as well as marketing services to closely tied distribution groups serving the middle income and small business markets.

Brokerage

Transamerica Brokerage offers life and long-term care insurance products and services through independent brokerage distributors to high-net-worth, affluent, emerging affluent and middle income individuals, families and businesses. These products are designed for family protection, business needs, and estate and legacy planning.

International Markets

Transamerica also sells its producs both in the United States and abraod through direct marketing and abroad to high-net-worth individuals through international brokers and bankassurances. The Direct Marketing group makes its products and direct response marketing expertise available through brokers and alliances with financial institutions, retailers, telecommunications providers, insurance companies and other database owners in Europe and Latin America. The High-Net-Worth unit offers life insurance products underwritten by Transamerica Life (Bermuda) Ltd., through international brokers and bankassurances. These products are tailored to meet both individual and business needs of affluent customers who reside in Asia, Europe, and Latin America.

Broker-dealer

Transamerica Financial Advisors, Inc. (TFA) is a full service, Financial Industry Regulatory Authority (FINRA) registered independent broker-dealer and Securities and Exchange Commission (SEC) Registered Investment Adviser with approximately 5,000 Registered Representatives. TFA focuses on creating, growing and protecting wealth through a range of financial products and services.

Individual Savings & Retirement

Through its insurance companies, broker-dealers and investment advisers, Aegon USA offers a wide range of savings and retirement products and services, including mutual funds, fixed and variable annuities. The Individual Savings and Retirement division administers and distributes these products through a variety of channels: including wirehouse firms, banks,

regional broker dealers, independent financial planners and direct to consumer.

Products

Variable annuities

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

Premiums paid on variable annuity contracts are invested in underlying funds chosen by the policyholder, including bond and equity funds as well as various types of asset-allocation funds. A fixed interest account is available on most products and the underlying funds are selected by a policyholder, within certain boundaries, based on the policyholder s preferred level of risk. The assets and liabilities related to this product are legally segregated in separate accounts of the insurance company for the benefit of variable annuity policyholders. These separate accounts are classified as investments for the account of policyholders on Aegon s statement of financial position. Variable annuity contracts contain riders such as guaranteed minimum death, maturity, withdrawal, accumulation or income benefits.

The account value of variable annuities reflects the performance of the underlying funds. Aegon USA earns mortality and expense charges as well as various types of rider fees for providing guarantees and benefits. Surrender charges are generally not a large form of revenue as policyholder surrender rates are typically lower when a surrender charge penalty is still present. Any surrender charges collected are typically used to recoup unamortized deferred acquisition costs. A guaranteed minimum withdrawal benefit is offered on some variable annuity products Aegon USA either issued or assumed from a ceding company. This benefit guarantees a

policyholder can withdraw a certain percentage of the account value, starting at a certain age or duration, for either a fixed period or the life of the policyholder.

Certain variable annuity contracts also provide guaranteed minimum death benefits and guaranteed minimum income benefits. Under a guaranteed minimum death benefit, the beneficiaries receive the greater of the account balance or the guaranteed amount upon the death of the insured. The guaranteed minimum income benefit feature (which is no longer offered on new business since 2003) provides for minimum payments if the policyholder elects to convert to an immediate payout annuity. The guaranteed amount is calculated using the total deposits made by the policyholder, less any withdrawals and sometimes includes a roll-up or step-up feature that

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increases the value of the guarantee with interest or with increases in the account value.

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

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

Mutual funds

Aegon s fee business comprises products that generate fee income by providing management, administrative or risk services related to off-balance sheet assets. Fee income is mainly sensitive to withdrawals and equity market movements.

Aegon s operations in the United States provide various investment products and administrative services, individual and group variable annuities, mutual funds, collective investment trusts and asset allocation services.

The operations in the United States provide the fund manager oversight for the Transamerica funds. Aegon USA selects, manages, and retains affiliated and non-affiliated managers from a variety of investment firms based on performance.

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

Fixed annuities

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

An immediate annuity is purchased with a single lump sum premium payment, and the benefit payments generally begin within a year after the purchase. The benefit payment period can

be for a fixed period, for as long as the beneficiary is alive, or a combination of the two. Some immediate annuities and payout options under deferred annuities may also offer the owner or beneficiaries the option to surrender the annuity to have access to the account value if needed for unexpected events.

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

Minimum interest rate guarantees exist in all generations of deferred annuity products, as they are required by state non-forfeiture regulations. The average minimum interest rate guarantees of the in-force fixed annuity block is approximately 2.65% . The average current credited rate of the in-force fixed annuity block is approximately 3.40% . Equity indexed annuities offer additional returns that are index-linked to published stock market indices, with a minimum cash value equal to a percentage of the premium increased at a minimum, variable rate. Equity indexed annuities make up a small fraction of the in-force business.

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

Sales and distribution

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

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

TFA provides a range of financial and investment products, operating as a retail broker-dealer registered with FINRA and an investment adviser registered with the SEC. Products offered by TFA include mutual funds, variable life insurance, variable annuities and other securities.

Employer Solutions & Pensions

Aegon USA offers retirement plans, pension plans, pension-related products and services, life and supplemental health insurance products through employers, as well as step-by-step guidance related to five key areas - Lifestyle, Investments, Health Care, Protection and Income - to people who are transitioning to, or living in, retirement.

Aegon USA covers a range of different retirement plans, including:

- 401(k) - a type of deferred compensation plan sponsored by a corporation (including subchapter S), self-employed individual, sole proprietorship, partnership or non-profit organization.
- 403(b) - a type of deferred compensation plan for certain employees of public schools, employees of certain tax-exempt organizations and certain ministers.
- 457(b) - a type of deferred compensation plan sponsored by governmental and certain non-governmental employers in the United States.
- Deferred compensation plan - a plan or agreement that defers the payment of a portion of the employee s compensation to a future date and which may also include a contribution made by the employer for the employee s benefit.
- Money purchase - a type of defined contribution plan where the employer is required to make a contribution, on behalf of the plan participants, to the plan each year.
- Defined benefit - a pension plan in which an employer promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee s earnings history, tenure of service and age.
- Defined contribution - a plan in which the contributions made to the plan by the employee and/or employer are allocated to the employee s individual account under the plan. Examples of defined contribution plans include 401(k) plans, 403(b) plans, money purchase plans and profit-sharing plans.
- Profit-sharing - a type of defined contribution plan in which the employer may make a contribution, on behalf of the plan participants, to the plan each year either out of the company s profits or otherwise.

Products

Retirement plans

Diversified Retirement Corporation (rebranded to Transamerica Retirement Solutions Corporation in January 2013) offers a wide array of investment options designed to create a fully customized investment line-up for clients and a personalized retirement funding strategy for their retirement plan participants.

Transamerica Retirement Solutions open architecture investment platform provides its clients access to a broad investment universe, including institutional and retail mutual funds, registered or non-registered variable annuities, or a collective investment trust. The investment options offered in each plan are selected by the client or the client s financial adviser.

Transamerica Retirement Services offers fully bundled and partially bundled retirement plan solutions to small and mid-sized employers. These plans are predominantly supported by a group variable annuity product, where plan assets are invested primarily in separate account investment choices, including bond and equity investment choices, and cash equivalent choices. A fixed account cash vehicle may also be available on most plans. The investment choices are selected by the client or by the client s financial adviser.

Single premium group annuities

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

Life and supplemental health

Transamerica Employee Benefits offers life, supplemental health and stop loss products.

Life products include universal life insurance, whole life insurance and term life insurance. Supplemental health products include dental, accident, critical illness, cancer treatment, hospital indemnity and short-term disability policies. Some of these plans provide lump sum or specified income payments when hospitalized, disabled or diagnosed with a critical illness. Other plans pay scheduled benefits for specific hospital or surgical expenses and cancer treatments, hospice care and cover deductible, as well as co-payment amounts, not covered by other health insurance. Stop loss provides catastrophic coverage to self-insured employer health plans.

Synthetic guaranteed investment contracts

Stable value solutions (SVS) provides synthetic guaranteed investment contracts (GICs) in the United States primarily to tax-qualified institutional entities such as 401(k) plans and other

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retirement plans. SVS provides a synthetic GIC wrapper around fixed-income invested assets, which are owned by the plan and managed by the plan or a third party money manager hired by the plan. A synthetic GIC is typically issued with an evergreen maturity and can be terminated under certain conditions. Such a contract helps to reduce fluctuations in the value of the wrapped assets for plan participants, and provides book value benefit-responsiveness.

Sales and distribution

Transamerica Retirement Solutions provides a comprehensive and customized approach to retirement plan management, catering to the mid- to large-sized defined contribution, defined benefit and non-qualified deferred compensation retirement plans market. Transamerica Retirement Solutions clients are generally organizations with 250 to 100,000 employees and between USD 15 million and USD 2 billion in retirement assets.

Transamerica Retirement Solutions serves more than 17,000 small- to mid-sized companies across the United States. Transamerica Retirement Solutions offers a number of specialized services, including innovative plan design, a wide array of investment choices, extensive education programs and online investment education.

Transamerica Retirement Solutions also offers single premium group annuities in the United States, which are used by companies to decrease the liability of their defined benefit plans. The market is growing in this segment as more employers look to reduce the cost and complexity of their pension liabilities, often driven by widespread economic and sector restructuring.

Through Transamerica Employee Benefits, Transamerica offers voluntary payroll deduction life and supplemental health to companies ranging in size from just five employees to more than 100,000. Products and services are marketed to employees at their place of work and are designed to supplement employees existing benefit plans. As of January 2013, this division became part of Life & Protection.

Transamerica Retirement Management, Inc. (rebranded January 2013 to Transamerica Retirement Solutions Corporation) works with individual plan participants who are in transition. Whether participants have experienced a lay-off, a job change or a planned retirement, Transamerica Retirement Solutions has a phone-based team of salaried retirement counselors who can help clearly explain the choices available so the participant can confidently take the next step. Employees providing these services are registered representatives and investment adviser representatives of TFA. In addition to serving those in transition, Transamerica Retirement Solutions also provides pre-retirees the guidance and decision support needed to make a successful transition to and through retirement. Transamerica Retirement Solutions offers an array of advisory services, brokerage products, annuities and access to other insurance related products and resources.

Each plan for retirement can be as simple or as detailed as necessary, depending on the goals and needs of the individual.

As of January 2013, the three business units Diversified, Transamerica Retirement Services and Transamerica Retirement Management have been combined to form Transamerica Retirement Solutions Corporation.

Overview business lines

Canada

Life & Protection

Transamerica Life Canada (TLC) is a leading provider of life insurance products to Canadian consumers. By working through a variety of distribution channels, TLC has acquired a national network of thousands of independent advisers. These advisers provide middle market Canadians with the individual life insurance and protection products they need to help them take responsibility for their financial future.

Latin America

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

Run-off businesses

Institutional spread based business

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

Guaranteed investment contracts and funding agreements

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

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

have an indefinite maturity. Market-indexed contracts provide a return based on the market performance of a published index designated in the contract. Futures or swap contracts are used to hedge the market risk on market-indexed contracts and effectively convert such contracts to a floating-rate.

Medium-term notes

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

Payout annuities

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

BOLI/COLI

Aegon USA services life insurance products sold to the bank- and corporate-owned life insurance (BOLI/COLI) market in the United States. BOLI/COLI helps institutional customers fund long-term employee benefits such as executive compensation and post-retirement medical plans. The corporation insures key employees and is the owner and beneficiary of the policies. New sales of BOLI/COLI were discontinued in 2010.

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

Life reinsurance

In August 2011, Aegon completed the divestment of its life reinsurance business, Transamerica Reinsurance, to SCOR, a global reinsurance company based in France. Under the agreement, Aegon divested its global life reinsurance activities with the exception of select blocks of business. The retained businesses comprise mainly variable annuity guarantee business.

Competition

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

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

Aegon USA

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

Aegon USA is able to leverage its long-term relationships built with many institutions to offer them such product lines as variable annuities, life insurance, mutual funds, and 401(k) products.

Maintaining an effective wholesaling force, focusing on strategic business relationships and developing products with features, benefits and pricing believed to be attractive in that market place, Aegon USA actively competes in the variable annuity marketplace. The market has shown a continued interest in guaranteed lifetime withdrawal products, and there is strong competition among providers. Aegon USA s primary competitors in the variable annuity market are MetLife, Prudential, Lincoln National, Nationwide and Jackson National.

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

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

In the defined contribution market, Aegon USA s main competitors are Fidelity, T. Rowe Price, Vanguard, Schwab, Principal Financial, Mass Mutual and New York Life. Aegon USA s main competitors in the defined benefit segment are Mass Mutual, New York Life, Principal Financial, and Prudential.

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In the small business retirement plan segment and the multiple employer plan segment, Aegon USA s main competitors are Principal Financial, John Hancock, American Funds, Fidelity, and ING. In the single premium group annuity market, Aegon USA s main competitors are Mass Mutual, Prudential, John Hancock, MetLife and Mutual of Omaha.

Aegon USA has been a leading issuer of synthetic GICs[1].

Regulation and supervision

Aegon USA

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

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

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

to cause capital strain for the life insurance industry. In volatile market conditions, funding for those reserves continues to be challenging.

The NAIC amended its Model Holding Company Act and Regulation to enhance disclosure to regulators about risk exposure to insurers from within their holding company system, for adoption by jurisdictions in 2012 and 2013. Existing insurance holding company statutes and the regulations of each insurer s domiciliary state in the United States already impose various limitations on investments in affiliates, and require prior approval of the payment of dividends above certain threshold levels by the licensed insurer to Aegon or its affiliates. In response to international developments, the NAIC also passed a new Own Risk and Solvency Protection Model Act and Guidance Manual, which may come into effect as early as 2013. The NAIC revised the Model Standard Valuation Law (SVL) and completed a new Valuation Manual, which together established Principles-Based Reserving (PBR) in 2012. A few states are considering passage of the SVL in 2013, but implementation of PBR is not expected until 2016 or later. NAIC will continue to consider changes to corporate governance and insurers use of captives through 2013.

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

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

1 Source: Reports from LIMRA International and the Stable Value Investment Association s Stable Value and Funding Agreement Products as of the first three quarters of 2012.

a significant impact on the capital standards and sale of life insurance and annuities in the United States.

Federal laws and the rules of the Federal Trade Commission (FTC) and the Federal Communications Commission (FCC) prohibit telephone solicitations to customers who have placed their telephone numbers on the National Do Not Call Registry. Additionally, proposals to place restrictions on direct mail are considered by the US Congress and states from time to time. These restrictions adversely impact telemarketing efforts of Aegon USA, and new proposals, if enacted, will likely also directly impact direct mail efforts. Finally, proposed Federal Reserve Board disclosures regarding credit insurance provided in connection with a loan, if enacted as proposed, would adversely impact the market for credit insurance.

Many supplemental health insurance products, such as Medigap, offered by the Transamerica companies, are subject to both federal and state regulation as health insurance. The Patient Protection and Affordable Care Act (PPACA), enacted in 2011, significantly changes the regulation of health insurance and delivery of health care in the United States, including in certain respects, the regulation and delivery of supplemental health insurance products. Individual states are required to establish health care exchanges for the purchase of health care insurance by individuals. The extent to which employers may discontinue their provision of supplemental health insurance products to retired employees and the extent to which supplemental health insurance products may be sold through state exchanges may significantly impact Aegon USA s supplemental health products business.

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

companies are also registered under the Securities Act of 1933, as amended (the Securities Act).

Some of Aegon USA s investment advisory activities are subject to federal and state securities laws and regulations. Mutual funds managed, issued and distributed by Aegon USA companies are registered under the Securities Act, and the Investment Company Act. With the exception of its investment accounts which fund private placement investment options that are exempt from registration, or support fixed rate investment options that are also exempt from registration, all of Aegon USA s separate investment accounts that fund retail variable annuity contracts and retail variable life insurance products issued by Aegon USA companies are registered both under the Securities Act and the Investment Company Act. Institutional products such as group annuity contracts, guaranteed investment contracts, and funding agreements are sold to tax qualified pension plans or to other sophisticated investors and are exempt from registration under both Acts. On July 21, 2010, the SEC proposed a framework to replace the requirements of Rule 12b-1 of the Investment Company Act with respect to how mutual funds and underlying funds of separate accounts collect and pay fees to cover the costs of selling and marketing their shares. The proposed changes are subject to public comment and, following any enactment, would be phased in over several years. The impact of these proposals cannot be predicated at this time.

Some of the Aegon USA companies are registered as broker-dealers with the SEC under the Securities Exchange Act of 1934, as amended (the Securities Exchange Act) and are regulated by the FINRA. A number of Aegon USA companies are also registered as investment advisers under the Investment Advisers Act of 1940. Aegon USA insurance companies and other subsidiaries also own or manage other investment vehicles that are exempt from registration under the Securities Act and the Investment Company Act but may be subject to other requirements of those laws, such as anti-fraud provisions and the terms of applicable exemptions. The Dodd-Frank Act reforms the regulatory structure of the financial services industry in the United States, including providing for additional oversight of systemically significant companies. In accordance with the Dodd-Frank Act requirements, the SEC studied and recommended a harmonized standard of care for broker-dealers, investment advisers and persons associated with these firms who are providing personalized investment advice. The SEC has indicated that it intends to seek comments on the costs and benefits of regulations establishing a harmonized standard of care; however, it has not set a date for enactment of those regulations. Legislation was introduced in the House of Representatives in the 112th congress that would establish a self-regulatory organization for the examination of investment advisers; however, no action was taken on the legislation at the end of that congress. Further proposals could come in this area

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in 2013. The impact of regulations resulting from these studies cannot be predicted at this time.

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

Some Aegon USA companies offer products and services to individual retirement accounts (IRAs), pension and welfare benefit plans that are subject to the federal Employment Retirement Income Security Act (ERISA). ERISA is administered by the US Department of Labor (DOL) and Internal Revenue Service (IRS). Accordingly, the DOL and IRS have jurisdiction to regulate the products and services sold by these Aegon USA businesses. DOL has issued regulations defining the nature of fees to be paid for investment advice in these plans, as well as requiring increased fee disclosure from defined contribution plan service providers and to plan participants. The DOL has indicated that it will re-propose regulations regarding the scope of an investment advice fiduciary in IRAs and defined contribution plans, as well as further define the nature of a

plan sponsor s obligations regarding certain plan participants investment options selected through a plan s brokerage window. Implementation of these and other regulations in the manner proposed could increase the cost and administrative burdens of the Aegon USA companies.

Finally, both the US Treasury Department has published, and the DOL have or are expected to offer, guidance addressing some of the administrative burdens of offering annuities both as an investment option in a retirement savings plan or as a distribution from that plan. This guidance, the legislative proposals, and additional, anticipated regulatory guidance, are expected to significantly reduce the administrative burden of offering annuities within a retirement savings plan or as a distribution option from the plan.

In an attempt to increase the number of workers covered by a retirement savings plan, California has enacted legislation that would permit non-governmental workers to join the state government workers retirement plan or a similar governmental plan. Certain steps must be taken, however, before the legislation can be implemented. Several other states are considering similar legislation. The opening of State retirement plans to non-governmental workers could impact the products and sevices sold by some Aegon USA companies to private employers in those states.

Although the insurance business is regulated at state level, the US federal tax treatment of life insurance, pension and annuity products are governed by the US federal tax code. Proposals to remove or decrease the value of these tax incentives for these products - both in and of themselves and relative to other investment vehicles - are debated periodically in the US Congress and are also proposed in the Executive Administration s annual budget for the US federal government. Executive Administration budget proposals, to be effective, must be enacted by Congress before they become law. This risk of tax changes is heightened when additional revenue is sought to reduce the federal deficit. In addition, current discussions on major tax reform initiatives further increase the risk of changes to the tax incentives for short- and long-term savings products, as well as to the taxation of life insurers. These changes, if enacted, would directly impact the cost and competitiveness of life insurance, annuity and pension products sold to ensure Americans financial retirement security.

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

products sold to defined contribution plans, as well as other insurance products, would be adversely affected if it was decided that these products should be regulated as derivatives.

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

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

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

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

The Patient Protection and Affordable Care Act does not directly impact the business of life insurance. It is uncertain whether any of the new regulations, anticipated over the next several years, that will implement this law, will impact the nature or distribution of any of Aegon USA s supplemental products.

The American Taxpayer Relief Act (ATRA), enacted in January 2013, made permanent, with some modifications, many of the tax cuts enacted in 2001 and 2003 during the Bush Administration. The ATRA provisions that are most significant for the Aegon USA companies business include those (a) on the estate tax (keeping the unified estate and gift tax exemption threshold of USD 5 million (adjusted for inflation after 2011) and raising the maximum tax rate from 35% to 40%; (b) on Roth conversions (permitting participants in qualified retirement savings plans to convert otherwise non-distributable 401(k) plan balances to a Roth account if the plan so provides; and (c) increasing the top individual income tax rates to 39.6% and capital gains rates to 20%. Other provisions of ATRA, such as the phase-out of personal exemptions and limitations on itemized deductions, as well as the new 3.8% tax on net investment income (enacted by the Patient Protection and Affordable Care Act and first effective in 2013), will further increase the marginal income tax rate of certain high income households. Making the estate tax permanent will facilitate estate planning for Americans. The extent to which the other tax law changes impact the purchase of life insurance and annuity products, as well as the participation of individuals in qualified retirement savings plans, is as yet uncertain. Further tax proposals are likely to deal with the debt situation in the U.S. The impact of such proposals, if they were passed, cannot be predicted at this time.

Aegon Canada

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

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

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Asset liability management

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

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

The Aegon USA companies manage their asset liability matching through the work of several committees. These committees review strategies, define risk measures, define and review asset liability management studies, examine risk-hedging techniques, including the use of derivatives, and analyze the potential use of new asset classes. Cash flow testing analysis is performed using computer simulations, which model assets and liabilities under projected interest rate scenarios and commonly used stress-test interest rate scenarios. Based on the results of these simulations an investment portfolio is constructed to best match the cash flow and interest sensitivity of the underlying liabilities while trying to maximize the spread between the yield on the portfolio assets and the rate credited on the policy liabilities. Interest rate scenario testing is a continual process and the analysis of the expected values and variability for four critical risk measures (capital charges, cash flows, present value of profits, and interest rate spreads) forms the foundation for modifying investment strategies, adjusting asset duration and mix, and exploring hedging opportunities. On the liability side, Aegon USA has some offsetting risks, some liabilities perform better in rising interest rate environments while others tend to perform well in falling interest rate environments. The amount of offset can vary depending on the absolute level of interest rates and the

magnitude and timing of interest rate changes, but it generally provides some level of diversification. On the asset side, hedging instruments are continuously studied to determine whether their cost is commensurate to the risk reduction they offer.

Reinsurance ceded

Ceding reinsurance does not remove Aegon s liability as the primary insurer. Aegon could incur losses should reinsurance companies not be able to meet their obligations. To minimize its exposure to the risk of such defaults, the creditworthiness of its reinsurers is monitored regularly.

Aegon USA

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

These reinsurance contracts are designed to diversify Aegon USA s overall risk and limit the maximum loss on risks that exceed policy retention levels. The maximum retention limits vary by product and class of risk, but generally fluctuate between USD 3,000 and USD 10 million per life insured.

Aegon USA remains contingently liable with respect to the amounts ceded should the reinsurance company not be able to meet its obligations. To minimize its exposure to such defaults, Aegon USA regularly monitors the creditworthiness of its reinsurers, and where appropriate, arranges additional protection through letters of credit or trust agreements. For certain agreements, funds are withheld for investment by the ceding company. Aegon USA has experienced no material reinsurance recoverability problems in recent years.

The Aegon USA insurance companies also enter into contracts with company-affiliated reinsurers, both within the United States and overseas. These contracts have been excluded from the company s consolidated financial statements.

Aegon Canada

In the normal course of business, Transamerica Life Canada reinsures part of its mortality and morbidity risk with third-party reinsurers that are registered with Canada s Office of the Superintendent of Financial Institutions. The maximum life insurance exposure retained is CAD 1.25 million per life insured.

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Results 2012 the Netherlands

Amounts in EUR millions	2012	2011	%
Net underlying earnings	**253**	**238**	**6%**
Tax on underlying earnings	62	60	3%
Underlying earnings before tax by product segment			
Life & Savings	262	185	42%
Pensions	66	98	(33%)
Non life	(29)	6	-
Distribution	16	8	100%
Share in underlying earnings before tax of associates	-	1	-
Underlying earnings before tax	**315**	**298**	**6%**
Net Fair value items	112	156	(28%)
Gains / (losses) on investments	138	269	(49%)
Impairment charges	(29)	(15)	(93%)
Other income / (charges)	(279)	(164)	(70%)
Income before tax	**257**	**544**	**(53%)**
Income tax	(5)	(125)	96%
Net income	**252**	**419**	**(40%)**
Life insurance gross premiums	3,004	3,213	(7%)
Accident and health insurance premiums	220	216	2%
General insurance premiums	475	452	5%
Total gross premiums	**3,699**	**3,881**	**(5%)**
Investment income	2,212	2,192	1%
Fees and commission income	329	329	-
Total revenues	**6,240**	**6,402**	**(3%)**
Commissions and expenses	1,046	1,122	(7%)
of which operating expenses	756	823	(8%)

New life sales

Amounts in EUR millions	2012	2011	%
Life & Savings	46	81	(43%)
Pensions	200	173	16%
Total recurring plus 1/10 single	**246**	**254**	**(3%)**

Amounts in EUR million	2012	2011	%
New premium production accident and health insurance	21	27	(22%)
New premium production general insurance	30	27	11%

Gross deposits (on and off balance)	**2012**	2011	%
Life & Savings	1,484	1,968	(25%)
Pensions	-	80	-
Total gross deposits	**1,484**	**2,048**	**(28%)**

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Results 2012 the Netherlands[1]

Higher underlying earnings before tax in the Netherlands were driven by improved Life & Savings earnings and lower operating expenses following implemented cost reduction initiatives in 2011. Aegon s business in the Netherlands has already realized EUR 89 million of the targeted EUR 100 million reduction in operating expenses. Net income was impacted by a one-off charge of EUR 265 million related to the acceleration of product improvement for unit-linked insurance products.

Net income

Net income from Aegon s businesses in the Netherlands amounted to EUR 252 million and included a charge of EUR 265 million before tax related to the acceleration of product improvements for unit-linked insurance products. Realized gains on investments totaled EUR 138 million for the year and were mainly the result of asset liability management related trading activity and selective de-risking. Results on fair value items amounted to a gain of EUR 112 million and impairments amounted to EUR 29 million.

Underlying earnings before tax

Underlying earnings before tax from Aegon s operations in the Netherlands increased 6% in 2012 to EUR 315 million as higher earnings in Life & Savings more than offset lower earnings in Pension and Non-life. Recurring charges for Corporate Center expenses amounted to EUR 16 million.

- Underlying earnings before tax from Aegon s Life & Savings operations in the Netherlands increased to EUR 262 million, up 42% compared to 2011. This increase was driven by cost savings, a higher contribution from Aegon s growing mortgage portfolio on lower funding costs, the non-recurrence of certain expenses and a benefit in the fourth quarter resulting from updated mortality tables of EUR 24 million.
- Underlying earnings before tax from the Pension business declined to EUR 66 million as the benefit of cost savings and the wind up of several contracts were more than offset by lower interest income, the non-recurrence of a employee benefit release in 2011 and a charge in 2012 of EUR 17 million resulting from updated mortality tables.
- Non-life recorded an underlying loss before tax of EUR 29 million in 2012 as a result of adverse claim experience on disability and general insurance products. Losses on these products have led to the implementation of actions to improve future results with disability insurance products already showing improvements in 2012.
- In 2012, the distribution businesses recorded an underlying earnings before tax of EUR 16 million, an improvement compared to 2011 due to cost savings and lower amortization of value of business acquired following an impairment in 2011.

Commissions and expenses

Commissions and expenses decreased by 7% in 2012 compared to 2011 driven by lower operating expenses. Operating expenses decreased by 8%, to EUR 756 million, as realized cost savings and the non-recurrence of restructuring charges offset investments in new distribution capabilities and recurring charges for Corporate Center expenses.

Aegon is on track to reduce operating expenses by EUR 100 million in comparison to the cost base for 2010, of which the majority has been achieved in 2012. Over the years, Aegon has implemented cost savings of EUR 89 million.

Production

New life sales decreased by 3% in 2012 to EUR 246 million. The decline in Individual life sales to EUR 46 million, primarily driven by a shrinking Dutch life insurance market, more than offset the 16% increase in pension sales. Production of mortgages in 2012 amounted to EUR 2.7 billion down from EUR 3.3 billion in 2011.

Premium production for accident & health amounted to EUR 21 million, down from EUR 27 million in 2011. Sales in income insurance products were negatively impacted by strong competition and price increases to maintain margins. General insurance production amounted to EUR 30 million, up 11% for the year, resulting from successful new distribution initiatives.

Gross deposits declined to EUR 1,484 million, driven by strong competition on the Dutch savings market and a reduction of the rate offered on savings accounts to protect margins.

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

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Results 2011 the Netherlands

Amounts in EUR millions	2011	2010	%
Net underlying earnings	**238**	**292**	**(18%)**
Tax on underlying earnings	60	93	(35%)
Underlying earnings before tax by product segment			
Life & Savings	185	186	(1%)
Pensions	98	153	(36%)
Non life	6	33	(82%)
Distribution	8	16	(50%)
Share in underlying earnings before tax of associates	1	(3)	-
Underlying earnings before tax	**298**	**385**	**(23%)**
Net Fair value items	156	361	(57%)
Gains / (losses) on investments	269	155	74%
Impairment charges	(15)	(11)	(36%)
Other income / (charges)	(164)	38	-
Income before tax	**544**	**928**	**(41%)**
Income tax	(125)	(217)	42%
Net income	**419**	**711**	**(41%)**
Life insurance gross premiums	3,213	3,185	1%
Accident and health insurance premiums	216	201	7%
General insurance premiums	452	451	-
Total gross premiums	**3,881**	**3,837**	**1%**
Investment income	2,192	2,161	1%
Fees and commission income	329	348	(5%)
Total revenues	**6,402**	**6,346**	**1%**
Commissions and expenses	1,122	1,058	6%
of which operating expenses	823	748	10%

New life sales

Amounts in EUR millions	2011	2010	%
Life & Savings	81	83	(2%)
Pensions	173	165	5%
Total recurring plus 1/10 single	**254**	**248**	**2%**

Amounts in EUR million	2011	2010	%
New premium production accident and health insurance	27	26	4%
New premium production general insurance	27	26	4%
	2011	2010	%

Gross deposits (on and off balance)			
Life & Savings	1,968	2,036	(3%)
Pensions	80	346	(77%)
Total gross deposits	**2,048**	**2,382**	**(14%)**

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Results 2011 the Netherlands

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

Net income

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

Underlying earnings before tax

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

- Earnings from Aegon s Life & Savings operations in the Netherlands remained level at EUR 185 million. Favorable mortality and higher contribution from mortgages was offset by higher expenses related to the execution of a program for product improvements and investments in new propositions.
- Earnings from the Pension business declined to EUR 98 million. Additional provisioning for longevity of EUR 82 million was only partly offset by the positive impact of favorable technical results.
- Earnings from Non-life declined to EUR 6 million, mainly as the result of a lower release of provisions, adverse claim experience and investments made in the business to increase efficiency.
- Income from the distribution businesses amounted to EUR 8 million, a decrease compared with 2010 as a result of investments in business development initiatives. Also fee income remained under pressure as a result of the competitive environment.

Commissions and expenses

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

Production

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

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

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

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Overview the Netherlands

Aegon has a history in the Netherlands that dates back more than 150 years. Today, Aegon the Netherlands is one of the country s leading[1] providers of life insurance and pensions, with millions of customers and approximately 4,500 employees. The fully owned Unirobe Meeùs Group is one of the largest[2] intermediaries in the Netherlands. Aegon the Netherlands has its headquarters in The Hague and offices in Leeuwarden and Groningen.

Organizational structure

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

Aegon the Netherlands primary subsidiaries are:

- Aegon Bank N.V.
- Aegon Levensverzekering N.V.
- Aegon Schadeverzekering N.V.
- Aegon Spaarkas N.V.
- OPTAS Pensioenen N.V.
- Aegon Hypotheken B.V.
- TKP Pensioen B.V.
- Unirobe Meeùs Groep B.V.
- Aegon PPI B.V.

Aegon the Netherlands has four lines of business:

- Life & Savings
- Pensions
- Non-life
- Distribution

Restructuring

In September 2011, Aegon the Netherlands announced a restructuring that resulted in a loss of 300 positions as part of strategic plans to reduce the size and cost of the Dutch business. This plan was also aimed at increasing the fexibility and strength of the organization. The restructuring was largely finalized in 2012.

Overview sales and distribution channels

Aegon the Netherlands sells its products through several different channels. Corporate & Institutional Clients, part of the Pensions business line, serves large corporations and financial institutions such as company and industry pension funds. The intermediary channel, used by all business lines, focuses on independent agents and retail sales organizations in the

Netherlands. The direct channel is used by Aegon Bank (mainly for savings) and there is a strategic partnership with the Dutch retailer Kruidvat for products sold by Aegon Schadeverzekering. In 2012, Aegon launched online bank Knab, in line with its drive to actively embrace technology and meet the evolving needs of its customers.

Overview business lines

Life & Savings

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

Products

Endowment insurance

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

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

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

1 Source: Verzekerd van Cijfers 2012, published by the Dutch Association of Insurers.
2 Source: AM 2012 Jaarboek, published by Assurantie magazine.
3 Source: Tracking Report Motivaction.

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There are different kinds of profit sharing arrangements. Bonuses are either paid in cash (mainly in the pension business, as described in the following section) or used to increase the sum insured. For one common form of profit sharing, the bonus levels are set by reference to external indices that are based on predefined portfolios of Dutch government bonds. The bonds included in the portfolios have different remaining maturities and interest rates. Together they are considered an approximation of the long-term rate of return on Dutch high quality financial investments.

Term and whole life insurance

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

Annuity insurance

Annuity insurance includes products in the accumulation phase and in the payout phase. Payout commences at a date determined in the policy and usually continues until death of the insured or the beneficiary. Premiums are paid at inception of the policy or during the accumulation phase of the policy. The contracts contain minimum guarantees of 3% or 4%. Interest rebates are given on both single and regular premium annuity insurance, and may be based on a portfolio of Dutch government bonds, although other calculation bases are also applied. There are also profit sharing schemes set by reference to external indices that are based on pre-defined portfolios of Dutch government bonds.

Variable unit-linked products

These products have a minimum benefit guarantee, except for premiums invested in equity funds. The initial guarantee period is ten years.

Tontine plans

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

Mortgage loans

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

Savings accounts

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

Investment contracts

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

Banksparen

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

Sales and distribution

Life and savings products are sold through Aegon s intermediary and direct channel.

Pensions

Pensions provides a variety of full service pension products to pension funds and companies. In 2012, it accounted for approximately 20% of Aegon the Netherlands total underlying earnings before tax.

Products

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

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

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

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

For small and medium-sized enterprises, Aegon the Netherlands provides defined contribution products with single and recurring premiums. Profit sharing is based on investment returns on specified funds. Premium levels are not fixed over the contract period. Minimum interest guarantees are given for nominal benefits, based on 0% (4% on policies sold before the end of 1999 and 3% on policies sold in the period 1999 - 2011).

Sales and distribution

Most of Aegon the Netherlands pensions are sold through Corporate & Institutional Clients and Aegon s intermediary channel. Customers range from individuals to company and industry pension funds and large, medium-sized and small corporations. Aegon the Netherlands is one of the country s leading providers of pensions[1].

For the majority of company and industry customers, Aegon the Netherlands provides a full range of pension products and services. In addition, TKP Pensioen is specialized in pension administration for company and industry pension funds and Aegon PPI offers defined contribution plans for small and medium companies where employees bear the investment risk.

Non-life

Non-life consists of general insurance and accident & health insurance.

Products

General insurance

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

Accident and health insurance

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

Sales and distribution

Aegon the Netherlands offers non-life insurance products mostly through the Aegon intermediary channel. Non-life products are also sold via the direct channel Aegon Online and through strategic partnerships (for example white labeling products for sale via Kruidvat). In the corporate sector Aegon also uses the co assurance market. Corporate & Institutional Clients also provide products for larger corporations in the Netherlands.

Knab

Designed in collaboration with customers, experts and critics, online bank Knab was launched in 2012. The platform is set up to be fully aligned with customer needs, offering customers insights into their financial future and empowering informed decision making through a fee based model.

Distribution

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

Competition

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

Aegon the Netherlands has been a key player in the total life market for many years. The life insurance market in the Netherlands, comprising both pensions and life insurance, is very concentrated. The top six companies account for approximately 90% of premium income in the Netherlands[2]. In the pensions market, Aegon the Netherlands ranks first, based on gross premium income in 2011. In the individual life insurance market Aegon the Netherlands takes sixth place[2], based on gross premium income 2011. Combined, in total life, Aegon the Netherlands ranks second[2] after ING. Aegon the Netherlands is one of the smaller players in the non-life market. The non-life market share of Aegon the Netherlands is around 4%[2], measured in premium income.

1 Source: Verzekerd van Cijfers 2012, published by the Dutch Association of Insurers.
2 Source: DNB Supervision Returns 2011.

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In mortgage loans, Aegon the Netherlands[1] holds a market share of approximately 7.3% based on new sales. Rabobank, ING and ABN AMRO are the largest[2] parties in the mortgage loan market. Aegon the Netherlands is currently the largest insurance company in this market.

In the savings segment, Aegon the Netherlands holds approximately 1.7%[3] of the savings of Dutch households and is small compared to banks like Rabobank, ING, ABN AMRO, SNS Bank and ASN Bank.

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

In the pension segment, opportunities will come from pension funds, who will insure the whole or part of the fund instead of keeping these risks themselves as pension funds face pressure on their coverage ratios as well as increased regulatory and governance requirements.

Regulation and supervision

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

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

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

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

Financial supervision of insurance companies

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

Under Dutch law a company is not permitted to conduct both life insurance and non-life insurance business within one legal entity, nor is a company allowed to carry out both insurance and banking business within the same legal entity.

Every life and non-life insurance company licensed by, and falling under the supervision of, DNB must file audited regulatory reports on at least an annual basis. These reports, primarily designed to enable DNB to monitor the solvency of the insurance company, include a (consolidated) balance sheet, a (consolidated) income statement, extensive actuarial information, and detailed information on the investments of the insurance company. DNB s regulatory reporting is based on a single entity focus and is designed to highlight risk assessment and risk management.

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

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

- Aegon Levensverzekering N.V.
- Aegon Schadeverzekering N.V.
- Aegon Spaarkas N.V.
- OPTAS Pensioenen N.V.

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

1 Source: Kadaster.
2 Source: DNB Supervision Returns 2011.
3 Source: DNB Statisch Bulletin.

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

Financial supervision credit institutions

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

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

Asset liability management

Aegon the Netherlands Risk & Capital Committee, who meet at least on a quarterly basis, determines and monitors the investment strategy. The focus of these meetings is, among other activities, to ensure an optimal strategic asset allocation, to decide on interest rate hedging strategies to reduce interest rate risks, and to decide on the need for securitizations of residential mortgage portfolios to improve the liquidity and funding position of Aegon the Netherlands.

Most (insurance) liabilities of Aegon the Netherlands are nominal and long-term. Based on their characteristics, a long-term liability-driven benchmark is derived. Scenarios and optimization analyses are conducted with respect to the asset classes fixed income, equities and real estate. Various subclasses, such as commodities, hedge funds and private equity, are also included in the analyses. The result is an optimal asset allocation representing different investment risk-return profiles. Constraints such as the minimum return on equity and the maximum solvency risk also determine alternative strategic asset allocations. Most of Aegon the Netherlands investments are managed by Aegon Asset Management. For certain specialized

investments, such as hedge funds and private equity, Aegon the Netherlands hires external managers. Portfolio managers are allowed to deviate from the benchmark based on their short-term and medium-term investment outlook. Risk-based restrictions are in place to monitor and control the actual portfolio allocations compared to their strategic portfolio allocations. An internal framework limits investment exposure to any single counterparty.

In 2012, Aegon the Netherlands partially offset the risk of future longevity increases related to a part of its insurance liabilities by buying a longevity index derivative from Deutsche Bank, which will pay out if in twenty years the mortality rates have decreased more than a predetermined percentage compared to the base scenario at the moment of signing the contract. Both Aegon the Netherlands and Deutsche Bank have the possibility to terminate the contract after ten years (early termination clause). The payout is maximized at another (higher) predetermined percentage compared to the base scenario. This transaction was the first transaction in Continental Europe to be based on population data and it is the first longevity swap to be targeted directly to capital markets.

This longevity derivative accomplishes the objective of retaining some risk around the best estimate of the insurance liabilities of Aegon the Netherlands, while being protected for significant mortality improvements and thus lowering the amount of required capital for solvency purposes.

Reinsurance ceded

Like other Aegon companies around the world, Aegon the Netherlands reinsures part of its insurance exposure with third-party reinsurers under traditional indemnity, and excess of loss contracts. Reinsurance helps Aegon manage, mitigate and diversify its insurance risks and limit the maximum loss it may incur on risks that exceed policy retention limits.

Prior to 2011, Aegon the Netherlands reinsured its life exposure through a profit-sharing contract between its subsidiary Aegon Levensverzekering N.V. and a reinsurer. As of January 1, 2012, Aegon the Netherlands has ended this reinsurance contract and therefore retains the full death and disability risk.

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

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Results 2012 United Kingdom

	Amounts in GBP millions			Amounts in EUR millions		
	2012	2011	%	**2012**	2011	%
Net underlying earnings	**110**	**33**	-	**135**	**38**	-
Tax on underlying earnings	(25)	(28)	11%	(30)	(33)	9%
Underlying earnings before tax by product segment						
Life	66	86	(23%)	82	99	(17%)
Pensions	21	(75)	-	26	(86)	-
Distribution	(2)	(6)	67%	(3)	(8)	63%
Underlying earnings before tax	**85**	**5**	-	**105**	**5**	-
Net Fair value items	(26)	(5)	-	(31)	(6)	-
Gains / (losses) on investments	68	44	55%	84	51	65%
Impairment charges	-	(55)	-	-	(62)	-
Other income / (charges)	28	(49)	-	34	(57)	-
Income before tax (excluding income tax from certain proportionately consolidated associates)	**155**	**(60)**	-	**192**	**(69)**	-
Income tax attributible to policyholder return	(32)	(37)	14%	(40)	(43)	7%
Income before tax on shareholders return (excluding income tax from certain proportionately consolidated associates)	**123**	**(97)**	-	**152**	**(112)**	-
Income tax on shareholders return	14	52	(73%)	17	60	(72%)
Net income	**137**	**(45)**	-	**169**	**(52)**	-
Life insurance gross premiums	4,900	5,611	(13%)	6,047	6,474	(7%)
Total gross premiums	**4,900**	**5,611**	**(13%)**	**6,047**	**6,474**	**(7%)**
Investment income	1,894	1,867	1%	2,337	2,154	8%
Fees and commission income	108	119	(9%)	133	137	(3%)
Total revenues	**6,902**	**7,597**	**(9%)**	**8,517**	**8,765**	**(3%)**
Commissions and expenses	598	732	(18%)	738	844	(13%)
of which operating expenses	273	409	(33%)	337	472	(29%)

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

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

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

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Results 2012 United Kingdom

Underlying earnings before tax from Aegon s operations in the United Kingdom improved to GBP 85 million driven by lower expenses following the implementation of the cost reduction program in 2011 and the absence of charges and expenses related to the customer redress program in 2011. Aegon introduced a new platform to the market in 2012.

Net income

Net income improved to GBP 137 million driven by higher underlying earnings before tax, higher realized gains on investments, and the absence of impairment charges and restructuring charges. Results on fair value items amounted to a loss of GBP 26 million, driven by losses on hedges as a result of higher equity markets. Realized gains on investments amounted to GBP 68 million and were mainly the result of switching from gilts into high quality credits. There were no impairments during the year. A reduction in the corporate tax rate in the United Kingdom had a positive impact on net income.

Underlying earnings before tax

Underlying earnings before tax from Aegon s operations in the United Kingdom increased to GBP 85 million in 2012, driven by a strong improvement in underlying earnings before tax from pensions compared to 2011. Underlying earnings before tax included recurring charges for Corporate Center expenses of GBP 8 million.

- Underlying earnings before tax from Life declined to GBP 66 million driven mostly by the non-recurrence of a GBP 15 million benefit and recurring charges for Corporate Center expenses.
- Underlying earnings before tax from Pensions improved to GBP 21 million, mainly driven by the non-recurrence of charges and execution expenses related to a program to correct historical issues within customer policy records recorded in the previous year and the implementation of the cost reduction program. These positives were partly offset by the effect from adverse persistency, which the UK insurance industry is experiencing as a result of the implementation of the Retail Distribution Review, the sale of Guardian in 2011 and by a benefit as a result of changes to the employee pension plan in 2011.
- Distribution amounted to an underlying loss before tax of GBP 2 million, improving over last year mainly due to cost savings.

Commissions and expenses

Commissions and expenses declined by 18% in 2012 compared to 2011 mainly due to lower operating expenses. Operating expenses declined 33% to GBP 273 million, following the implementation of a cost reduction program in the United Kingdom, the non recurrence of restructuring charges in 2011, partly offset by the benefit from changes to employee pension plans in 2011. This reduction has been achieved while continuing to invest in new propositions in the pension business. Operating expenses included GBP 8 million of recurring charges for Corporate Center expenses.

Production

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

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Results 2011 United Kingdom

	Amounts in GBP millions			Amounts in EUR millions		
	2011	2010	%	2011	2010	%
Net underlying earnings	**33**	**103**	**(68%)**	**38**	**120**	**(68%)**
Tax on underlying earnings	(28)	(42)	33%	(33)	(48)	(31%)
Underlying earnings before tax by product segment						
Life	86	60	43%	99	71	39%
Pensions	(75)	6	-	(86)	7	-
Distribution	(6)	(5)	(20%)	(8)	(6)	(33%)
Underlying earnings before tax	**5**	**61**	**(92%)**	**5**	**72**	**(93%)**
Net Fair value items	(5)	(8)	38%	(6)	(9)	33%
Gains / (losses) on investments	44	12	-	51	14	-
Impairment charges	(55)	(30)	(83%)	(62)	(36)	(72%)
Other income / (charges)	(49)	41	-	(57)	48	-
Income before tax	**(60)**	**76**	**-**	**(69)**	**89**	**-**
Income tax attributible to policyholder return	(37)	(57)	35%	(43)	(67)	36%
Income before tax on shareholders return	**(97)**	**19**	**-**	**(112)**	**22**	**-**
Income tax on shareholders return	52	53	(2%)	60	62	(3%)
Net income	**(45)**	**72**	**-**	**(52)**	**84**	**-**
Life insurance gross premiums	5,611	6,344	(12%)	6,474	7,425	(13%)
Total gross premiums	**5,611**	**6,344**	**(12%)**	**6,474**	**7,425**	**(13%)**
Investment income	1,867	1,999	(7%)	2,154	2,340	(8%)
Fees and commission income	119	140	(15%)	137	164	(16%)
Total revenues	**7,597**	**8,483**	**(10%)**	**8,765**	**9,929**	**(12%)**
Commissions and expenses	732	694	5%	844	812	4%
of which operating expenses	409	390	5%	472	456	4%

	Amounts in GBP millions			Amounts in EUR millions		
New life sales	2011	2010	%	2011	2010	%
Life	66	81	(19%)	77	94	(18%)
Pensions	672	826	(19%)	775	967	(20%)
Total recurring plus 1/10 single	**738**	**907**	**(19%)**	**852**	**1,061**	**(20%)**

	Amounts in GBP millions			Amounts in EUR millions		
Gross deposits (on and off balance)	2011	2010	%	2011	2010	%
Variable annuities	49	82	(40%)	56	96	(42%)
Total gross deposits	**49**	**82**	**(40%)**	**56**	**96**	**(42%)**

	Weighted average rate		Closing rate as of	
	2011	2010	December 31, 2011	Dec. 31, 2010
Exchange rates				

Per 1 EUR				
GBP	0.8667	0.8544	0.8353	0.8608

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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 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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Overview United Kingdom

In the UK, Aegon is a major provider of corporate and individual pensions, protection products and annuities, and in financial advice markets, through its owned adviser companies Origen and Positive Solutions. Aegon UK has some two million customers, approximately 2,800 employees and GBP 54.5 billion in revenue-generating investments. Aegon UK s main offices are in Edinburgh, London and Lytham St. Annes.

Aegon UK is focused on the two core markets in the UK of At-Retirement and Workplace Savings. Both these markets present opportunities for growth and are markets where Aegon has a heritage of expertise. In 2011, Aegon launched a new platform proposition, Aegon Retirement Choices (ARC), which it believes will enable it to achieve growth in the at-retirement market. Following this successful launch, Aegon UK added a workplace solution to its platform proposition in July 2012. The Aegon Retirement Choices proposition is unique in the United Kingdom as it is the only platform to effectively link the accumulation stage of savings through the workplace, with the decumulation stage of securing income in retirement.

ARC is a technology driven delivery system for pensions, individual savings accounts (ISAs), investment bonds and other tax wrappers. It provides access to a wide range of investments and is focused on providing income solutions to customers who are planning their retirement. It allows customers to plan for the future, prepare for retirement, take an income and adapt to changing circumstances while in retirement.

In addition to its Platform capability, Aegon UK continues to offer stand-alone pension, investment and protection products to serve the needs of those advisers who have not yet adopted a platform approach, or who feel that an off-platform solution meets their current and future financial requirements.

As the UK market develops following the regulatory changes brought about by the Retail Distribution Review and by pensions reform, Aegon UK is well placed to provide advisers and customers with appropriate, transparent and affordable retirement solutions that address the needs of a market in which increasing longevity, evolving retirement patterns and investment risk are key challenges.

Organizational structure

Aegon UK plc is Aegon UK s principal holding company. It was registered as a public limited company at the beginning of December 1998.

Aegon UK s leading operating subsidiaries are:

- Scottish Equitable plc. (trading as Aegon)
- Origen Financial Services Ltd.
- Positive Solutions (Financial Services) Ltd.
- Aegon Investment Solutions Ltd.

Overview sales and distribution channels

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

In all, there are an estimated 30,000 registered financial advisers in the United Kingdom. Until December 31, 2012, these advisers could be classified as single-tied , multi-tied , whole of market or independent , depending on whether they were either restricted in the number of providers they dealt with or were free to advise on all available products. The Retail Distribution Review came into effect on January 1, 2013 and financial advisers had been preparing for this over the last few years. From January 1, 2013, financial advisers are either classed as independent or restricted and are remunerated directly by the customer based on the service they receive. Aegon UK continues to maintain strong links with financial advisers in all segments of the market.

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

Overview business lines

Aegon UK has three business lines:

- Life
- Pensions
- Distribution

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Life

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

Products

Individual protection

Aegon UK offers a range of products for individual customers, including life cover, critical illness and income protection. In addition, it also provides products for companies wishing to insure key personnel.

Immediate annuity

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

Sales and distribution

Individual protection products are distributed through intermediated advice channels. Annuity products comprise internally vested immediate annuities and those through intermediated advice channels.

Pensions

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

Products

Individual pensions

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

- Flexible personal pensions.
- Self-invested personal pensions (SIPPs), which provide a range of pre- and post-retirement investment options for high-net-worth customers, including insured funds and real estate.
- Transfers from other retirement plans.
- Phased retirement options and income drawdown.
- Stakeholder pensions (a type of personal pension specific to the United Kingdom which has a maximum limit on charges and low minimum contributions).

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

Platform

Aegon Retirement Choices (ARC) was launched in November 2011. AARC helps advisers and their customers with the transition from work to retirement efficiently and effectively through a technology driven platform. The leading edge technology that Aegon UK has employed delivers an intuitive method of saving for retirement through the workplace, taking income in retirement and dealing with changing circumstances. It also provides valuable online reporting and lifestyle tools that enable advisers to demonstrate their professionalism and display their advice charges in a completely transparent way. Professionalism and transparency are key principles of the Retail Distribution Review (RDR) which came into effect on January 1, 2013.

Corporate pensions

One of Aegon UK s largest product lines is providing pension plans for companies. Aegon UK offers group pension solutions on- and off-platform, depending on the needs of the employer and employee. In the UK, pensions reform (automatic-enrollment) is expected to have a dramatic effect on the workplace savings market, increasing the number of employees who will engage with saving through their employers pensions arrangements.

The move away from defined benefit (DB) arrangements, which provide a guaranteed percentage of salary on retirement, toward defined contribution (DC) plans has continued to accelerate in recent years. DC plans are similar to personal pensions with contributions being paid into a plan owned by individual employees and then invested. Generally, at retirement, employees can choose to take a percentage of tax-free cash from their pension plan, using the remainder either to purchase an annuity or to invest it in a separate drawdown policy.

As a result of this trend, the market for new DB plans has shrunk dramatically in recent years, largely because of concerns over long-term liabilities.

Investment products

Aegon UK also offers two types of investment bonds designed for customers residing in the United Kingdom: the onshore bond and offshore contracts[1].

The onshore bond is a type of life contract, aimed primarily at pre- and post-retirement customers looking for either a source of income or a way of growing their savings. The bond offers a wide range of investment options and funds, managed by some of the world s leading asset managers. While the onshore bond is aimed at a mass affluent market, Aegon UK s offshore contracts have traditionally been marketed to high net-worth individuals. Offshore contracts offer considerable tax advantages and a wide choice of investment options.

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

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Unit-linked guarantees

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

Sales and distribution

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

ARC is distributed through intermediated advice channels.

Distribution

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

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

Positive Solutions, meanwhile, brings together around 900 individual partners in one of the largest adviser networks in the United Kingdom.

Competition

Aegon UK faces competition from two main sources: life and pension companies and financial advice firms.

Over the past few years, the life and pension market has been increasingly concentrated among the largest companies and those perceived to be financially strong. Aegon UK s competitors include Legal and General, Standard Life, Lloyds and Aviva. For certain products competition also comes from asset management companies and platform providers.

The financial adviser market in the United Kingdom is fragmented, with a large number of relatively small firms. The removal of polarization rules in the advice market in 2005 has led to advisers choosing to operate on a multi-tied, single-tied, whole of market, or independent basis. More recently, there has been consolidation in this market due to financial pressures and preparations for the Financial Services Authority Retail

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

Regulation and supervision

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

The Financial Services Authority (FSA) acts both as a prudential and conduct of business supervisor. On December 19, 2012, the Financial Services Act 2012, received royal assent abolishing the FSA with effect on April 1, 2013. Its responsibilities will be split between the Prudential Regulatory Authority and the Financial Conduct Authority.

Currently the FSA sets minimum standards for capital adequacy and solvency, and regulates the sales and marketing activities of regulated companies.

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

Asset liability management

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

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

For its with-profit business, Aegon UK s general philosophy is to match guarantees with appropriate investments. However, the nature of with-profit businesses typically prevents perfect matching, and the role of the MIC is therefore to monitor the capital implications of any mismatching. On an annual basis, detailed reports are produced covering the impact of a range of possible investment scenarios on the solvency of each of the funds. These reports allow the central investment strategy for the with-profit funds to be discussed and are summarized for the With-Profits Forum, a sub committee of the Board of Aegon UK.

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In respect of non-profit business, interest rate risk arises substantially on Aegon UK s large book of annuities in payment. Assets are purchased to provide a close expected match to liability outflows, with regular reporting to the MIC on the capital implications of any mismatching.

For unit-linked business, the matching philosophy results in close matching of the unit liabilities with units in the relevant underlying funds. A proportion of the unit-linked assets is invested in funds managed by external investment managers. The MIC monitors the performance of the investment managers against fund benchmarks.

With-profit fund

The invested assets, insurance and investment contract liabilities of Aegon UK s with-profit fund are included in for account of policyholder assets and liabilities . Assets and liabilities are always equal as any excess of assets over liabilities in respect of guaranteed benefits and constructive obligations are classified as an insurance or investment contract liability. The Scottish Equitable with-profit fund is a 100:0 fund, where all benefits are held for participating policyholders.

The operation of the Scottish Equitable with-profit fund is complex. Below is a summary of Aegon UK s overall approach.

Guarantees

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

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

As part of its demutualization process before being acquired by Aegon N.V., on December 31, 1993, the business and assets of Scottish Equitable Life Assurance Society were transferred to Scottish Equitable plc. Aegon UK has no financial interest

in Scottish Equitable plc. s with-profit fund, apart from routine yearly fund management charges, as well as costs and expenses that the company agreed to accept at the time of demutualization.

Guaranteed rates of return on with-profit policies are typically in the range of 0% to 5.5% a year, with the highest rates closed to all premiums in 1999 and all funds closed to new business with investment guarantees from October 2002, except for a low level of increments. Under a number of contracts written mainly in the 1970s and 1980s, Scottish Equitable also offered minimum pension guarantees (including guaranteed annuity options). As life expectancy rates have improved and interest rates have fallen over time, these minimum guarantees are now often valuable.

Management of the with-profit fund

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

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

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

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

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As the Scottish Equitable with-profit fund is now closed to new business with investment guarantees, the process has begun of gradually distributing free assets to with-profit policyholders through the bonus system outlined above. Part of the management of this process involves ensuring that any surpluses in the with-profit fund from other (historic) business lines can be distributed to existing with-profit policyholders at a suitable rate. This helps avoid a tontine effect building up in the fund, as the number of with-profit policyholders declines.

Reinsurance ceded

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

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

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Results 2012 New Markets

Amounts in EUR millions	2012	2011	%
Net underlying earnings	**185**	**184**	**1%**
Tax on underlying earnings	89	65	37%
Underlying earnings before tax by product segment			
Central & Eastern Europe	85	96	(11%)
Asia	19	(4)	-
Spain & France	69	88	(22%)
Variable Annuities Europe	-	9	-
Aegon Asset Management	101	60	68%
Underlying earnings before tax	**274**	**249**	**10%**
Net Fair value items	(1)	(30)	97%
Gains / (losses) on investments	10	7	43%
Impairment charges	(26)	(61)	57%
Other income / (charges)	113	7	-
Income before tax (excluding income tax from certain proportionately consolidated associates)	**370**	**172**	**115%**
Income tax from certain proportionately consolidated associates included in income before tax	3	8	(63%)
Income tax	(121)	(61)	(98%)
Of which Income tax from certain proportionately consolidated associates included in income before tax	(3)	(8)	63%
Net income	**249**	**111**	**124%**
Life insurance gross premiums	1,374	1,600	(14%)
Accident and health insurance premiums	188	179	5%
General insurance premiums	144	149	(3%)
Total gross premiums	**1,706**	**1,928**	**(12%)**
Investment income	319	320	-
Fees and commission income	524	469	12%
Other revenues	3	1	-
Total revenues	**2,552**	**2,718**	**(6%)**
Commissions and expenses	870	826	5%
of which operating expenses	613	577	6%

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

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

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

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

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Results 2012 New Markets

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

Net income

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

Underlying earnings before tax

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

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

Commissions and expenses

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

Production

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

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

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

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

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

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Results 2011 New Markets

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

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

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

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

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

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Exchange rates

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

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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 were negative as the company continued to invest in growth in these emerging markets. The contribution from Spain and France remained level compared with 2010.

Net income

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

Underlying earnings before tax

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

- Earnings from Central & Eastern Europe remained level at EUR 96 million as the negative impact from changes in pension legislation in Hungary and Poland was offset by growth of the life business and improved claim experience.
- Results from Aegon s operations in Asia declined to EUR (4) million, as the positive impact from growth of the business and cost reductions have been offset by the inclusion of the expenses related to the Asian regional office. The results for the regional office in Asia have been included since the first quarter of 2011, following the implementation of the new operational structure for the Asian operations.
- Earnings from Spain & France amounted to EUR 88 million and remained level compared to 2010. Earnings from Spain increased to EUR 66 million as a result of business growth in Spain and the inclusion of earnings from Caixa Sabadell Vida.
  Earnings contributions from partner La Mondiale in France declined to EUR 22 million.
- Earnings from Variable Annuities Europe declined to EUR 9 million as growth of the business was offset by a true-up of deferred policy acquisition cost and unfavorable currency movements. In addition, earnings in 2010 included a benefit of EUR 5 million.
- Earnings from Aegon Asset Management increased 30% to EUR 60 million for the year as a result of higher performance fees and cost savings.

Commissions and expenses

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

Production

New life sales decreased 1% to EUR 311 million.

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

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

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

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

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Overview Central & Eastern Europe

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

Organizational structure

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

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

Overview sales and distribution channels

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

Overview business lines

Life

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

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

1 Source: www.knf.gov.pl.

2 Source: www.mabisz.hu.

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

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

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

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

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

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

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

Mortgage loans

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

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

Pensions

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

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

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

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

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

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

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

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

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

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

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

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

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

Non-life

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

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

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

Competition

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

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

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

Regulation and supervision

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

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

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

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

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

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

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

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

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

Asset liability management

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

Reinsurance ceded

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

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

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

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

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Overview Asia

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

Joint ventures

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

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

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

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

Wholly-owned subsidiaries

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

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

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

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

Organizational structure

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

Overview sales and distribution

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

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

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

Aegon Sony Life in Japan has two primary channels of distribution, the Life Planner channel of Sony Life, Aegon s joint venture partner, and the bank distribution channel. Life Planner began operations in 2009 and six regional banks now

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

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

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

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

Overview business lines

Life and savings

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

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

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

Universal life and term products

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

Individual savings and retirement

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

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

Non-life

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

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

alliances.

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

Competition

China - Aegon-CNOOC

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

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

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

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

India - Aegon Religare

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

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

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

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

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

Japan - Aegon Sony Life

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

1 Source: China Insurance Regulatory Commission (CIRC).

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

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

Asia - ADAMS

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

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

Hong Kong and Singapore - TLB

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

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

Regulation and supervision

China - Aegon-CNOOC

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

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

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

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

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

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

India - Aegon Religare

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

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

amendments to investment regulations.

Japan - Aegon Sony Life

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

Asia - ADAMS

In the DM landscape, there is an evolving regulatory environment especially in the area relating to the use of personal data for marketing purposes. ADAMS ensures that it is constantly abreast

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of any changes or proposed changes to regulations governing personal data in all of its markets. Where appropriate, ADAMS implements industry standard compliance programs, such as PCI Compliance in Australia and P-Mark in Japan.

Hong Kong and Singapore - TLB

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

Asset liability management

China - Aegon-CNOOC

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

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

India - Aegon Religare

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

Japan - Aegon Sony Life and SARe

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

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

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

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

Asia - ADAMS

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

Hong Kong and Singapore - TLB

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

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Reinsurance ceded

China - Aegon-CNOOC

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

India - Aegon Religare

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

Japan - Aegon Sony Life and SARe

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

Asia - ADAMS

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

Hong Kong and Singapore - TLB

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

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

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Overview Spain

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

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

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

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

Organizational structure

Aegon Spain s main subsidiaries and affiliates are:

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

Overview sales and distribution channels

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

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

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

CAM/Aegon Holding Financiero

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

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

Caja Badajoz Vida y Pensiones

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

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Cantabria Vida y Pensiones and Liberbank Vida

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

Unnim Vida

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

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

Distribution

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

Overview business lines

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

Competition

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

Regulation and supervision

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

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

Asset liability management

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

Reinsurance ceded

Aegon Spain has a one Aegon reinsurance management policy , meaning that its joint ventures and its own business are treated as a whole, with the same economic conditions, same reinsurers panel but individual profit shares without losses carried forward by each entity belonging to Aegon Spain. The main contract for mortality and morbidity provides proportional reinsurance protection both for its individual risk policies and for its group risk policies. With this approach, Aegon Spain is seeking to optimize the cost of the reinsurance coverage, sharing the profits and not the losses, while it is achieving a prudential diversification of its insurance risk by limiting the maximum possible losses on risks that exceed retention levels. Maximum retention levels vary by product and by nature of the risk

being reinsured. Generally, however, the retention limit is between EUR 30,000 and EUR 60,000 per life insured. Aegon Spain remains contingently liable with respect to the amount ceded should the reinsurance company fail to meet its obligations.

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

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Overview France

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

History

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

Overview sales and distribution channels

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

Competition

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

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Overview Variable Annuities Europe

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

Overview sales and distribution channels

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

Variable annuities

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

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

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

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

International bonds

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

Overview business lines

Variable annuities

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

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

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

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

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

International bonds

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

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

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

Offshore Wealth Management products allow a customer to make regular withdrawals from their policy as long as there is sufficient value in the underlying fund. The death benefit is typically 100.1% of the surrender value of the policy on the

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death of the last life assured. Offshore Wealth Management products do not have any explicit guarantees. Their surrender value reflects the performance of the funds selected by the client. Therefore, the final surrender value of the policy may be less than the original investment.

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

Competition

Variable annuities

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

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

International bonds

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

Regulation and supervision

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

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

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

1 Source: Association of British Insurers and Aegon

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Overview Aegon Asset Management

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

Organizational structure

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

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

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

Sales and distribution

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

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

Overview business lines

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

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

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

Competition

Aegon Asset Management competes with other asset management companies for open architecture unit-linked business and third party business. Aegon Asset Management s competitors include global asset managers and local specialists in the countries where it is active. Generally, there are different competitors for different types of asset class or different styles of management. In 2012, the twin concerns of weak global growth and the debt crisis crippling many developed economies

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continued to dominate asset management activity. The allocation to fixed income remained strong throughout the year, although there was a significant move back towards equities in the third quarter. This move was witnessed both in the retail and institutional marketplace. The continued policy support provided by central banks around the world has certainly helped risk assets, and particularly the efforts of the European Central Bank through its long-term refinancing and unlimited bond buying programmes. Analysis of the inflows into the equity sector shows that absolute return vehicles have benefited from strong demand, with global equity income products also popular.

Regulation and supervision

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

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Risk management

General

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

Definition and tolerances

For Aegon, risk management involves:

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

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

Objectives of risk management

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

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

Aegon s risk governance framework

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

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

Governance structure

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

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

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

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

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

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

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

The EBRC is supported by two committees:

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

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

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

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

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

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

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

Lines of defense

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

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

Risk management in 2012[1]

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

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

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

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Risk overview 2012

Credit risk

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

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

Equity market risk and other investment risks

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

Interest rate risk

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

Currency exchange rate risk

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

Liquidity risk

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

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

Underwriting risk

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

Operational risk

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

Risk factors

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

I - Risks relating to Aegon s businesses

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

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

Risks related to the global financial markets and general economic conditions

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

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

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

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

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

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

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

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

Credit risk

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

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

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

Equity market risk

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

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

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

Interest rate risk

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

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

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

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

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

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

Currency exchange rate risk

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

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

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

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

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

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

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

Liquidity risk

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

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

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

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

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

Underwriting risk

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

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

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

Other risks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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and occasionally disappointing. This from time to time results in disputes that lead to litigation and complaints to regulatory bodies. Complaints like these may then lead to inquiries or investigations, regardless of their merit.

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

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

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

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

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

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

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

Structural measures that remained in force throughout 2012:

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

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2007 (USD 130 billion) to the end of 2012 (USD 105 billion); as at December 31, 2012, this figure was USD 102 billion.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Competitive factors may adversely affect Aegon s market share.

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

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

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

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

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

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

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

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

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

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

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

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

Because the divestiture of Transamerica Reinsurance is structured principally as a series of reinsurance transactions, SCOR has become one of Aegon s largest reinsurers and Aegon is at risk if SCOR defaults on its obligations under the policies Aegon retroceded to them. A bankruptcy or insolvency or inability of SCOR to satisfy its obligations could have a material adverse

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effect on Aegon s financial position and results of operations. In addition, Aegon agreed to satisfy significant collateral funding obligations of SCOR in connection with the policies Aegon retroceded to it. Satisfying such funding obligations could limit Aegon s ability to upstream cash to the Group level, pay dividends or make acquisitions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

II - Risks relating to Aegon s common shares

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Capital and liquidity management

Liquidity and capital resources

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

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

Guiding principles

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

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

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

Governance

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

Capital management

Strategic importance

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

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

Improving risk profile

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

Capital requirements and leverage

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

- Capital adequacy
- Capital quality

- Capital leverage

Capital adequacy

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

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

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

Capital quality

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

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

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Capital leverage

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

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

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

Debt funding and back-up facilities

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

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

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

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

Operational leverage

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

Liquidity management

Strategic importance

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

Sources and uses of liquidity

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

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

Aegon s liquidity position

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

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

External dividends

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

Aegon uses cash flows from its operating subsidiaries to pay holding expenses, including funding costs. The remaining

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

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

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

Ratings

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

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

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In control statement

Internal risk management and control systems

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

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

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

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

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

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

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

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

Responsibilities in respect of the financial statements and the Annual Report

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

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

The Hague, March 20, 2013

The Executive Board of Aegon N.V.

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Governance

Report of the Supervisory Board

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

Oversight and advice

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

Corporate governance

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

Supervisory Board meetings

Attendance

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

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

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

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

Activities

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

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

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

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

Highlights

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

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

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

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

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

Strategy sessions

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

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

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

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

Results and budget

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

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

Talent management and other Human Resources topics

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

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Legal and compliance

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

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

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

Appointments to the Supervisory Board and the Executive Board

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

Educational sessions and Board review

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

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

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

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

Supervisory Board Committees

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

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

Audit Committee: Shemaya Levy, Chair.

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

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

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

Nominating Committee: Robert J. Routs, Chair.

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

Compensation Committee: Leo M. van Wijk, Chair.

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

The Audit Committee

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

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

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

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

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

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

The Risk Committee

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

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

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

The Nominating Committee

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

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

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

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

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

The Compensation Committee

The Compensation Committee held seven meetings in 2012, and the CEO attended some of these meetings. The range of topics in scope for the Compensation Committee has increased in recent years as a result of new regulations promulgated by the European Union: the Capital Requirements Directive III (CRD III) and

the Guidelines on Remuneration Policies and Practices issued by the Committee of European Banking Supervisors. CRD III is implemented by way of the Decree on Sound Remuneration Policy (Regeling Beheerst Beloningsbeleid Wft 2011-Rbb) as issued by DNB. In 2011, shareholders approved the amended Executive Board Remuneration Policy, which reflected the new regulations.

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

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

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

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

Composition of the Supervisory Board and Executive Board

Supervisory Board

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

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

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

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

Executive Board

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

Annual accounts

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

Acknowledgement

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

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

The Hague, March 20, 2013

Robert J. Routs

Chairman of the Supervisory Board of Aegon N.V.

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Members of the Supervisory Board

Robert J. Routs (1946, Dutch)

Chairman of the Supervisory Board

Chairman of the Nominating Committee

Member of the Compensation Committee

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

Irving W. Bailey II (1941, American)

Vice-Chairman of the Supervisory Board

Chairman of the Risk Committee

Member of the Compensation Committee

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

Antony Burgmans (1947, Dutch)

Member of the Audit Committee

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

Shemaya Levy (1947, French)

Chairman of the Audit Committee

Member of the Nominating Committee

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

Karla M.H. Peijs (1944, Dutch)

Member of the Compensation Committee

Member of the Nominating Committee

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

Kornelis J. Storm (1942, Dutch)

Member of the Risk Committee

Member of the Nominating Committee

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

Ben van der Veer (1951, Dutch)

Member of the Audit Committee

Member of the Risk Committee

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

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Dirk P.M. Verbeek (1950, Dutch)

Member of the Audit Committee

Member of the Risk Committee

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

Leo M. van Wijk (1946, Dutch)

Chairman of the Compensation Committee

Member of the Nominating Committee

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

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

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Remuneration Policy and Report

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

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

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

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

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

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

Role of Risk Management and Compliance

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

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

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

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

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

General compensation practices

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

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

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

Supervisory Board Remuneration Policy 2012

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

Fees and entitlements

Members of the Supervisory Board are entitled to the following:

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

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

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

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

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

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

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

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

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

Supervisory Board Remuneration Report 2012

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

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

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

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

Executive Board Remuneration Policy 2012

Executive Board remuneration

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

Aegon s Executive Board Remuneration Policy has four main objectives:

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

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

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

Role of the Compensation Committee

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

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

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

Review of the Remuneration Policy

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

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Ensuring pay remains competitive

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

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

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

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

Total compensation

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

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

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

Fixed compensation

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

Variable compensation

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

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

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

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

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

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

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

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

Variable compensation schedule

Variable compensation 2012

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

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

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

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

At an aggregate level, payments are made as follows:

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

Risk adjustment methodology (ex-ante)

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

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

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Ex-post assessment and discretionary adjustments

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

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

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

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

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

Circuit breaker

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

Malus and claw-back provision

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

Pension arrangements

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

Terms of employment

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

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

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

Executive Board Remuneration Report 2012

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

¿

- Alexander R. Wynaendts, Chief Executive Officer and Chairman of the Executive Board. Mr. Wynaendts was appointed member of the Executive Board in 2003 for four years, and re-appointed in 2007. At the General Meeting of Shareholders in 2011, Mr. Wynaendts was re-appointed for another four years.
- ¿ Jan J. Nooitgedagt, Chief Financial Officer and member of the Executive Board. Mr. Nooitgedagt was appointed member of the Executive Board in 2009 for four years.

During 2012 no changes took place.

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Fixed compensation

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

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

Conditional variable compensation awards 2012

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

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

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

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

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

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

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

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

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

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Corporate governance

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

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

General Meeting of Shareholders

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

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

Agenda

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

Attendance

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

Record date

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

Voting at the General Meeting

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

Executive Board

Aegon s Executive Board has two members:

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

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

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

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

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

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Management Board

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

Severance payments

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

Supervisory Board

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

Appointment of Board members

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

Committees

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

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

Composition of the Board

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

Aegon s ownership structure and exercise of control

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

A. Capital of the company

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

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

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

Common shares

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

Preferred shares

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

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

B. Significant shareholdings

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

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

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

C. Special control rights

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

These special cause may include:

- The acquisition by a third party of an interest in Aegon N.V. amounting to 15% or more.
- A tender offer for Aegon N.V. shares.
- A proposed business combination by any person, or group of persons, whether acting individually or as a group, other than in a transaction approved by the company s Executive and Supervisory Boards.

If Vereniging Aegon, acting at its sole discretion, determines that a special cause has arisen, it must notify the General Meeting of Shareholders. In this event, Vereniging Aegon retains full voting rights on its preferred shares for a period limited to six months. Based on its current shareholding, Vereniging Aegon would, for that limited period, command 32.64% of the votes at a General Meeting of Shareholders.

As a result of both this and the existence of certain qualified majority voting requirements specified in Aegon s Articles of Association, Vereniging Aegon may effectively be in a position to block unfriendly actions by either a hostile bidder or others for a period of six months. In the absence of a special cause, Vereniging Aegon s share of the company s voting capital represented 22.06% at December 31, 2012.

On February 15, 2013, Aegon N.V. reached an agreement with Vereniging Aegon to cancel all of Aegon s preferred shares, of which Vereniging Aegon is the sole owner. Under the agreement, all of Aegon s preferred shares will be exchanged for cash and common shares. To effectuate the agreement, Aegon s Supervisory Board will propose to shareholders at the annual General Meeting of Shareholders on May 15, 2013, to approve the new capital structure. When this new structure is approved and implemented, it will not have any consequences for the control position of Vereniging Aegon.

For more information on Vereniging Aegon and the proposed new capital structure, please refer to pages 307 to 309 of the consolidated financial statements in this Annual Report, or the website of Vereniging Aegon, www.verenigingaegon.nl.

To Aegon s knowledge, only one other party holds a capital and voting interest in Aegon N.V in excess of 5%. According to its filing with the United States Securities and Exchange Commission on February 13, 2013, US-based investment management firm Dodge & Cox owns over 195 million common shares.

D. Board appointments

The General Meeting of Shareholders appoints members of both the Supervisory and Executive Boards, following nominations by the Supervisory Board. Providing at least two candidates are nominated, these nominations are binding. The General Meeting of Shareholders may cancel the binding nature of these nominations with a majority of two-thirds of votes cast, representing at least one half of Aegon s issued capital.

The General Meeting may, in addition, bring forward a resolution to appoint someone not nominated by the Supervisory Board. Such a resolution also requires a two-thirds majority of votes cast and representing at least one half of Aegon s issued capital.

E. Suspending or dismissing Board members

Members of Aegon s Supervisory and Executive Boards may be suspended or dismissed by the General Meeting of Shareholders with a two-thirds majority of votes cast, representing at least one half of Aegon s issued capital, unless the suspension or dismissal has first been proposed by the company s Supervisory Board. A member of the Executive Board may also be suspended by the Supervisory Board, though the General Meeting of Shareholders has the power to annul this suspension.

F. Amending the Articles of Association

The General Meeting of Shareholders may, with an absolute majority of votes cast, pass a resolution to amend Aegon s Articles of Association or to dissolve the company, in accordance with a proposal made by the Executive Board and approved by the Supervisory Board.

G. Issue and repurchase of shares

New shares may be issued up to the maximum of the company s authorized capital, following a resolution adopted by the General Meeting of Shareholders. Shares may also be issued following a resolution of the Executive Board, providing - and to the extent that - the Board has been authorized to do so by the General Meeting of Shareholders. A resolution authorizing the Executive Board to issue new shares is usually presented at Aegon s annual General Meeting of Shareholders.

Aegon is entitled to acquire its own fully paid-up shares, providing it acts within existing statutory restrictions. Shareholders usually authorize the Executive Board to purchase

1 The 1983 Merger Agreement, as amended, is published on Aegon s website (aegon.com).
2 The Preferred Shares Voting Rights Agreement is published on Aegon s website (aegon.com).

the company s shares under terms and conditions determined by the General Meeting of Shareholders.

H.Transfer of shares

There are no restrictions on the transfer of common shares. As regards the transferability of preferred shares, please refer to clause 10.5 of the Amendment to the 1983 Merger Agreement[1].

I. Shareholder agreements

Aegon has no knowledge of any agreement between shareholders that might restrict the transfer of shares or the voting rights pertaining to them.

J. Exercise of option rights

Senior executives at Aegon companies and other employees have been granted share appreciation rights and share options. For further details, please see note 14 of the notes to Aegon s consolidated financial statements of this Annual Report. Under the terms of existing share option plans Aegon cannot influence the exercise of granted rights.

K. Significant agreements and potential change of control

Aegon is not party to any significant agreements which would take effect, alter or terminate as a consequence of a change of control following a public offer for the outstanding shares of the company, other than those customary in the financial markets (for example, financial arrangements, loans and joint venture agreements).

Dutch Corporate Governance Code

As a company based in the Netherlands, Aegon adheres to the Dutch Corporate Governance Code. Aegon endorses the Code and strongly supports its principles for sound and responsible corporate governance. Aegon regards the Code as an effective means of helping ensure that the interests of all stakeholders are duly represented and taken into account.

The Code also promotes transparency in decision-making and helps strengthen the principles of good governance. The original Code, dated December 2003, was amended in 2008. This new, amended Code came into force on January 1, 2009. This review deals with the Dutch Corporate Governance Code in force from that date. Overseeing Aegon s overall corporate governance structure is the responsibility of both the Supervisory and Executive Boards. Any substantial change to this structure is submitted to the General Meeting of Shareholders for discussion.

A detailed explanation is given below for those instances where Aegon does not fully apply the best practice provisions of the Code. In these few instances, Aegon adheres, as far as possible, to the spirit of the Code.

Code II.2.8

For members of the Executive Board, the Dutch Corporate Governance Code requires that the maximum compensation in the event of dismissal should be one year s salary - or two years salary for cases where one year s salary would be manifestly unreasonable, such as a member who is dismissed in his or her first term of office.

Aegon s position on Code II.2.8

Aegon is committed to applying this best practice provision to all new Executive Board appointments. This best practice provision is also embedded in the company s Remuneration Policy for the Executive Board. The employment contracts with Executive Board members that existed prior to the Code coming into force in 2003 will be respected. The employment agreement of Aegon s CEO Alex Wynaendts, contains a more favorable severance payment arrangement should his employment be terminated as a result of a merger or takeover. Details of Executive Board members employment contracts may be found on Aegon s corporate website, aegon.com.

Code II.3.3

The Code recommends that a member of the Executive Board should not take part in discussions or decision-making related to a subject or a transaction in which he or she has a conflict of interest.

Aegon s position on Code II.3.3

Aegon s CEO and CFO are also members of the Executive Committee of the company s largest shareholder, Vereniging Aegon. This may be construed as a conflict of interest. However, under Vereniging Aegon s Articles of Association, Aegon s CEO and CFO are specifically excluded from voting on issues directly related to Aegon or their position within it. Aegon s Supervisory Board holds the view that, given the historic relationship between Aegon and Vereniging Aegon, it would not be in the company s best interests to prevent them participating in discussions and decision-making related to Vereniging Aegon. For this reason, a protocol has been drawn up authorizing the CEO and CFO to continue their existing practice with respect to their dealings with Vereniging Aegon. The text of this protocol is available on Aegon s website, aegon.com.

1 The 1983 Merger Agreement, as amended is published on Aegon s website (aegon.com).

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Code IV.1.1

The Dutch Corporate Governance Code states that the General Meeting of Shareholders may cancel the binding nature of nominations for the appointment of members to the Executive and Supervisory Boards with an absolute majority of votes and a limited quorum.

Aegon s position on Code IV.1.1

Aegon s Articles of Association provide for a larger majority and a higher quorum than those advocated by the Code. Given that the company has no specific anti-takeover measures, the current system is deemed appropriate within the context of the 1983

Merger Agreement under which Aegon was formed. However, to mitigate any possible negative effects from this, the Supervisory Board has decided that, in the absence of any hostile action, it will only make nominations for appointment of members to the Executive and Supervisory Boards that are non-binding in nature.

Corporate Governance Statement

Generally, Aegon applies the best practice provisions set out in the Code. For an extensive review of Aegon s compliance with the Code, please refer to the Corporate Governance Statement on Aegon s corporate website, aegon.com.

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Differences between Dutch and US company laws

Dutch company law is different from US law in the following respects: Aegon, like most large Dutch public companies, has a two-tier governance system involving an Executive Board and a Supervisory Board. The Executive Board is the executive body and its members are employed by the company[1]. Members of the Executive Board are appointed and dismissed by the General Meeting of Shareholders, as inside directors are in the United States. The remuneration policy as regards the members of the Executive Board is adopted by the General Meeting of Shareholders. The number of the Executive Board members and the terms of their employment are determined by the Supervisory Board within the scope of the adopted Remuneration Policy.

The Supervisory Board performs supervisory and advisory functions only and its members are outsiders that are not employed by the company. The Supervisory Board has the duty to supervise the performance of the Executive Board, the company s general course of affairs and the business connected with it. The Supervisory Board also assists the Executive Board by giving advice. Other powers of the Supervisory Board include the prior approval of certain important resolutions of the Executive Board. Members of the Supervisory Board are appointed for a four-year term and may be dismissed by the General Meeting of Shareholders. The remuneration of Supervisory Board members is fixed by the General Meeting of Shareholders. Resolutions entailing a significant change in the identity or character of the company or its business require the approval of the General Meeting of Shareholders.

1 As a result of a change in Dutch corporate law, with effect of 1 January 2013, new members of the Executive Board will not be employees of the company, but will enter into engagement agreements with the company regarding their position as member of the Executive Board.

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Code of ethics

Aegon has adopted a code of ethics, titled the Code of Conduct, which contains Aegon s ethical principles in relation to various subjects. The Code of Conduct applies to Aegon employees worldwide, including Aegon s Chief Executive Officer, Chief Financial Officer, Controller and persons performing similar functions.

A new Code of Conduct came into force in 2012 giving a clearer commitment to a customer-centric approach. No waivers were granted in respect of the Code of Conduct which is posted on Aegon s website, aegon.com[1]

1 http://www.aegon.com/en/Home/About/Governance/Documentation/Policies-Procedures-and-Regulations/.

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Controls and procedures

A. Disclosure controls and procedures

As of the end of the period covered by this Annual Report, Aegon s management carried out an evaluation, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of Aegon s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, Aegon s Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, the disclosure controls and procedures were effective in providing reasonable assurance regarding the reliability of financial reporting.

B. Management s Annual Report on internal control over financial reporting

The directors and management of Aegon are responsible for establishing and maintaining adequate internal control over financial reporting. Aegon s internal control over financial reporting is a process designed under the supervision of Aegon s principal executive and financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of its published financial statements. Internal control over financial reporting includes policies and procedures that:

- ¿ Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company.
- ¿ Provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with the generally accepted accounting principles.
- ¿ Provide reasonable assurance that receipts and expenditures are being made only in accordance with the authorizations of management and directors of the company.
- ¿ Provide reasonable assurance that unauthorized acquisition, use or disposition of company assets that could have a material effect on Aegon s financial statements would be prevented or detected in a timely manner.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management assessed the effectiveness of Aegon s internal control over financial reporting as of December 31, 2012.

In making its assessment management used the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on the assessment, management has concluded that, in all material aspects, the internal control over financial reporting was effective as at December 31, 2012. They have reviewed the results of its work with the Audit Committee of the Supervisory Board.

The effectiveness of internal control over financial reporting as of December 31, 2012, was audited by Ernst & Young, an independent registered public accounting firm, as stated in their report included under item C below.

C. Attestation report of the independent registered public accounting firm

Report of independent registered public accounting firm The Supervisory Board, the Executive Board and Shareholders of Aegon N.V.

We have audited Aegon N.V. s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria).

Aegon N.V. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

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Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Aegon N.V. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Aegon N.V., which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, the related consolidated income statements, statements of comprehensive income, statements of changes in equity, and cash flow statements for each of the three years in the period ended December 31, 2012, of Aegon N.V., and our report dated March 20, 2013, expressed an unqualified opinion thereon.

The Hague, the Netherlands, March 20, 2013

Ernst & Young Accountants LLP

D. Changes in internal controls over financial reporting

There have been no changes in internal controls over financial reporting during the period covered by this Annual Report that have materially affected, or reasonably likely to affect, Aegon s internal controls over financial reporting.

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Consolidated income statement of Aegon N.V.

For the year ended December 31

Amounts in EUR million (except per share data)	Note	2012	2011	2010
Premium income	6	19,526	19,521	21,097
Investment income	7	8,501	8,167	8,762
Fee and commission income	8	1,900	1,465	1,744
Other revenues		10	6	5
Total revenues		**29,937**	**29,159**	**31,608**
Income from reinsurance ceded	9	4,128	2,775	1,869
Results from financial transactions	10	12,996	(187)	15,662
Other income	11	151	39	40
Total income		**47,212**	**31,786**	**49,179**
Premiums to reinsurers	6	3,735	3,407	1,859
Policyholder claims and benefits	12	35,155	20,230	38,128
Profit sharing and rebates	13	34	55	36
Commissions and expenses	14	5,736	6,164	6,034
Impairment charges / (reversals)	15	206	483	701
Interest charges and related fees	16	467	491	426
Other charges	17	53	69	122
Total charges		**45,386**	**30,899**	**47,306**
Income before share in profit / (loss) of associates and tax		**1,826**	**887**	**1,873**
Share in profit / (loss) of associates		26	29	41
Income / (loss) before tax		**1,852**	**916**	**1,914**
Income tax	18	(320)	(44)	(154)
Net Income / (loss)		**1,532**	**872**	**1,760**
Net income / (loss) attributable to:				
Equity holders of Aegon N.V.		1,531	869	1,759
Non-controlling interests		1	3	1
Earnings per share (EUR per share)	19			
Basic earnings per share		0.67	(0.06)	0.76
Diluted earnings per share		0.67	(0.06)	0.68

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Consolidated statement of comprehensive income of Aegon N.V.

For the year ended December 31

Amounts in EUR million	2012	2011	2010
Net income	**1,532**	**872**	**1,760**
Other comprehensive income:			
Gains / (losses) on revaluation of available-for-sale investments	4,221	3,113	3,873
(Gains) / losses transferred to the income statement on disposal and impairment of available-for-sale investments	(465)	(513)	(203)
Changes in revaluation reserve real estate held for own use	(5)	3	4
Changes in cash flow hedging reserve	(92)	1,058	373
Movement in foreign currency translation and net foreign investment hedging reserve	(116)	409	1,054
Equity movements of associates	22	(18)	(25)
Disposal of group assets	-	-	(22)
Aggregate tax effect of items recognized in other comprehensive income / (loss)	(1,063)	(1,167)	(1,409)
Other	(1)	4	(10)
Other comprehensive income for the period	**2,501**	**2,889**	**3,635**
Total comprehensive income / (loss)	**4,033**	**3,761**	**5,395**
Total comprehensive income attributable to:			
Equity holders of Aegon N.V.	4,034	3,758	5,394
Non-controlling interests	(1)	3	1

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Consolidated statement of financial position of Aegon N.V.

As at December 31

Amounts in EUR million	Note	2012	2011
Assets			
Intangible assets	21	2,948	3,285
Investments	22	146,182	144,079
Investments for account of policyholders	23	153,670	142,529
Derivatives	24	21,154	15,504
Investments in associates	25	829	742
Reinsurance assets	26	11,987	11,517
Defined benefit assets	41	201	303
Deferred tax assets	43	33	89
Deferred expenses	27	11,687	11,432
Other assets and receivables	28	7,722	7,792
Cash and cash equivalents	29	9,653	8,104
Total assets		**366,066**	**345,376**
Equity and liabilities			
Shareholders equity	30	24,630	21,000
Other equity instruments	32	5,018	4,720
Issued capital and reserves attributable to equity holders of Aegon N.V.		**29,648**	**25,720**
Non-controlling interests		13	14
Group equity		**29,661**	**25,734**
Trust pass-through securities	33	155	159
Subordinated borrowings	34	61	18
Insurance contracts	35	105,209	104,974
Insurance contracts for account of policyholders	36	76,871	73,425
Investment contracts	37	17,768	20,847
Investment contracts for account of policyholders	38	78,418	71,433
Derivatives	24	17,848	12,728
Borrowings	39	12,758	10,141
Provisions	40	331	444
Defined benefit liabilities	41	2,222	2,184
Deferred revenue liabilities	42	106	104
Deferred tax liabilities	43	3,609	2,499
Other liabilities	44	20,716	19,501
Accruals	45	333	1,185
Total liabilities		**336,405**	**319,642**
Total equity and liabilities		**366,066**	**345,376**

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Consolidated statement of changes in equity of Aegon N.V.

For the year ended December 31, 2012

Amounts in EUR million	Note	Share capital	Retained earnings	Revaluation reserves	Other reserves	Other equity instruments	Issued capital and reserves [1)]	Non-controlling interests	Total
At January 1, 2012		**9,097**	**9,403**	**3,464**	**(964)**	**4,720**	**25,720**	**14**	**25,734**
Net income / (loss) recognized in the income statement		-	1,531	-	-	-	1,531	1	1,532
Other comprehensive income:									
Gains / (losses) on revaluation of available-for-sale investments		-	-	4,221	-	-	4,221	-	4,221
(Gains) / losses transferred to income statement on disposal and impairment of available for-sale-investments		-	-	(465)	-	-	(465)	-	(465)
Changes in revaluation reserve real estate held for own use		-	-	(5)	-	-	(5)	-	(5)
Changes in cash flow hedging reserve		-	-	(92)	-	-	(92)	-	(92)
Movements in foreign currency translation and net foreign investment hedging reserves		-	-	-	(116)	-	(116)	-	(116)
Equity movements of associates		-	-	-	22	-	22	-	22
Aggregate tax effect of items recognized in other comprehensive income / (loss)		-	(6)	(1,060)	3	-	(1,063)	-	(1,063)
Other		-	(18)	19	-	-	1	(2)	(1)
Total other comprehensive income / (Loss)		**-**	**(24)**	**2,618**	**(91)**	**-**	**2,503**	**(2)**	**2,501**

Total comprehensive income / (loss) for 2012		**-**	**1,507**	**2,618**	**(91)**	**-**	**4,034**	**(1)**	**4,033**
Shares issued		2	-	-	-	-	2	-	2
Treasury shares		-	3	-	-	-	3	-	3
Dividends paid on common shares		-	(148)	-	-	-	(148)	-	(148)
Dividend withholding tax reduction		-	3	-	-	-	3	-	3
Issuance of non-cumulative subordinated notes		-	-	-	-	271	271	-	271
Coupons on non-cumulative subordinated notes		-	(23)	-	-	-	(23)	-	(23)
Preferred dividend		-	(59)	-	-	-	(59)	-	(59)
Coupons on perpetual securities		-	(172)	-	-	-	(172)	-	(172)
Cost of issuance of non-cumulative subordinated notes (net of tax)		-	(10)	-	-	-	(10)	-	(10)
Share options and share-based incentive plans		-	-	-	-	27	27	-	27
Other									
At December 31, 2012	**30, 31, 32**	**9,099**	**10,504**	**6,082**	**(1,055)**	**5,018**	**29,648**	**13**	**29,661**

[1] Issued capital and reserves attributable to equity holders of Aegon N.V.

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Consolidated statement of changes in equity of Aegon N.V.

For the year ended December 31, 2011

Amounts in EUR million	Note	Share capital	Retained earnings	Revaluation reserves	Other reserves	Convertible core capital securities	Other equity instruments	Issued capital and reserves[1]	Non-controlling interests	Total
At January 1, 2011		8,184	9,529	958	(1,343)	1,500	4,704	23,532	11	23,543
Net income / (loss) recognized in the income statement		-	869	-	-	-	-	869	3	872
Other comprehensive income:										
Gains / (losses) on revaluation of available-for-sale investments		-	-	3,113	-	-	-	3,113	-	3,113
(Gains) / losses transferred to income statement on disposal and impairment of available for-sale-investments		-	-	(513)	-	-	-	(513)	-	(513)
Changes in revaluation reserve real estate held for own use		-	-	3	-	-	-	3	-	3
Changes in cash flow hedging reserve		-	-	1,058	-	-	-	1,058	-	1,058
Movements in foreign currency translation and net foreign investment hedging reserves		-	-	-	409	-	-	409	-	409
Equity movements of associates		-	-	-	(18)	-	-	(18)	-	(18)
Aggregate tax effect of items recognized in other comprehensive income / (loss)		-	-	(1,155)	(12)	-	-	(1,167)	-	(1,167)
Other		-	4	-	-	-	-	4	-	4
Total other comprehensive income / (Loss)		**-**	**4**	**2,506**	**379**	**-**	**-**	**2,889**	**-**	**2,889**
Total comprehensive income / (loss) for 2011		**-**	**873**	**2,506**	**379**	**-**	**-**	**3,758**	**3**	**3,761**
Shares issued		913	-	-	-	-	-	913	-	913
		-	-	-	-	(1,500)	-	(1,500)	-	(1,500)

Repurchase of convertible core capital securities		-		-	-	-	-		-	
Preferred dividend		-	(59)	-	-	-	-	(59)	-	(59)
Coupons on perpetual securities		-	(177)	-	-	-	-	(177)	-	(177)
Coupons and premiums on convertible core capital securities		-	(750)	-	-	-	-	(750)	-	(750)
Share options and share-based incentive plans		-	-	-	-	-	16	16	-	16
Other		-	(13)	-	-	-	-	(13)	-	(13)
At December 31, 2011	**30, 31, 32**	**9,097**	**9,403**	**3,464**	**(964)**	**-**	**4,720**	**25,720**	**14**	**25,734**

[1] Issued capital and reserves attributable to equity holders of Aegon N.V.

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Consolidated statement of changes in equity of Aegon N.V.

For the year ended December 31, 2010

Amounts in EUR million	Note	Share capital	Retained earnings	Revaluation reserves	Other reserves	Convertible core capital securities	Other equity instruments	Issued capital and reserves [1]	Non-controlling interests	Total
At January 1, 2010		8,184	8,103	(1,709)	(2,304)	2,000	4,709	18,983	10	18,993
Net income / (loss) recognized in the income statement		-	1,759	-	-	-	-	1,759	1	1,760
Other comprehensive income:										
Gains / (losses) on revaluation of available-for-sale investments		-	-	3,873	-	-	-	3,873	-	3,873
(Gains) / losses transferred to income statement on disposal and impairment of available for-sale-investments		-	-	(203)	-	-	-	(203)	-	(203)
Changes in revaluation reserve real estate held for own use		-	-	4	-	-	-	4	-	4
Changes in cash flow hedging reserve		-	-	373	-	-	-	373	-	373
Movements in foreign currency translation and net foreign investment hedging reserves		-	-	-	1,054	-	-	1,054	-	1,054
Equity movements of associates		-	-	-	(25)	-	-	(25)	-	(25)
Disposal of group assets		-	-	(22)	-	-	-	(22)	-	(22)
Aggregate tax effect of items recognized in other comprehensive income / (loss)		-	-	(1,358)	(51)	-	-	(1,409)	-	(1,409)
Other		-	7		(17)	-	-	(10)	-	(10)
Total other comprehensive income / (loss)		**-**	**7**	**2,667**	**961**	**-**	**-**	**3,635**	**-**	**3,635**
Total comprehensive income / (loss) for 2011		**-**	**1,766**	**2,667**	**961**	**-**	**-**	**5,394**	**1**	**5,395**
Repurchase of convertible core capital securities		-	-	-	-	(500)	-	(500)	-	(500)

Preferred dividend		-	(90)	-	-	-	-	(90)	-	(90)
Coupons on perpetual securities		-	(187)	-	-	-	-	(187)	-	(187)
Coupons and premium on convertible core capital securities		-	(63)	-	-	-	-	(63)	-	(63)
Share options and share-based incentive plans		-	-	-	-	-	(5)	(5)	-	(5)
At December 31, 2010	**30, 31, 32**	**8,184**	**9,529**	**958**	**(1,343)**	**1,500**	**4,704**	**23,532**	**11**	**23,543**

[1] Issued capital and reserves attributable to equity holders of Aegon N.V.

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Consolidated cash flow statement of Aegon N.V.

For the year ended December 31

Amounts in EUR million	Note	2012	2011	2010
Income / (loss) before tax		**1,852**	916	1,914
Results from financial transactions		(12,903)	187	(15,662)
Amortization and depreciation		1,439	1,651	1,590
Impairment losses		206	483	701
Income from associates		(26)	(29)	(41)
Release of cash flow hedging reserve		(62)	(18)	(8)
Other		(139)	(138)	(5)
Adjustments of non-cash items		**(11,485)**	**2,136**	**(13,425)**
Insurance and investment liabilities		(3,224)	(4,940)	(4,274)
Insurance and investment liabilities for account of policyholders		11,042	(154)	14,274
Accrued expenses and other liabilities		536	(421)	502
Accrued income and prepayments		(1,743)	(1,460)	(2,299)
Changes in accruals		**6,611**	**(6,975)**	**8,203**
Purchase of investments (other than money market investments)		(32,464)	(29,612)	(42,691)
Purchase of derivatives		(1,528)	(1,350)	(940)
Disposal of investments (other than money market investments)		34,050	34,924	45,446
Disposal of derivatives		507	1,599	1,452
Net purchase of investments for account of policyholders		960	(1,577)	(1,522)
Net change in cash collateral		(179)	2,180	3,003
Net purchase of money market investments		552	445	39
Cash flow movements on operating items not reflected in income		**1,898**	**6,609**	**4,787**
Tax paid		105	(375)	(274)
Other		53	(45)	58
Net cash flows from operating activities		**(966)**	**2,266**	**1,263**
Purchase of individual intangible assets (other than VOBA and future servicing rights)		(38)	(18)	(20)
Purchase of equipment and real estate for own use		(65)	(72)	(116)
Acquisition of subsidiaries and associates, net of cash		(126)	(99)	(31)
Disposal of intangible asset		1	1	2
Disposal of equipment		10	18	33
Disposal of subsidiaries and associates, net of cash		286	823	(158)
Dividend received from associates		2	3	14
Other		1	(3)	(2)
Net cash flows from investing activities		**71**	**653**	**(278)**
Issuance of share capital		2	913	-
Issuance of non-cumulative subordinated notes		271	-	-
Proceeds from TRUPS [1], subordinated loans and borrowings		6,693	5,627	7,551
Repurchase of convertible core capital securities		-	(1,500)	(500)
Repayment of TRUPS [1], subordinated loans and borrowings		(3,886)	(4,342)	(6,577)
Dividends paid		(207)	(59)	(90)
Coupons and premium on convertible core capital securities		-	(750)	(63)
Coupons on perpetual securities		(230)	(237)	(251)
Coupons on non-cumulative subordinated notes		(30)	-	-
Other		(11)	(26)	49
Net cash flows from financing activities		**2,602**	**(374)**	**119**
Net increase / (decrease) in cash and cash equivalents [2]		**1,707**	**2,545**	**1,104**
Net cash and cash equivalents at the beginning of the year		7,826	5,174	4,013
Effects of changes in exchange rate		27	107	57
Net cash and cash equivalents at the end of the year	**29**	**9,560**	**7,826**	**5,174**

[1] Trust pass-through securities.

[2] Included in net increase / (decrease) in cash and cash equivalents are interest received (2012: EUR 7,345, 2011: EUR 7,407 million and 2010: EUR 8,167 million) dividends received (2012: EUR 1,005 million, 2011: EUR 760 million and 2010: EUR 635 million) and interest paid (2012: EUR 432 million, 2011: EUR 273 million and 2010: EUR 380 million)

The cash flow statement is prepared according to the indirect method.

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Exchange rates

Exchange rates at December 31, 2012

		EUR	USD	GBP	CAD	PLN	CNY	RON	HUF	CZK
1	EUR	-	1.3184	0.8111	1.3127	4.0803	8.2140	4.4455	291.2151	25.0956
1	USD	0.758	-	0.615	0.996	3.095	6.230	3.372	220.885	19.035
1	GBP	1.233	1.625	-	1.618	5.031	10.127	5.481	359.037	30.940
1	CAD	0.762	1.004	0.618	-	3.108	6.257	3.387	221.844	19.118
1	PLN	0.245	0.323	0.199	0.322	-	2.013	1.090	71.371	6.150
1	CNY	0.122	0.161	0.099	0.160	0.497	-	0.541	35.454	3.055
1	RON	0.225	0.297	0.182	0.295	0.918	1.848	-	65.508	5.645
100	HUF	0.343	0.453	0.279	0.451	1.401	2.821	1.527	-	8.618
100	CZK	3.985	5.254	3.232	5.231	16.259	32.731	17.714	1,160.423	-

Exchange rates at December 31, 2011

		EUR	USD	GBP	CAD	PLN	CNY	RON	HUF	CZK
1	EUR	-	1.2982	0.8353	1.3218	4.4578	8.1700	4.3255	314.7625	25.5026
1	USD	0.770	-	0.643	1.018	3.434	6.293	3.332	242.461	19.645
1	GBP	1.197	1.554	-	1.582	5.337	9.781	5.178	376.826	30.531
1	CAD	0.757	0.982	0.632	-	3.373	6.181	3.272	238.132	19.294
1	PLN	0.224	0.291	0.187	0.297	-	1.833	0.970	70.609	5.721
1	CNY	0.122	0.159	0.102	0.162	0.546	-	0.529	38.527	3.121
1	RON	0.231	0.300	0.193	0.306	1.031	1.889	-	72.769	5.896
100	HUF	0.318	0.412	0.265	0.420	1.416	2.596	1.374	-	8.102
100	CZK	3.921	5.090	3.275	5.183	17.480	32.036	16.961	1,234.237	-

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Weighted average exchange rates 2012

		EUR	USD	GBP	CAD	PLN	CNY	RON	HUF	CZK
1	EUR	-	1.2849	0.8103	1.2839	4.1809	8.1377	4.4548	288.8606	25.1140
1	USD	0.778	-	0.631	0.999	3.254	6.333	3.467	224.812	19.545
1	GBP	1.234	1.586	-	1.584	5.160	10.043	5.498	356.486	30.993
1	CAD	0.779	1.001	0.631	-	3.256	6.338	3.470	224.987	19.561
1	PLN	0.239	0.307	0.194	0.307	-	1.946	1.066	69.091	6.007
1	CNY	0.123	0.158	0.100	0.158	0.514	-	0.547	35.497	3.086
1	RON	0.224	0.288	0.182	0.288	0.939	1.827	-	64.843	5.638
100	HUF	0.346	0.445	0.281	0.444	1.447	2.817	1.542	-	8.694
100	CZK	3.982	5.116	3.226	5.112	16.648	32.403	17.738	1,150.197	-

Weighted average exchange rates 2011

		EUR	USD	GBP	CAD	PLN	CNY	RON	HUF	CZK
1	EUR	-	1.3909	0.8667	1.3744	4.1154	9.0576	4.2353	278.9417	24.5636
1	USD	0.719	-	0.623	0.988	2.959	6.512	3.045	200.548	17.660
1	GBP	1.154	1.605	-	1.586	4.748	10.451	4.887	321.843	28.342
1	CAD	0.728	1.012	0.631	-	2.994	6.590	3.082	202.955	17.872
1	PLN	0.243	0.338	0.211	0.334	-	2.201	1.029	67.780	5.969
1	CNY	0.110	0.154	0.096	0.152	0.454	-	0.468	30.796	2.712
1	RON	0.236	0.328	0.205	0.325	0.972	2.139	-	65.861	5.800
100	HUF	0.358	0.499	0.311	0.493	1.475	3.247	1.518	-	8.806
100	CZK	4.071	5.662	3.528	5.595	16.754	36.874	17.242	1,135.590	-

Weighted average exchange rates 2010

		EUR	USD	GBP	CAD	PLN	CNY	RON	HUF	CZK
1	EUR	-	1.3210	0.8544	1.3599	3.9771	8.9699	4.1917	273.9494	25.1205
1	USD	0.757	-	0.647	1.029	3.011	6.790	3.173	207.380	19.016
1	GBP	1.170	1.546	-	1.592	4.655	10.498	4.906	320.634	29.401
1	CAD	0.735	0.971	0.628	-	2.925	6.596	3.082	201.448	18.472
1	PLN	0.251	0.332	0.215	0.342	-	2.255	1.054	68.882	6.316
1	CNY	0.111	0.147	0.095	0.152	0.443	-	0.467	30.541	2.801
1	RON	0.239	0.315	0.204	0.324	0.949	2.140	-	65.355	5.993
100	HUF	0.365	0.482	0.312	0.496	1.452	3.274	1.530	-	9.170
100	CZK	3.981	5.259	3.401	5.414	15.832	35.707	16.686	1,090.541	-

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Notes to the consolidated financial statements

1 General information

Aegon N.V., incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and recorded in the Commercial Register of The Hague under its registered address at Aegonplein 50, 2591 TV, The Hague, the Netherlands. Aegon N.V. serves as the holding company for the Aegon Group and has listings of its common shares in Amsterdam and New York.

Aegon N.V. (or the company), its subsidiaries and its proportionally consolidated joint ventures (Aegon or the Group) have life insurance and pensions operations in over twenty countries in the Americas, Europe and Asia and are also active in savings and asset management operations, accident and health insurance, general insurance and to a limit extent banking operations. Headquarters are located in The Hague, the Netherlands. The Group employs approximately 24,500 people worldwide (2011: 25,000).

2 Summary of significant accounting policies

2.1 Basis of presentation

Aegon prepares its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code for purposes of reporting with the U.S. Securities and Exchange Commission (SEC), including financial information contained in this Annual Report on Form 20-F. Aegon s accounting policies and its use of various options under IFRS are described in note 2 to the consolidated financial statements.

The consolidated financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of investment properties and those financial instruments (including derivatives) and financial liabilities that have been measured at fair value. Information on the standards and interpretations that were adopted in 2012 is provided below in paragraph 2.1.1. Certain amounts in prior years have been reclassified to conform to the current year presentation. These reclassifications had no effect on net income, shareholders equity or earnings per share. The consolidated financial statements are presented in euro and all values are rounded to the nearest million except when otherwise indicated.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Those estimates are inherently subject to change and actual results could differ from those estimates. Included among the material (or potentially material) reported amounts and disclosures that require extensive use of estimates are: fair value of certain invested assets and derivatives, deferred acquisition costs, value of business acquired and other purchased intangible assets, goodwill, policyholder claims and benefits, insurance guarantees, pension plans, income taxes and the potential effects of resolving litigated matters.

The consolidated financial statements of Aegon N.V. were approved by the Executive Board and by the Supervisory Board on March 20, 2013. The financial statements are put to the annual General Meeting of Shareholders on May 15, 2013 for adoption. The shareholders meeting can decide not to adopt the financial statements but cannot amend them.

Other than for SEC reporting, Aegon prepares its Annual Accounts under International Financial Reporting Standards as adopted by the European Union, including the decisions Aegon made with regard to the options available under International Financial Reporting Standards as adopted by the EU (IFRS-EU). IFRS-EU differs from IFRS in respect of certain paragraphs in IAS 39 Financial Instruments: Recognition and Measurement regarding hedge accounting for portfolio hedges of interest rate risk. Under IFRS-EU, Aegon applies fair value hedge accounting for portfolio hedges of interest rate risk (fair value macro hedges) in accordance with the EU carve out version of IAS 39. Under IFRS, hedge accounting for fair value macro hedges cannot be applied to mortgage loans and ineffectiveness arises whenever the revised estimate of the amount of cash flows in scheduled time buckets is either more or less than the original designated amount of that bucket.

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A reconciliation between IFRS and IFRS-EU is included in the table below.

	Shareholders equity			Net income		
	2012	2011	2010	2012	2011	2010
In accordance with IFRS	**24,630**	**21,000**	**17,328**	**1,532**	**872**	**1,760**
Adjustment of EU IAS 39 carve out	52	-	-	52	-	-
Tax effect of the adjustment	(13)	-	-	(13)	-	-
Effect of the adjustment after tax	**39**	**-**	**-**	**39**	**-**	**-**
In accordance with IFRS-EU	**24,669**	**21,000**	**17,328**	**1,571**	**872**	**1,760**

2.1.1 Adoption of new IFRS accounting standards

New standards become effective on the date specified by IFRS, but may allow companies to opt for an earlier adoption date. In 2012, the following new standard issued by the IASB became mandatory:

- ¿ IFRS 7 Financial Instruments: Disclosures - Transfers of Financial Assets.

IFRS 7 Financial Instruments: Disclosures - Transfers of Financial Assets

The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011 and require the disclosure of transfers of financial assets including the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. Aegon has included these new disclosures in note 50.

In addition, the following new standards, amendments to existing standards and interpretations are mandatory for the first time for the financial year beginning January 1, 2012 but are not currently relevant or do not have impact for the Group:

- ¿ IAS 12 Income Taxes - Recovery of Tax Assets;
- ¿ IFRS 1 First Time Adoption - Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters.

2.1.2 Future adoption of new IFRS accounting standards

The following standards, amendments to existing standards and interpretations, published prior to January 1, 2013, were not early adopted by the Group, but will be applied in future years:

- ¿ IFRS 7 Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities;
- ¿ IFRS 9 Financial Instruments;
- ¿ IFRS 10 Consolidated Financial Statements;
- ¿ IFRS 11 Joint Arrangements;
- ¿ IFRS 12 Disclosure of Interests in Other Entities;
- ¿ IFRS 13 Fair Value Measurement;
- ¿ IAS 1 Financial Statement Presentation Presentation of Items of Other Comprehensive Income;
- ¿ IAS 19 Employee Benefits;
- ¿ IAS 27 Separate Financial Statements;
- ¿ IAS 28 Investments in Associates and Joint Ventures;
- ¿ IAS 32 Financial Instruments: Presentation Offsetting Financial Assets and Financial Liabilities;
- ¿ Annual improvements 2009-2011 Cycle.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

The amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013. The amendments enable users of the financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity s recognized financial assets and recognized financial liabilities, on the entity s financial position. The amendment affects disclosure only and has therefore no impact on Aegon s financial position or performance.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments: Classification and Measurement is part of the project to replace IAS 39 with a new standard. The project is divided into multiple components, classification and measurement of financial instruments, impairment and hedge accounting. IFRS 9 is available for early adoption immediately but mandatory for accounting periods beginning on or after January 1, 2015. The IASB decided to reopen IFRS 9 in order to consider interaction with the insurance

project as well as the US FASB s classification and measurement model for financial instruments. IFRS 9 is expected to have a significant impact on the Group s financial statements

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because it will likely result in a reclassification and re-measurement of Aegon s financial assets. However, the full impact of IFRS 9 will only be clear after the remaining stages of the IASB s project on IFRS 9 are completed and issued.

IFRS 10 Consolidated Financial Statements

The standard applies to financial years beginning on or after January 1, 2013, and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. In addition, the IASB has issued amendments to IFRS 10 on transition guidance and investment entities which are currently not yet endorsed. Aegon expects the impact of the standard on its comparative numbers at the date of adoption to be EUR 125 million (post tax) negative on shareholders equity and EUR 30 million (post tax) negative on net income.

IFRS 11 Joint Arrangements

The standard applies to financial years beginning on or after January 1, 2013, and provides a definition of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. The standard requires a single method to account for interests in jointly controlled entities. Aegon has assessed the impact of this standard and concludes that all joint arrangements within the Group are joint ventures. As of January 1, 2013 the accounting treatment for joint ventures will therefore change from proportionate consolidation to equity accounting. This change does not have impact on Aegon s financial position or performance.

IFRS 12 Disclosure of Interests in Other Entities

The standard applies to financial years beginning on or after January 1, 2013, and provides disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. This standard affects disclosure only and has therefore no impact on Aegon s financial position or performance.

IFRS 13 Fair Value Measurement

The standard applies to financial years beginning on or after January 1, 2013, and provides a definition of fair value and a single source of fair value measurement, and disclosure requirements for use across IFRSs. Aegon expects the impact of IFRS 13 on the Group s financial position or performance to be insignificant. In addition, IFRS 13 requires more disclosures on Level III investments.

IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income

The amendments apply to financial years beginning on or after July 1, 2012. The amendments require the grouping together of items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in other comprehensive income and profit or loss should be presented as either a single statement or two consecutive statements. The amendment affects presentation only and has therefore no impact on Aegon s financial position or performance.

IAS 19 Employee Benefits

The amended standard applies to financial years beginning on, or after, January 1, 2013. The amendments eliminate the option to defer the recognition of actuarial gains and losses, known as the corridor method . The amendments streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring actuarial gains and losses to be presented in other comprehensive income. The revised standard also requires the expected return on plan assets to be replaced by the discount rate used to determine the defined benefit liability. The discount rate shall be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. And, furthermore, the revised standard enhances the disclosure requirements for defined benefit plans, providing information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

As per December 31, 2012, Aegon estimates the adverse impact on other comprehensive income of removing the corridor at the date of adoption to be approximately EUR 1.1 billion (post tax), consisting of the unrecognized actuarial gains and losses as per that date. Aegon estimates the positive impact on net income of its comparative numbers at the date of adoption to be approximately EUR 0.1 billion (post tax). The impact is a consequence of removing the amortization of actuarial gains and losses outside the corridor partially offset by replacing the expected return on plan assets by the discount rate used to determine the defined benefit liability.

The impact on other comprehensive income and net income is expected to have an adverse impact on Aegon s Insurance Group Directive (IGD) ratio of approximately 15 percentage points at the date of adoption.

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IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013. As this amendment does not change the presentation of the separate financial statements, Aegon does not expect any impact on the financial position or performance of the company.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013. Aegon expects the impact of IAS 28 on the Group s financial statements to be insignificant.

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 Financial Instruments: Presentation, clarify the application of the offsetting requirements. The amendments are effective for annual periods beginning on or after January 1, 2014, with earlier application permitted. Aegon is currently assessing the impact of this standard.

Annual improvements 2009-2011 Cycle

The IASB issued, in May 2012, a number of minor amendments to five different standards and interpretations. These amendments, which are effective from January 1, 2013, deal with minor changes to the wordings used in the individual standards and seek to remove editorial and other inconsistencies in the literature. Aegon expects that the improvements project does not result in any changes to the classification, measurement or presentation of any items in the financial statements.

The following amendments to the existing standard and interpretation, published prior to January 1, 2013, were not early adopted by the Group as these amendments to existing standard and interpretation are not relevant for the Group:

- IFRS 1 First Time Adoption - Government Loans;
- IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine.

2.2 Changes in presentation

Segment reporting

As of 2012, Aegon has revised its segment reporting to reflect changes in its organization. Businesses in Asia, which were previously managed by Aegon Americas, are included in the Asia line of business within the New Markets segment. The change in operating segments had no impact on equity or net income. The comparative segment information presented in note 5 has been adjusted to make the information consistent with the current period figures. Refer to note 2.5 Segment reporting for details about this change.

2.3 Basis of consolidation

a. Subsidiaries

The consolidated financial statements include the financial statements of Aegon N.V. and its subsidiaries. Subsidiaries are entities over which Aegon has direct or indirect power to govern the financial and operating policies so as to obtain benefits from its activities (control). The assessment of control is based on the substance of the relationship between the Group and the entity and, among other things, considers existing and potential voting rights that are currently exercisable and convertible.

Special purpose entities are consolidated if, in substance, the activities of the entity are conducted on behalf of the Group, the Group has the decision-power to obtain control of the entity or has delegated these powers through an autopilot, the Group can obtain the majority of the entity s benefits or the Group retains the majority of the residual risks related to the entity or its assets.

The subsidiary s assets, liabilities and contingent liabilities are measured at fair value on the acquisition date and are subsequently accounted for in accordance with the Group s accounting principles, which is consistent with IFRS. Intra-group transactions, including Aegon N.V. shares held by subsidiaries, which are recognized as treasury shares in equity, are eliminated. Intra-group losses are eliminated, except to the extent that the underlying asset is impaired. Non-controlling interests are initially stated at their share in the fair value of the net assets on the acquisition date and subsequently adjusted for the non-controlling share in changes in the subsidiary s equity.

The excess of the consideration paid to acquire the interest and the fair value of any interest already owned, over the Group s share in the net fair value of assets, liabilities and contingent liabilities acquired is recognized as goodwill. Negative goodwill is recognized

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directly in the income statement. If the fair value of the assets, liabilities and contingent liabilities acquired in the business combination has been determined provisionally, adjustments to these values resulting from the emergence of new evidence within twelve months after the acquisition date are made against goodwill. Contingent consideration is discounted and the unwinding is recognized in the income statement as an interest expense. Any changes in the estimated value of contingent consideration given in a business combination prior to the adoption of IFRS 3 (as revised in 2008) are recognized in goodwill. Any changes in the estimated value of contingent consideration given in a business combination after the adoption of IFRS 3 (as revised in 2008) are recognized in the income statement.

The identifiable assets, liabilities and contingent liabilities are stated at fair value when control is obtained.

Subsidiaries are deconsolidated when control ceases to exist. Any difference between the net proceeds plus the fair value of any retained interest and the carrying amount of the subsidiary including non-controlling interests is recognized in the income statement.

Transactions with non-controlling interests

Transactions with non-controlling interests are accounted for as transactions with equity holders. Therefore disposals to non-controlling interests and acquisitions from non-controlling interests, not resulting in gaining or losing control of the subsidiary are recorded in other comprehensive income. Any difference between consideration paid or received and the proportionate share in net assets is accounted for in equity attributable to shareholders of Aegon N.V.

Investment funds

Investment funds managed by the Group in which the Group holds an interest are consolidated in the financial statements if the Group can govern the financial and operating policies of the fund. In assessing control all interests held by the Group in the fund are considered, regardless of whether the financial risk related to the investment is borne by the Group or by the policyholders.

On consolidation of an investment fund, a liability is recognized to the extent that the Group is legally obliged to buy back participations held by third parties. The liability is presented in the consolidated financial statements as investment contracts for account of policyholders. Where this is not the case, other participations held by third parties are presented as non-controlling interests in equity. The assets allocated to participations held by third parties or by the Group on behalf of policyholders are presented in the consolidated financial statements as investments for account of policyholders.

Equity instruments issued by the Group that are held by the investment funds are eliminated on consolidation. However, the elimination is reflected in equity and not in the measurement of the related financial liabilities towards policyholders or other third parties.

b. Jointly controlled entities

Joint ventures are contractual agreements whereby the Group undertakes with other parties an economic activity that is subject to joint control.

Interests in joint ventures are recognized using proportionate consolidation, combining items on a line by line basis from the date the jointly controlled interest commences. Gains and losses on transactions between the Group and the joint venture are recognized to the extent that they are attributable to the interests of other ventures, with the exception of losses that are evidence of impairment and that are recognized immediately. The use of proportionate consolidation is discontinued from the date on which the Group ceases to have joint control.

The acquisition of an interest in a joint venture may result in goodwill, which is accounted for consistently with the goodwill recognized on the purchase of a subsidiary.

2.4 Foreign exchange translation

a. Translation of foreign currency transactions

The Group s consolidated financial statements are presented in euros. Items included in the financial statements of individual group companies are recorded in their respective functional currency which is the currency of the primary economic environment in which each entity operates. Transactions in foreign currencies are initially recorded at the exchange rate prevailing at the date of the transaction.

At the balance sheet date, monetary assets and monetary liabilities in foreign currencies and own equity instruments in foreign currencies are translated to the functional currency at the closing rate of exchange prevailing on that date. Non-monetary items carried

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at cost are translated using the exchange rate at the date of the transaction, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined.

Exchange differences on monetary items are recognized in the income statement when they arise, except when they are deferred in other comprehensive income as a result of a qualifying cash flow or net investment hedge. Exchange differences on non-monetary items carried at fair value are recognized in other comprehensive income or the income statement, consistently with other gains and losses on these items.

b. Translation of foreign currency operations

On consolidation, the financial statements of group entities with a foreign functional currency are translated to euro, the currency in which the consolidated financial statements are presented. Assets and liabilities are translated at the closing rates on the balance sheet date. Income, expenses and capital transactions (such as dividends) are translated at average exchange rates or at the prevailing rates on the transaction date, if more appropriate. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are translated at the closing rates on the balance sheet date.

The resulting exchange differences are recognized in the foreign currency translation reserve , which is part of shareholders equity. On disposal of a foreign entity the related cumulative exchange differences included in the reserve are recognized in the income statement.

On transition to IFRS on January 1, 2004, the foreign currency translation reserve was reset to nil.

2.5 Segment reporting

Aegon s operating segments are based on the businesses as presented in internal reports that are regularly reviewed by the Executive Board which is regarded as the chief operating decision maker . The operating segments are:

- Aegon Americas: Covers business units in the United States, Canada, Mexico and Brazil, including any of the units activities located outside these countries.
- Aegon The Netherlands: Covers businesses operating in the Netherlands.
- Aegon United Kingdom: Covers businesses operating in the United Kingdom.
- New Markets: Covers businesses operating in Central & Eastern Europe, Asia, Spain and France as well as Aegon s variable annuity activities in Europe and Aegon Asset Management.
- Holding and other activities: Includes financing, employee and other administrative expenses of Holding companies.

The line item Run-off businesses , which includes earnings of certain business units where management has decided to exit the market and to run-off the existing block of business. This line item includes the earnings of the institutional spread-based business, structured settlements blocks of business, Bank-Owned and Corporate-Owned Life Insurance (BOLI/COLI) business and life reinsurance business in Aegon Americas. Aegon believes that excluding the earnings of these blocks of business enhances the comparability from period to period of Aegon s key earnings measure, underlying earnings.

Earnings from the company s associates in insurance companies in Spain, India, Brazil and Mexico are reported on an underlying earnings basis.

As of 2012, Aegon has revised its financial reporting to reflect changes in its organization. Businesses in Asia, which were previously managed by Aegon Americas, are included in the Asia line of business within the New Markets segment. In previous years, the underlying earnings before tax generated by these Asian operations were previously reported under the Americas segment. The comparative figures, affecting the Aegon Americas and New Markets segment, regarding the underlying earnings have been revised as follows:

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For the year ended December 31, 2011	Reported	Americas	Reclassification New Markets	Revised
Underlying earnings before tax geographically	**1,509**	**(37)**	**37**	**1,509**
Fair value items	(416)	1	(1)	(416)
Realized gains / (losses) on investments	446	(5)	5	446
Impairment charges	(439)	3	(3)	(439)
Impairment reversals	55	-	-	55
Other income / (charges)	(267)	-	-	(267)
Run-off businesses	28	-	-	28
Income before tax	**916**	**(38)**	**38**	**916**
Income tax (expense) / benefit	(44)	11	(11)	(44)
Net income	**872**	**(27)**	**27**	**872**

For the year ended December 31, 2010	Reported	Americas	Reclassification New Markets	Revised
Underlying earnings before tax geographically	**1,824**	**(45)**	**45**	**1,824**
Fair value items	221	-	-	221
Realized gains / (losses) on investments	656	(4)	4	656
Impairment charges	(542)	2	(2)	(542)
Impairment reversals	90	-	-	90
Other income / (charges)	(309)	1	(1)	(309)
Run-off businesses	26	-	-	26
Income before tax	**1,914**	**(46)**	**46**	**1,914**
Income tax (expense) / benefit	(154)	19	(19)	(154)
Net income	**1,760**	**(27)**	**27**	**1,760**

Non-IFRS measures

This report includes the non-IFRS financial measures: underlying earnings before tax, income tax (including associated companies) and income before tax (including associated companies). The reconciliation of these measures to the most comparable IFRS measures is presented in the tables in note 5. These non-IFRS measures are 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 measures provide 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 measures presented here. While many other insurers in Aegon s peer group present substantially similar non-IFRS measures, the non-IFRS measures 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 measures 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 to measure the insurance contract liability) and that can make the comparability from period to period difficult.

Underlying earnings

Certain assets held by Aegon Americas, Aegon The Netherlands and Aegon UK are carried at fair value and managed on a total return basis, with no offsetting changes in the valuation of related liabilities. These include assets such as investments in hedge funds, private equities, real estate limited partnerships, convertible bonds and structured products. Underlying earnings exclude any over- or underperformance compared to management s long-term expected return on assets.

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Based on current holdings and asset returns, the long-term expected return on an annual basis is 8-10%, depending on asset class, including cash income and market value changes. The expected earnings from these asset classes are net of deferred policy acquisition costs (DPAC) where applicable.

In addition, certain products offered by Aegon Americas contain guarantees and are reported on a fair value basis, including the segregated funds offered by Aegon Canada and the total return annuities and guarantees on variable annuities of Aegon USA. The earnings on these products are impacted by movements in equity markets and risk-free interest rates. Short-term developments in the financial markets may therefore cause volatility in earnings. Included in underlying earnings is a long-term expected return on these products and excluded is any over- or underperformance compared to management s expected return. The fair value movements of certain guarantees and the fair value change of derivatives that hedge certain risks on these guarantees of Aegon The Netherlands and Variable Annuities Europe (included in New Markets) are excluded from underlying earnings, and the long-term expected return for these guarantees is set at zero.

Holding and other activities include certain issued bonds that are held at fair value through profit or loss (FVTPL). The interest rate risk on these bonds is hedged using swaps. The fair value movement resulting from changes in Aegon s credit spread used in the valuation of these bonds are excluded from underlying earnings and reported under fair value items.

Fair value items

Fair value items include the over- or underperformance of investments and guarantees held at fair value for which the expected long-term return is included in underlying earnings. Changes to these long-term return assumptions are also included in the fair value items.

In addition, hedge ineffectiveness on hedge transactions, fair value changes on economic hedges without natural offset in earnings and for which no hedge accounting is applied and fair value movements on real estate are included under fair value items.

Realized gains or losses on investments

Includes realized gains and losses on available-for-sale investments, mortgage loans and loan portfolios.

Impairment charges / reversals

Includes impairments and reversals on available-for-sale debt securities and impairments on shares including the effect of deferred policyholder acquisition costs, mortgage loans and loan portfolios on amortized cost and associates respectively.

Other income or charges

Other income or charges is used to report any items which cannot be directly allocated to a specific line of business. Also items that are outside the normal course of business are reported under this heading.

Other charges include restructuring charges that are considered other charges for segment reporting purposes because they are outside the normal course of business. In the consolidated income statement, these charges are included in operating expenses.

Run-off businesses

Includes underlying results of business units where management has decided to exit the market and to run off the existing block of business. Currently, this line includes the run-off of the institutional spread-based business, structured settlements blocks of business, Bank-Owned and Corporate-Owned Life Insurance (BOLI/COLI) business and life reinsurance business in the United States. Aegon has other blocks of business for which sales have been discontinued and of which the earnings are included in underlying earnings.

Share in earnings of associates

Earnings from Aegon s associates in insurance companies in Spain, India, Brazil and Mexico are reported on an underlying earnings basis. Other associates are included on a net income basis.

2.6 Offsetting of assets and liabilities

Financial assets and liabilities are offset in the statement of financial position when the Group has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis or simultaneously.

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2.7 Intangible assets

a. Goodwill

Goodwill is recognized as an intangible asset for interests in subsidiaries and joint ventures acquired after January 1, 2004 and is measured as the positive difference between the acquisition cost and the Group s interest in the net fair value of the entity s identifiable assets, liabilities and contingent liabilities. Subsequently, goodwill is carried at cost less accumulated impairment charges. It is derecognized when the interest in the subsidiary or joint venture is disposed of.

b. Value of business acquired

When a portfolio of insurance contracts is acquired, whether directly from another insurance company or as part of a business combination, the difference between the fair value and the carrying amount of the insurance liabilities is recognized as value of business acquired (VOBA). The Group also recognizes VOBA when it acquires a portfolio of investment contracts with discretionary participation features.

VOBA is amortized over the useful life of the acquired contracts, based on either the expected future premiums or the expected gross profit margins. The amortization period and pattern are reviewed at each reporting date; any change in estimates is recorded in the income statement. For all products, VOBA, in conjunction with DPAC where appropriate, is assessed for recoverability at least annually on a country-by-country basis and the portion determined not to be recoverable is charged to the income statement. VOBA is considered in the liability adequacy test for each reporting period.

When unrealized gains or losses arise on available-for-sale assets, VOBA is adjusted to equal the effect that the realization of the gains or losses (through a sale or impairment) would have had on VOBA. The adjustment is recognized directly in shareholders equity. VOBA is derecognized when the related contracts are settled or disposed of.

c. Future servicing rights

On the acquisition of a portfolio of investment contracts without discretionary participation features under which Aegon will render investment management services, the present value of future servicing rights is recognized as an intangible asset. Future servicing rights can also be recognized on the sale of a loan portfolio or the acquisition of insurance agency activities.

The present value of the future servicing rights is amortized over the servicing period as the fees from services emerge and is subject to impairment testing. It is derecognized when the related contracts are settled or disposed of.

d. Software and other intangible assets

Software and other intangible assets are recognized to the extent that the assets can be identified, are controlled by the Group, are expected to provide future economic benefits and can be measured reliably. The Group does not recognize internally generated intangible assets arising from research or internally generated goodwill, brands, customer lists and similar items.

Software and other intangible assets are carried at cost less accumulated depreciation and impairment losses. Depreciation of the asset is over its useful life as the future economic benefits emerge and is recognized in the income statement as an expense. The depreciation period and pattern are reviewed at each reporting date, with any changes recognized in the income statement.

An intangible asset is derecognized when it is disposed of or when no future economic benefits are expected from its use or disposal.

2.8 Investments

Investments comprise financial assets, excluding derivatives, as well as investments in real estate.

a. Financial assets, excluding derivatives

Financial assets are recognized on the trade date when the Group becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased.

Classification

The following financial assets are measured at fair value through profit or loss: financial assets held for trading, financial assets managed on a fair value basis in accordance with the Group s risk management and investment strategy and financial assets containing an embedded derivative that is not closely related and that cannot be reliably bifurcated. In addition, in certain instances the Group

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designates financial assets to this category when by doing so a potential accounting mismatch in the financial statements is eliminated or significantly reduced.

Financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell in the near future or for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, are accounted for as loans. To the extent that the Group has the intention and ability to hold a quoted financial asset with fixed payments to the maturity date, it is classified as held-to-maturity.

All remaining non-derivative financial assets are classified as available-for-sale.

Measurement

Financial assets are initially recognized at fair value excluding interest accrued to date plus, in the case of a financial asset not at fair value through profit or loss, any directly attributable incremental transaction costs.

Loans and financial assets held-to-maturity are subsequently carried at amortized cost using the effective interest rate method. Financial assets at fair value through profit or loss are measured at fair value with all changes in fair value recognized in the income statement as incurred. Available-for-sale assets are recorded at fair value with unrealized changes in fair value recognized in other comprehensive income. Financial assets that are designated as hedged items are measured in accordance with the requirements for hedge accounting.

Amortized cost

The amortized cost of a debt instrument is the amount at which it is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount, and minus any reduction for impairment. The effective interest rate method is a method of calculating the amortized cost and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the debt instrument or, when appropriate, a shorter period to the net carrying amount of the instrument. When calculating the effective interest rate, all contractual terms are considered. Possible future credit losses are not taken into account. Charges and interest paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts are included in the calculation.

Fair value

The consolidated financial statements provide information on the fair value of all financial assets, including those carried at amortized cost where the values are provided in the notes to the financial statements.

The fair value of an asset is the amount for which it could be exchanged between knowledgeable, willing parties in an arm s length transaction. For quoted financial assets for which there is an active market, the fair value is the bid price at the balance sheet date. In the absence of an active market, fair value is estimated by using present value based or other valuation techniques. Where discounting techniques are applied, the discount rate is based on current market rates applicable to financial instruments with similar characteristics. The valuation techniques that include non-market observable inputs can result in a different outcome than the actual transaction price at which the asset was acquired. Such differences are not recognized in the income statement immediately but are deferred. They are released over time to the income statement in line with the change in factors (including time) that market participants would consider in setting a price for the asset. Interest accrued to date is not included in the fair value of the financial asset.

Derecognition

A financial asset is derecognized when the contractual rights to the asset s cash flows expire and when the Group retains the right to receive cash flows from the asset or has an obligation to pay received cash flows in full without delay to a third party and either: has transferred the asset and substantially all the risks and rewards of ownership, or has neither transferred nor retained all the risks and rewards but has transferred control of the asset. Financial assets of which the Group has neither transferred nor retained significantly all the risk and rewards are recognized to the extent of the Group s continuing involvement. If significantly all risks are retained, the assets are not derecognized.

On derecognition, the difference between the disposal proceeds and the carrying amount is recognized in the income statement as a realized gain or loss. Any cumulative unrealized gain or loss previously recognized in the revaluation reserve in shareholders equity is also recognized in the income statement.

Security lending and repurchase agreements

Financial assets that are lent to a third party or that are transferred subject to a repurchase agreement at a fixed price are not derecognized as the Group retains substantially all the risks and rewards of the asset. A liability is recognized for cash (collateral) received, on which interest is accrued.

A security that has been received under a borrowing or reverse repurchase agreement is not recognized as an asset. A receivable is recognized for any related cash (collateral) paid by Aegon. The difference between sale and repurchase price is treated as investment income. If the Group subsequently sells that security, a liability to repurchase the asset is recognized and initially measured at fair value.

Collateral

With the exception of cash collateral, assets received as collateral are not separately recognized as an asset until the financial asset they secure defaults. When cash collateral is recognized, a liability is recorded for the same amount.

b. Real estate

Investments in real estate include property held to earn rentals or for capital appreciation, or both. Investments in real estate are presented as investments. Property that is occupied by the Group and that is not intended to be sold in the near future is classified as real estate held for own use and is presented in Other assets and receivables .

All property is initially recognized at cost. Such cost includes the cost of replacing part of the real estate and borrowing cost for long-term construction projects if recognition criteria are met. Subsequently, investments in real estate are measured at fair value with the changes in fair value recognized in the income statement. Real estate held for own use is carried at its revalued amount, which is the fair value at the date of revaluation less subsequent accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis over the useful life of a building. Land is not depreciated. On revaluation the accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount. Increases in the net carrying amount are recognized in the related revaluation reserve in shareholders equity and are released to other comprehensive income over the remaining useful life of the property.

Valuations of both investments in real estate and real estate held for own use are conducted in full by independent external appraisers at least every three years and reviewed at least once a year by qualified internal appraisers to ensure the value correctly reflects the fair value at the balance sheet date. Appraisals are different for each specific local market, but are based on market guidelines such as International Valuation Standards or guidelines issued by the Investment Property Databank. Valuations are mostly based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. If such information is not available, other valuation methods are applied, considering the current cost of reproducing or replacing the property, the value that the property s net earning power will support and the value indicated by recent sales of comparable properties. Discount rates used in the valuation of real estate reflect the risk embedded in the projected cash flows for the asset being valued. For property held for own use, appraisers consider the present value of the future rental income cash flows that could be achieved had the real estate been let out.

On disposal of an asset, the difference between the net proceeds received and the carrying amount is recognized in the income statement. Any remaining surplus attributable to real estate in own use in the revaluation reserve is transferred to retained earnings.

Property under construction

The Group develops property itself with the intention to hold it as investments in real estate. During the construction phase both the land and the building are presented as investments in real estate and carried at fair value unless this cannot be determined reliably in which case the real estate is valued at directly attributable costs, including borrowing costs. All fair value gains or losses are recognized in the income statement.

Maintenance costs and other subsequent expenditure

Expenditure incurred after initial recognition of the asset is capitalized to the extent that the level of future economic benefits of the asset is increased. Costs that restore or maintain the level of future economic benefits are recognized in the income statement as incurred.

2.9 Investments for account of policyholders

Investments held for account of policyholders consist of investments in financial assets, excluding derivatives, as well as investments in real estate. Investment return on these assets is passed on to the policyholder. Also included are the assets held by consolidated

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investment funds that are backing liabilities towards third parties. Investments for account of policyholders are valued at fair value through profit or loss.

2.10 Derivatives

a. Definition

Derivatives are financial instruments, classified as held for trading financial assets, of which the value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date.

Assets and liabilities may include derivative-like terms and conditions. With the exception of features embedded in contracts held at fair value through profit or loss, embedded derivatives that are not considered closely related to the host contract are bifurcated, carried at fair value and presented as derivatives. In assessing whether a derivative-like feature is closely related to the contract in which it is embedded, the Group considers the similarity of the characteristics of the embedded derivative and the host contract. Embedded derivatives that transfer significant insurance risk are accounted for as insurance contracts.

Derivatives with positive values are reported as assets and derivatives with negative values are reported as liabilities. Derivatives for which the contractual obligation can only be settled by exchanging a fixed amount of cash for a fixed amount of Aegon N.V. equity instruments are accounted for in shareholders equity.

b. Measurement

All derivatives recognized on the statement of financial position are carried at fair value.

The fair value is calculated net of the interest accrued to date and is based on market prices, when available. When market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that market participants would consider and are based on observable market data, to the extent possible.

c. Hedge accounting

As part of its asset liability management, the Group enters into economic hedges to limit its risk exposure. These transactions are assessed to determine whether hedge accounting can and should be applied.

To qualify for hedge accounting, the hedge relationship is designated and formally documented at inception, detailing the particular risk management objective and strategy for the hedge (which includes the item and risk that is being hedged), the derivative that is being used and how hedge effectiveness is being assessed. A derivative has to be effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The effectiveness of the hedging relationship is evaluated on a prospective and retrospective basis using qualitative and quantitative measures of correlation. Qualitative methods may include comparison of critical terms of the derivative to the hedged item. Quantitative methods include a comparison of the changes in the fair value or discounted cash flow of the hedging instrument to the hedged item. A hedging relationship is considered effective if the results of the hedging instrument are within a ratio of 80% to 125% of the result of the hedged item.

For hedge accounting purposes, a distinction is made between fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in the profit and loss account, together with fair value adjustments to the hedged item attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative adjustment of the hedged item is, in the case of interest bearing instruments, amortized through the profit and loss account over the remaining term of the original hedge or recognized directly when the hedged item is derecognized.

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Cash flow hedges

Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk of a forecasted transaction or a recognized asset or liability and could affect profit or loss. To the extent that the hedge is effective, the change in the fair value of the derivative is recognized in the related revaluation reserve in shareholders equity. Any ineffectiveness is recognized directly in the income statement. The amount recorded in shareholders equity is released to the income statement to coincide with the hedged transaction, except when the hedged transaction is an acquisition of a non-financial asset or liability. In this case, the amount in shareholders equity is included in the initial cost of the asset or liability.

Net investment hedges

Net investment hedges are hedges of currency exposures on a net investment in a foreign operation. To the extent that the hedge is effective, the change in the fair value of the hedging instrument is recognized in shareholders equity. Any ineffectiveness is recognized in the income statement. The amount in shareholders equity is released to the income statement when the foreign operation is disposed of.

Hedge accounting is discontinued prospectively for hedges that are no longer considered effective. When hedge accounting is discontinued for a fair value hedge, the derivative continues to be carried on the statement of financial position with changes in its fair value recognized in the income statement. When hedge accounting is discontinued for a cash flow hedge because the cash flow is no longer expected to occur, the accumulated gain or loss in shareholders equity is recognized immediately in the income statement. In other situations where hedge accounting is discontinued for a cash flow hedge, including those where the derivative is sold, terminated or exercised, accumulated gains or losses in shareholders equity are amortized into the income statement when the income statement is impacted by the variability of the cash flow from the hedged item.

2.11 Investments in associates

Entities over which the Group has significant influence through power to participate in financial and operating policy decisions, but which do not meet the definition of a subsidiary or joint venture, are accounted for using the equity method. Interests held by venture capital entities, mutual funds and investment funds that qualify as an associate are accounted for as an investment held at fair value through profit or loss. Interests held by the Group in venture capital entities, mutual funds and investment funds that are managed on a fair value basis, are also accounted for as investments held at fair value through profit or loss.

Interests in associates are initially recognized at cost, which includes positive goodwill arising on acquisition. Negative goodwill is recognized in the income statement on the acquisition date. If associates are obtained in successive share purchases, each significant transaction is accounted for separately.

The carrying amount is subsequently adjusted to reflect the change in the Group s share in the net assets of the associate and is subject to impairment testing. The net assets are determined based on the Group s accounting policies. Any gains and losses recorded in other comprehensive income by the associate are reflected in other reserves in shareholders equity, while the share in the associate s net income is recognized as a separate line item in the consolidated income statement. The Group s share in losses is recognized until the investment in the associate s equity and any other long-term interest that are part of the net investment are reduced to nil, unless guarantees exist.

Gains and losses on transactions between the Group and the associate are eliminated to the extent of the Group s interest in the entity, with the exception of losses that are evidence of impairment which are recognized immediately. Own equity instruments of Aegon N.V. that are held by the associate are not eliminated.

On disposal of an interest in an associate, the difference between the net proceeds and the carrying amount is recognized in the income statement and gains and losses previously recorded directly in the revaluation reserve are reversed and recorded through the income statement.

2.12 Reinsurance assets

Reinsurance contracts are contracts entered into by the Group in order to receive compensation for losses on contracts written by the Group (outgoing reinsurance). For contracts transferring sufficient insurance risk, a reinsurance asset is recognized for the expected

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future benefits, less expected future reinsurance premiums. Reinsurance contracts with insufficient insurance risk transfer are accounted for as investment or service contracts, depending on the nature of the agreement.

Reinsurance assets are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract. They are subject to impairment testing and are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Aegon is not relieved of its legal liabilities when entering into reinsurance transactions, therefore the reserves relating to the underlying reinsured contracts will continue to be reported on the consolidated statement of financial position during the run-off period of the underlying business.

Reinsurance premiums are accounted for in the same way as the original contracts for which the reinsurance was concluded.

2.13 Deferred expenses

a. Deferred policy acquisition costs (DPAC)

DPAC relates to all insurance contracts and investment contracts with discretionary participation features and represents mainly the variable costs that are related to the acquisition or renewal of these contracts.

Acquisition costs are deferred to the extent that they are recoverable and are subsequently amortized based on either the expected future premiums or the expected gross profit margins. For products sold in the United States and Canada with amortization based on expected gross profit margins, the amortization period and pattern are reviewed at each reporting date and any change in estimates is recognized in the income statement. Estimates include, but are not limited to: an economic perspective in terms of future returns on bond and equity instruments, mortality, disability and lapse assumptions, maintenance expenses and expected inflation rates. For all products, DPAC, in conjunction with VOBA where appropriate, is assessed for recoverability at least annually on a country-by-country basis and is considered in the liability adequacy test for each reporting period. If appropriate, the assumptions included in the determination of estimated gross profits are adjusted. The portion of DPAC that is determined not to be recoverable is charged to the income statement.

For products sold in the United States or Canada, when unrealized gains or losses arise on available-for-sale assets, DPAC is adjusted to equal the effect that the realization of the gains or losses (through sale or impairment) would have had on its measurement. This is recognized directly in the related revaluation reserve in shareholders equity.

DPAC is derecognized when the related contracts are settled or disposed of.

b. Deferred cost of reinsurance

A deferred cost of reinsurance is established when Aegon enters into a reinsurance transaction. Aegon is not relieved of its legal liabilities, so the reserves relating to the underlying reinsured contracts will continue to be reported on the consolidated statement of financial position during the run-off period of the underlying business.

Gains or losses on buying reinsurance are amortized based on the assumptions of the underlying reinsured contracts. The amortization is recognized in the income statement.

c. Deferred transaction costs

Deferred transaction costs relate to investment contracts without discretionary participation features under which Aegon will render investment management services. Incremental costs that are directly attributable to securing these investment management contracts are recognized as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered.

For contracts involving both the origination of a financial liability and the provision of investment management services, only the transaction costs allocated to the servicing component are deferred. The other transaction costs are included in the carrying amount of the financial liability.

The deferred transaction costs are amortized in line with fee income, unless there is evidence that another method better represents the provision of services under the contract. The amortization is recognized in the income statement. Deferred transaction costs are subject to impairment testing at least annually.

Deferred transaction costs are derecognized when the related contracts are settled or disposed of.

2.14 Other assets and receivables

Other assets include trade and other receivables, prepaid expenses, equipment and real estate held for own use. Trade and other receivables are initially recognized at fair value and are subsequently measured at amortized cost. Equipment is initially carried at cost, depreciated on a straight line basis over its useful life to its residual value and is subject to impairment testing. The accounting for real estate held for own use is described in note 2.8.

2.15 Cash and cash equivalents

Cash comprises cash at banks and in-hand. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements. Money market investments that are held for investment purposes (backing insurance liabilities, investment liabilities or equity based on asset liability management considerations) are not included in cash and cash equivalents but are presented as investment or investment for account of policyholders.

2.16 Impairment of assets

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. For tangible and intangible assets, financial assets and reinsurance assets, if not held at fair value through profit or loss, the recoverable amount of the asset is estimated when there are indications that the asset may be impaired. Irrespective of the indications, goodwill and other intangible assets with an indefinite useful life that are not amortized, are tested at least annually.

a. Impairment of non-financial assets

Assets are tested individually for impairment when there are indications that the asset may be impaired. For goodwill and intangible assets with an undefined life, an impairment test is performed at least once a year. The impairment loss is calculated as the difference between the carrying and the recoverable amount of the asset, which is the higher of an asset s value in use and its net selling price. The value in use represents the discounted future net cash flows from the continuing use and ultimate disposal of the asset and reflects its known inherent risks and uncertainties.

Impairment losses are charged to shareholders equity to the extent that they offset a previously recorded revaluation reserve relating to the same item. Any further losses are recognized directly in the income statement.

With the exception of goodwill, impairment losses are reversed when there is evidence that there has been a change in the estimates used to determine the asset s recoverable amount since the recognition of the last impairment loss. The reversal is recognized in the income statement to the extent that it reverses impairment losses previously recognized in the income statement. The carrying amount after reversal cannot exceed the amount that would have been recognized had no impairment taken place.

Non-financial assets that only generate cash flows in combination with other assets and liabilities are tested for impairment at the level of the cash-generating unit. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination. The allocation is based on the level at which goodwill is monitored internally and cannot be larger than an operating segment. When impairing a cash-generating unit, any goodwill allocated to the unit is first written-off and recognized in the income statement. The remaining impairment loss is allocated on a pro rata basis among the other assets, on condition that the resulting carrying amounts do not fall below the individual assets recoverable amounts.

b. Impairment of debt instruments

Debt instruments are impaired if there is objective evidence that a credit event has occurred after the initial recognition of the asset that has a negative impact on the estimated future cash flows. A specific security is considered to be impaired when it is determined that it is probable that not all amounts due (both principal and interest) will be collected as scheduled. Individually significant loans and other receivables are first assessed separately. All non-impaired assets measured at amortized cost are then grouped by credit risk characteristics and collectively tested for impairment.

For debt instruments carried at amortized cost, the carrying amount of impaired financial assets is reduced through an allowance account. The impairment loss is calculated as the difference between the carrying and recoverable amount of the investment. The recoverable amount is determined by discounting the estimated probable future cash flows at the original effective interest rate of the asset. For variable interest debt instruments, the current effective interest rate under the contract is applied.

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For debt instruments classified as available-for-sale, the asset is impaired to its fair value. Any unrealized loss previously recognized in other comprehensive income is taken to the income statement in the impairment loss. After impairment the interest accretion on debt instruments that are classified as available-for-sale is based on the rate of return that would be required by the market for similar rated instruments at the date of impairment.

Impairment losses recognized for debt instruments can be reversed if in subsequent periods the amount of the impairment loss decreases and that decrease can be objectively related to a credit event occurring after the impairment was recognized. For debt instruments carried at amortized cost, the carrying amount after reversal cannot exceed its amortized cost at the reversal date.

c. Impairment of equity instruments

For equity instruments, a significant or prolonged decline in fair value below initial cost is considered objective evidence of impairment and always results in a loss being recognized in the income statement. Significant or prolonged decline is defined as an unrealized loss position for generally more than six months or a fair value of less than 80% of the cost price of the investment. Equity investments are impaired to the asset s fair value and any unrealized gain or loss previously recognized in shareholders equity is taken to the income statement as an impairment loss. The amount exceeding the balance of previously recognized unrealized gains or losses is recognized in the income statement.

Impairment losses on equity instruments cannot be reversed.

d. Impairment of reinsurance assets

Reinsurance assets are impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that not all amounts due under the terms of the contract may be received. In such a case, the value of the reinsurance asset recoverable is determined based on the best estimate of future cash flows, taking into consideration the reinsurer s current and expected future financial conditions plus any collateral held in trust for Aegon s benefit. The carrying value is reduced to this calculated recoverable value, and the impairment loss recognized in the income statement.

2.17 Equity

Financial instruments that are issued by the Group are classified as equity if they represent a residual interest in the assets of the Group after deducting all of its liabilities and the Group has an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation. In addition to common shares and preferred shares, the Group has issued perpetual securities. Perpetual securities have no final maturity date, repayment is at the discretion of Aegon and for junior perpetual capital securities Aegon has the option to defer coupon payments at its discretion. The perpetual capital securities are classified as equity rather than debt, are measured at par and those that are denominated in US dollars are translated into euro using historical exchange rates.

Non-cumulative subordinated notes are identified as a compound instrument due to the nature of this financial instrument. For these non-cumulative subordinated notes Aegon has an unconditional right to avoid delivering cash or another financial asset to settle the coupon payments. The redemption of the principal is however not at the discretion of Aegon and therefore Aegon has a contractual obligation to settle the redemption in cash or another financial asset or through the exchange of financial assets and liabilities at potentially unfavorable conditions for Aegon. Compound instruments are separated into liability components and equity components. The liability component for the non-cumulative subordinated notes is equal to the present value of the redemption amount and carried at amortized cost using the effective interest rate method. The liability component is derecognized when the Group s obligation under the contract expires, is discharged or is cancelled. The equity component is assigned the residual amount after deducting the liability component from the fair value of the instrument as a whole. The equity component in US dollars is translated into euro using historical exchange rates.

Incremental external costs that are directly attributable to the issuing or buying back of own equity instruments are recognized in equity, net of tax. For compound instruments incremental external costs that are directly attributable to the issuing or buying back of the compound instruments are recognized proportionate to the equity component and liability component, net of tax.

Dividends and other distributions to holders of equity instruments are recognized directly in equity, net of tax. A liability for non-cumulative dividends payable is not recognized until the dividends have been declared and approved.

Treasury shares are shares issued by Aegon N.V. that are held by Aegon, one of its subsidiaries or by another entity controlled by Aegon. Treasury shares are deducted from Group equity, regardless of the objective of the transaction. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the instruments. If sold, the difference between the carrying amount

and the proceeds is reflected in retained earnings. The consideration paid or received is recognized directly in shareholders equity. All treasury shares are eliminated in the calculation of earnings per share and dividend per common share.

2.18 Trust pass-through securities, subordinated borrowings and other borrowings

A financial instrument issued by the Group is classified as a liability if the contractual obligation must be settled in cash or another financial asset or through the exchange of financial assets and liabilities at potentially unfavorable conditions for the Group.

Trust pass-through securities, subordinated borrowings and other borrowings are initially recognized at their fair value including directly attributable transaction costs and are subsequently carried at amortized cost using the effective interest rate method, with the exception of specific borrowings that are designated as at fair value through profit or loss to eliminate, or significantly reduce, an accounting mismatch, or specific borrowings which are carried as at fair value through the profit and loss as part of a fair value hedge relationship. The liability is derecognized when the Group s obligation under the contract expires, is discharged or is cancelled.

Subordinated borrowings include the liability component of non-cumulative subordinated notes. These notes are identified as a compound instrument due to the nature of this financial instrument. Compound instruments are separated into equity components and liability components. The liability component for the non-cumulative subordinated notes is related to the redemption amount. For further information on accounting policy of the non-cumulative subordinated notes refer to note 2.17.

2.19 Insurance contracts

Insurance contracts are accounted for under IFRS 4 - *Insurance Contracts.* In accordance with this standard, Aegon continues to apply the existing accounting policies that were applied prior to the adoption of IFRS, with certain modifications allowed by IFRS 4 for standards effective subsequent to adoption. Aegon applies non-uniform accounting policies for insurance liabilities and related deferred acquisition costs and intangible assets, to the extent that it was allowed under Dutch Accounting Principles. As a result, specific methodologies applied may differ between Aegon s operations as they may reflect local regulatory requirements and local practices for specific product features in these local markets. In the United States Aegon applies US GAAP and in the Netherlands and the United Kingdom Aegon applies Dutch Accounting Principles, both with consideration of standards effective subsequent to the date of transition to IFRS.

Insurance contracts are contracts under which the Group accepts a significant risk - other than a financial risk - from a policyholder by agreeing to compensate the beneficiary on the occurrence of an uncertain future event by which he or she will be adversely affected. Contracts that do not meet this definition are accounted for as investment contracts. The Group reviews homogeneous books of contracts to assess whether the underlying contracts transfer significant insurance risk on an individual basis. This is considered the case when at least one scenario with commercial substance can be identified in which the Group has to pay significant additional benefits to the policyholder. Contracts that have been classified as insurance are not reclassified subsequently.

Insurance liabilities are recognized when the contract is entered into and the premiums are charged. The liability is derecognized when the contract expires, is discharged or is cancelled.

Insurance assets and liabilities are valued in accordance with the accounting principles that were applied by the Group prior to the transition to IFRS and with consideration of standards effective subsequent to the date of transition to IFRS, as further described in the following paragraphs. In order to reflect the specific nature of the products written, subsidiaries are allowed to apply local accounting principles to the measurement of insurance contracts. All valuation methods used by the subsidiaries are based on the general principle that the carrying amount of the net liability must be sufficient to meet any reasonably foreseeable obligation resulting from the insurance contracts.

Included under insurance contracts are interest rate rebates. Interest rate rebate is a form of profit sharing whereby the Group determines the premium based on the expected interest that will be earned on the contract. The expected interest is calculated with reference to a portfolio of government bonds. Interest rate rebates that are expected to be recovered in future periods are deferred and amortized as the interest is realized. The amortization is recognized in Aegon s income statement. They are considered in the liability adequacy test for insurance liabilities. Deferred interest rebates are derecognized when the related contracts are settled or disposed of.

a. Life insurance contracts

Life insurance contracts are insurance contracts with guaranteed life-contingent benefits. The measurement of the liability for life insurance contracts varies depending on the nature of the product.

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Some products, such as traditional life insurance products in continental Europe and products in the United States, for which account terms are fixed and guaranteed, are measured using the net premium method. The liability is determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included. A separate reserve for longevity may be established and included in the measurement of the liability. Furthermore, the liability for life insurance comprises reserves for unearned premiums and for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Group.

Other products with account terms that are not fixed or guaranteed are generally measured at the policyholder s account balance. Depending on local accounting principles, the liability may include amounts for future services on contracts where the policy administration charges are higher in the initial years than in subsequent years. In establishing the liability, guaranteed minimum benefits issued to the policyholder are measured as described in note 2.19 c or, if bifurcated from the host contract, as described in note 2.10.

One insurance product in the United States is carried at fair value through profit or loss as it contains an embedded derivative that could not be reliably bifurcated. The fair value of the contract is measured using market consistent valuation techniques.

b. Life insurance contracts for account of policyholders

Life insurance contracts under which the policyholder bears the risks associated with the underlying investments are classified as insurance contracts for account of policyholders.

The liability for the insurance contracts for account of policyholders is measured at the policyholder account balance. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund. If applicable, the liability representing the nominal value of the policyholder unit account is amortized over the term of the contract so that interest on actuarial funding is at an expected rate of return.

c. Embedded derivatives and participation features

Life insurance contracts typically include derivative-like terms and conditions. With the exception of policyholder options to surrender the contract at a fixed amount, contractual features that are not closely related to the insurance contract and that do not themselves meet the definition of insurance contracts are accounted for as derivatives. If the embedded derivative cannot be reliably bifurcated, the entire insurance contract is carried at fair value through profit or loss.

Other terms and conditions, such as participation features and expected lapse rates are considered when establishing the insurance liabilities. Where the Group has discretion over the amount or timing of the bonuses distributed resulting from participation features, a liability is recognized equal to the amount that is available at the balance sheet date for future distribution to policyholders.

Guaranteed minimum benefits

The Group issues life insurance contracts, which do not expose the Group to interest rate risk as the account terms are not fixed or guaranteed or because the return on the investments held is passed on to the policyholder. Some of these contracts, however, may contain guaranteed minimum benefits. An additional liability for life insurance is established for guaranteed minimum benefits that are not bifurcated. Bifurcated guaranteed minimum benefits are classified as derivatives.

In the United States, the additional liability for guaranteed minimum benefits that are not bifurcated is determined each period by estimating the expected value of benefits in excess of the projected account balance and recognizing the excess over the accumulation period based on total expected assessments. The estimates are reviewed regularly and any resulting adjustment to the additional liability is recognized in the income statement. The benefits used in calculating the liabilities are based on the average benefits payable over a range of stochastic scenarios. Where applicable, the calculation of the liability incorporates a percentage of the potential annuitizations that may be elected by the contract holder.

In the Netherlands, an additional liability is established for guaranteed minimum benefits that are not bifurcated on group pension plans with profit sharing and on traditional insurance contracts with profit sharing based on an external interest index. These guarantees are measured at fair value.

d. Shadow accounting

Shadow accounting ensures that all gains and losses on investments affect the measurement of the insurance assets and liabilities in the same way, regardless of whether they are realized or unrealized and regardless of whether the unrealized gains and losses are recognized in the income statement or directly in equity in the revaluation reserve. In some instances, realized gains or losses on investments have a direct effect on the measurement of the insurance assets and liabilities. For example, some insurance contracts include benefits that are contractually based on the investment returns realized by the insurer. In addition, realization of gains or losses on available-for-sale investments can lead to unlocking of VOBA or DPAC and can also affect the outcome of the liability adequacy test to the extent that it considers actual future investment returns. For similar changes in unrealized gains and losses, shadow accounting is applied. If an unrealized gain or loss triggers a shadow accounting adjustment to VOBA, DPAC or the insurance liabilities, the corresponding adjustment is recognized through other comprehensive income in the revaluation reserve, together with the unrealized gain or loss.

Some profit sharing schemes issued by the Group entitle the policyholder to a bonus which is based on the actual total return on specific assets held. To the extent that the bonus relates to gains or losses on available-for-sale investments for which the unrealized gains or losses are recognized in the revaluation reserve in equity, shadow accounting is applied. This means that the increase in the liability is also charged to equity to offset the unrealized gains rather than to the income statement.

e. Non-life insurance contracts

Non-life insurance contracts are insurance contracts where the insured event is not life-contingent. For non-life products the insurance liability generally includes reserves for unearned premiums, unexpired risk, inadequate premium levels and outstanding claims and benefits. No catastrophe or equalization reserves are included in the measurement of the liability.

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognized as premium income.

The liability for outstanding claims and benefits is established for claims that have not been settled and any related cash flows, such as claims handling costs. It includes claims that have been incurred but have not been reported to the Group. The liability is calculated at the reporting date using statistical methods based on empirical data and current assumptions that may include a margin for adverse deviation. Liabilities for claims subject to periodic payment are calculated using actuarial methods consistent with those applied to life insurance contracts. Discounting is applied if allowed by the local accounting principles used to measure the insurance liabilities. Discounting of liabilities is generally applied when there is a high level of certainty concerning the amount and settlement term of the cash outflows.

f. Liability adequacy testing

At each reporting date the adequacy of the life insurance liabilities, net of VOBA and DPAC, is assessed using a liability adequacy test. Additional recoverability tests for policies written in the last year may also result in loss recognition.

Life insurance contracts for account of policyholders and any related VOBA and DPAC are considered in the liability adequacy test performed on insurance contracts. To the extent that the account balances are insufficient to meet future benefits and expenses, additional liabilities are established and included in the liability for life insurance.

All tests performed within the Group are based on current estimates of all contractual future cash flows, including related cash flows from policyholder options and guarantees. A number of valuation methods are applied, including discounted cash flow methods, option pricing models and stochastic modeling. Aggregation levels are set either on geographical jurisdiction or at the level of portfolio of contracts that are subject to broadly similar risks and managed together as a single portfolio. Specifically, in the Netherlands the liability adequacy test is performed on a consolidated basis for all life and non-life business, whereas in the Americas and the UK it is performed at the level of the portfolio of contracts. To the extent that the tests involve discounting of future cash flows, the interest rate applied is based on market rates or is based on management s expectation of the future return on investments. These future returns on investments take into account management s best estimate related to the actual investments and, where applicable, reinvestments of these investments at maturity. In the event expected investment returns on actual assets held are not considered in the discounting of future cash flows, the fair value of the assets carried at amortized cost is considered in determining any liability adequacy surplus or deficit.

Any resulting deficiency is recognized in the income statement, initially by impairing the DPAC and VOBA and subsequently by establishing an insurance liability for the remaining loss, unless shadow loss recognition has taken place.

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The adequacy of the non-life insurance liability is tested at each reporting date. Changes in expected claims that have occurred, but that have not been settled, are reflected by adjusting the liability for claims and future benefits. The reserve for unexpired risk is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed the future premiums plus the current unearned premium reserve.

2.20 Investment contracts

Contracts issued by the Group that do not transfer significant insurance risk, but do transfer financial risk from the policyholder to the Group are accounted for as investment contracts. Depending on whether the Group or the policyholder runs the risks associated with the investments allocated to the contract, the liabilities are classified as investment contracts or as investment contracts for account of policyholders. Investment contract liabilities are recognized when the contract is entered into and are derecognized when the contract expires, is discharged or is cancelled.

a. Investment contracts with discretionary participation features

Some investment contracts have participation features whereby the policyholder has the right to receive potentially significant additional benefits which are based on the performance of a specified pool of investment contracts, specific investments held by the Group or on the issuer s net income. If the Group has discretion over the amount or timing of the distribution of the returns to policyholders, the investment contract liability is measured based on the accounting principles that apply to insurance contracts with similar features.

Some unitized investment contracts provide policyholders with the option to switch between funds with and without discretionary participation features. The entire contract is accounted for as an investment contract with discretionary participation features if there is evidence of actual switching resulting in discretionary participation benefits that are a significant part of the total contractual benefits.

b. Investment contracts without discretionary participation features

At inception, investment contracts without discretionary features are designated as at fair value through profit or loss if by doing so a potential accounting mismatch is eliminated or significantly reduced or if the contract is managed on a fair value basis. Some investment contracts with embedded derivatives that have not been bifurcated are also carried at fair value through profit or loss. All other contracts are carried at amortized cost.

The contracts are initially recognized at transaction price less, in the case of investment contracts not carried at fair value through profit or loss, any transaction costs directly attributable to the issue of the contract. Fees and commissions incurred with the recognition of a contract held at fair value through profit or loss and that are not related to investment management services provided under the contract are recognized immediately in the income statement.

Subsequently, contracts designated as at fair value through profit or loss are measured at fair value, which generally equals the contractholder s account value. All changes in the fair value are recognized in the income statement as incurred. Other investment contracts without discretionary participation features are carried at amortized cost based on the expected cash flows and using the effective interest rate method. The expected future cash flows are re-estimated at each reporting date and the carrying amount of the financial liability is recalculated as the present value of estimated future cash flows using the financial liability s original effective interest rate. Any adjustment is immediately recognized in the income statement.

The consolidated financial statements provide information on the fair value of all financial liabilities, including those carried at amortized cost. As these contracts are not quoted in active markets, their value is determined by using valuation techniques, such as discounted cash flow methods and stochastic modeling. For investment contracts that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.

c. Investment contracts for account of policyholders

Investment contracts for account of policyholders are investment contracts for which the actual return on investments allocated to the contract is passed on to the policyholder. Also included are participations held by third parties in consolidated investment funds that meet the definition of a financial liability.

Investment contracts for account of policyholders are designated at fair value through profit or loss. Contracts with unit-denominated payments are measured at current unit values, which reflect the fair values of the assets of the fund.

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For unit-linked contracts without discretionary participation features and subject to actuarial funding, the Group recognizes a liability at the funded amount of the units. The difference between the gross value of the units and the funded value is treated as an initial fee paid by the policyholder for future asset management services and is deferred. It is subsequently amortized over the life of the contract or a shorter period, if appropriate.

2.21 Provisions

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated.

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, considering all its inherent risks and uncertainties, as well as the time value of money. The unwinding of the effect of discounting is recorded in the income statement as an interest expense.

Onerous contracts

With the exception of insurance contracts and investment contracts with discretionary participation features for which potential future losses are already considered in establishing the liability, a provision is recognized for onerous contracts in which the unavoidable costs of meeting the resulting obligations exceed the expected future economic benefits. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfill it.

2.22 Assets and liabilities relating to employee benefits

a. Short-term employee benefits

A liability is recognized for the undiscounted amount of short-term employee absences benefits expected to be paid within one year after the end of the period in which the service was rendered. Accumulating short-term absences are recognized over the period in which the service is provided. Benefits that are not service-related are recognized when the event that gives rise to the obligation occurs.

b. Post-employment benefits

The Group has issued defined contribution plans and defined benefit plans. A plan is classified as a defined contribution plan when the Group has no further obligation than the payment of a fixed contribution. All other plans are classified as defined benefit plans.

Defined contribution plans

The contribution payable to a defined contribution plan for services provided is recognized as an expense in the income statement. An asset is recognized to the extent that the contribution paid exceeds the amount due for services provided.

Defined benefit plans

The defined benefit obligation is based on the terms and conditions of the plan applicable on the balance sheet date. Plan improvements are charged directly to the income statement, unless they are conditional on the continuation of employment. In this case the related cost is deducted from the liability as past service cost and amortized over the vesting period. In measuring the defined benefit obligation the Group uses the projected unit credit method and actuarial assumptions that represent the best estimate of future variables. The benefits are discounted using an interest rate based on the market yields for high-quality corporate bonds on the balance sheet date.

Plan assets are qualifying insurance policies and assets held by long-term employee benefit funds that can only be used to pay the employee benefits under the plan and are not available to the Group s creditors. They are measured at fair value and are deducted in determining the amount recognized on the statement of financial position.

The cost of the plans is determined at the beginning of the year, based on the prevalent actuarial assumptions, discount rate and expected return on plan assets. Changes in assumptions, discount rate and experience adjustments are not charged to the income statement in the period in which they occur, but are deferred.

The unrecognized actuarial gains and losses are amortized in a straight line over the average remaining working life of the employees covered by the plan, to the extent that the gains or losses exceed the corridor limits. The corridor is defined as ten percent of the greater of the defined benefit obligation or the plan assets.

The amortization charge is reassessed at the beginning of each year. The corridor approach described above was not applied retrospectively to periods prior to the transition to IFRS (January 1, 2004).

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Aegon recognizes gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprise:

- ¿ Any resulting change in the present value of the defined benefit obligation;
- ¿ Any resulting change in the fair value of the plan assets;
- ¿ Any related actuarial gains and losses and past service cost that had not previously been recognized.

Where only part of an obligation is settled and in respect of closure to future accrual, the gain or loss includes a proportionate share of the previously unrecognized past service cost and actuarial gains and losses. The proportionate share is determined on the basis of the present value of the obligations before and after the curtailment or settlement.

c. Share-based payments

The Group has issued share-based plans that entitle employees to receive equity instruments issued by the Group or cash payments based on the price of Aegon N.V. common shares. Some plans provide employees of the Group with the choice of settlement.

For share option plans that are equity-settled, the expense recognized is based on the fair value on the grant date of the share options, which does not reflect any performance conditions other than conditions linked to the price of the Group s shares. The cost is recognized in the income statement, together with a corresponding increase in shareholders equity, as the services are rendered. During this period the cumulative expense recognized at the reporting date reflects management s best estimate of the number of shares expected to vest ultimately.

Share appreciation right plans are initially recognized at fair value at the grant date, taking into account the terms and conditions on which the instruments were granted. The fair value is expensed over the period until vesting, with recognition of a corresponding liability. The liability is remeasured at each reporting date and at the date of settlement, with any changes in fair value recognized in the income statement.

Share option plans that can be settled in either shares or cash at the discretion of the employee are accounted for as a compound financial instrument, which includes a debt component and an equity component.

2.23 Deferred revenue liability

Initial fees and front-end loadings paid by policyholders and other clients for future investment management services related to investment contracts without discretionary participation features are deferred and recognized as revenue when the related services are rendered.

2.24 Tax assets and liabilities

a. Current tax assets and liabilities

Tax assets and liabilities for current and prior periods are measured at the amount that is expected to be received from or paid to the taxation authorities, using the tax rates that have been enacted or substantively enacted by the reporting date.

b. Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognized for the estimated future tax effects of temporary differences between the carrying value of an item and its tax value, with the exception of differences arising from the initial recognition of goodwill and of assets and liabilities that do not impact taxable or accounting profits. A tax asset is recognized for tax loss carryforwards to the extent that it is probable at the reporting date that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilized.

Deferred tax liabilities relating to investments in subsidiaries, associates and joint ventures are not recognized if the Group is able to control the timing of the reversal of the temporary difference and it is probable that the difference will not be reversed in the foreseeable future.

Deferred tax assets and liabilities are reviewed at the balance sheet date and are measured at tax rates that are expected to apply when the asset is realized or the liability is settled. The carrying amount is not discounted and reflects the Group s expectations concerning the manner of recovery or settlement.

Deferred tax assets and liabilities are recognized in relation to the underlying transaction either in profit and loss, other comprehensive income or directly in equity.

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2.25 Contingent assets and liabilities

Contingent assets are disclosed in the notes if the inflow of economic benefits is probable, but not virtually certain. When the inflow of economic benefits becomes virtually certain, the asset is no longer contingent and its recognition is appropriate.

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed, unless the possibility of an outflow of economic benefits is remote.

2.26 Premium income

Gross premiums, including recurring and single premiums, from life and non-life insurance and investment contracts with discretionary participation features are recognized as revenue when they become receivable. Not reflected as premium income are deposits from certain products that are sold only in the United States and Canada, such as deferred annuities. For these products the surrender charges and charges assessed have been included in gross premiums.

Premium loadings for installment payments and additional payments by the policyholder towards costs borne by the insurer are included in the gross premiums. Rebates that form part of the premium rate, such as no-claim rebates, are deducted from the gross premium, others are recognized as an expense. Depending on the applicable local accounting principles, bonuses that are used to increase the insured benefits may be recognized as gross premiums.

2.27 Investment income

For interest-bearing assets, interest is recognized as it accrues and is calculated using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial assets or liabilities are recognized as an adjustment to the effective interest rate of the instrument. Investment income includes the interest income and dividend income on financial assets carried at fair value through profit or loss.

Investment income also includes dividends accrued and rental income due, as well as fees received for security lending.

2.28 Fee and commission income

Fees and commissions from investment management services and mutual funds, and from sales activities are recognized as revenue over the period in which the services are performed or the sales have been closed.

2.29 Policyholder claims and benefits

Policyholder claims and benefits consist of claims and benefits paid to policyholders, including benefit claims in excess of account value for products for which deposit accounting is applied and the change in the valuation of liabilities for insurance and investment contracts. It includes internal and external claims handling costs that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered.

2.30 Results from financial transactions

Results from financial transactions include:

Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives

Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives include fair value changes of financial assets carried at fair value through profit or loss. The net gains and losses do not include interest or dividend income.

Realized gains and losses on financial investments

Gains and losses on financial investments include realized gains and losses on general account financial assets, other than those classified as at fair value through profit or loss.

Net fair value change of derivatives

All changes in fair value are recognized in the income statement, unless the derivative has been designated as a hedging instrument in a cash flow hedge or a hedge of a net investment in a foreign operation. Fair value movements of fair value hedge instruments are offset by the fair value movements of the hedged item, and the resulting hedge ineffectiveness, if any, is included in this line. In addition, the fair value movements of bifurcated embedded derivatives are included in this line.

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Net fair value change on for account of policyholder financial assets at fair value through profit or loss

Net fair value change on for account of policyholder financial assets at fair value through profit or loss includes fair value movements of investments held for account of policyholders (refer to note 2.9). The net fair value change does not include interest or dividend income.

Other

In addition, results from financial transactions include gains/losses on real estate (general account and account of policyholders), net foreign currency gains/(losses) and net fair value change on borrowings and other financial liabilities and realized gains on repurchased debt.

2.31 Impairment charges / (Reversals)

Impairment charges and reversals include impairments and reversals on investments in financial assets, impairments and reversals on the valuation of insurance assets and liabilities and other non-financial assets and receivables. Refer to note 15.

2.32 Interest charges and related fees

Interest charges and related fees includes interest expense on trust pass-through securities and other borrowings. Interest expense on trust pass-through securities and other borrowings carried at amortized cost is recognized in profit or loss using the effective interest method.

2.33 Leases

Arrangements that do not take the form of a lease but convey a right to use an asset in return for a payment are assessed at inception to determine whether they are, or contain, a lease. This involves an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset and whether the purchaser (lessee) has the right to control the use of the underlying asset.

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases.

Payments made under operating leases, where the Group is the lessee, are charged to the income statement on a straight line basis over the period of the lease.

Where the Group is the lessor under an operating lease, the assets subject to the operating lease arrangement are presented in the statement of financial position according to the nature of the asset. Income from these leases are recognized in the income statement on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

2.34 Events after the balance sheet date

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the balance sheet date.

Events that are indicative of conditions that arose after the balance sheet date are disclosed, but do not result in an adjustment of the financial statements themselves.

3 Critical accounting estimates and judgment in applying accounting policies

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.

Valuation of assets and liabilities arising from life insurance contracts

The liability for life insurance contracts with guaranteed or fixed account terms is either based on current assumptions or on the assumptions established at inception of the contract, reflecting the best estimates at the time increased with a margin for adverse deviation. All contracts are subject to liability adequacy testing which reflects management s current estimates of future cash flows (including investment returns). To the extent that the liability is based on current

assumptions, a change in assumptions will have an immediate impact on the income statement. Also, if a change in assumption results in not passing the liability adequacy test, the entire

deficiency is recognized in the income statement. To the extent that the deficiency relates to unrealized gains and losses on available-for-sale investments, the additional liability is recognized in the revaluation reserve in equity.

Some insurance contracts without a guaranteed or fixed contract term contain guaranteed minimum benefits. Depending on the nature of the guarantee, it may either be bifurcated and presented as a derivative or be reflected in the value of the insurance liability in accordance with local accounting principles. Given the dynamic and complex nature of these guarantees, stochastic techniques under a variety of market return scenarios are often used for measurement purposes. Such models require management to make numerous estimates based on historical experience and market expectations. Changes in these estimates will immediately affect the income statement.

In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force are recorded as DPAC and VOBA assets respectively and are amortized to the income statement over time. If the assumptions relating to the future profitability of these policies are not realized, the amortization of these costs could be accelerated and may even require write offs due to unrecoverability.

Actuarial assumptions

The main assumptions used in measuring DPAC, VOBA and the liabilities for life insurance contracts with fixed or guaranteed terms relate to mortality, morbidity, investment return and future expenses. Depending on local accounting principles, surrender rates may be considered.

Mortality tables applied are generally developed based on a blend of company experience and industry wide studies, taking into consideration product characteristics, own risk selection criteria, target market and past experience. Mortality experience is monitored through regular studies, the results of which are fed into the pricing cycle for new products and reflected in the liability calculation when appropriate. For contracts insuring survivorship, allowance may be made for further longevity improvements. Morbidity assumptions are based on own claims severity and frequency experience, adjusted where appropriate for industry information.

Investment assumptions are either prescribed by the local regulator or based on management s future expectations. In the latter case, the anticipated future investment returns are set by management on a countrywide basis, considering available market information and economic indicators. A significant assumption related to estimated gross profits on variable annuities and variable life insurance products in the United States and some of the smaller country units, is the annual long-term growth rate of the underlying assets. The reconsideration of this assumption may affect the original DPAC or VOBA amortization schedule, referred to as DPAC or VOBA unlocking. The difference between the original DPAC or VOBA amortization schedule and the revised schedule, which is based on estimates of actual and future gross profits, is recognized in the income statement as an expense or a benefit in the period of determination.

Assumptions on future expenses are based on the current level of expenses, adjusted for expected expense inflation if appropriate.

Surrender rates depend on product features, policy duration and external circumstances such as the interest rate environment and competitor and policyholder behavior. For policies with account value guarantees based on equity market movements, a dynamic lapse assumption is utilized to reflect policyholder behavior based on whether the guarantee is in the money. Credible own experience, as well as industry published data, are used in establishing assumptions. Lapse experience is correlated to mortality and morbidity levels, as higher or lower levels of surrenders may indicate future claims will be higher or lower than anticipated. Such correlations are accounted for in the mortality and morbidity assumptions based on the emerging analysis of experience.

For 2012, Aegon kept its long-term equity market return assumption for the estimated gross profits on variable life and variable annuity products in the Americas at 9% (2011: 9%). On a quarterly basis, the difference between the estimated equity market return and the actual market return is trued-up.

In 2011, to reflect the low interest rate environment, Aegon lowered its long-term assumption for 10-year US Treasury yields by 50 basis points to 4.75% (graded uniformly over the next five years) and lowered the 90-day treasury yield to 0.2% for the next two years followed by a three year grade to 3%. In addition, Aegon lowered its assumed return for US separate account bond fund returns by 200 basis points to 4% over the next five years, followed by a return of 6% thereafter. These assumptions, as well as Aegon s assumptions on the long term credit spread or default assumptions, remained unchanged in 2012.

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A 1% decrease in the expected long-term equity growth rate with regards to Aegon s variable annuities and variable life insurance products in the United States and Canada would result in a decrease in DPAC and VOBA balances and reserve strengthening of approximately EUR 150 million (2011: EUR 159 million). The DPAC and VOBA balances for these products in the United States and Canada amounted to EUR 2.1 billion at December 31, 2012 (2011: EUR 2 billion).

For the fixed annuities and fixed universal life insurance products, the estimated gross profits (EGP) calculations include a net interest rate margin, which Aegon assumes will remain practically stable under any reasonably likely interest-rate scenario.

Applying a reasonably possible increase to the mortality assumption, which varies by block of business, would reduce net income by approximately EUR 53 million (2011: EUR 60 million). A relative 20% increase in the lapse rate assumption would increase net income by approximately EUR 42 million (2011: EUR 29 million).

Any reasonably possible changes in the other assumptions Aegon uses to determine EGP margins (i.e. maintenance expenses, inflation and disability) would reduce net income by less than EUR 39 million (per assumption change) (2011: EUR 37 million).

Determination of fair value and fair value hierarchy

The following is a description of Aegon s methods of determining fair value, and a quantification of its exposure to financial instruments measured at fair value.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm s length transaction. Financial instruments measured at fair value on an ongoing basis include investments for the general account, investments for the account of policyholders, investments designated at fair value and derivatives, as well as investment contracts, investment contracts for account of policyholders and borrowings.

In accordance with IFRS 7, Aegon uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level I: quoted prices (unadjusted) in active markets for identical assets or liabilities that Aegon can access at the measurement date;
- Level II: inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices of identical or similar assets and liabilities) using valuation techniques for which all significant inputs are based on observable market data; and
- Level III: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) using valuation techniques for which any significant input is not based on observable market data.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial instrument is not active or quoted market prices are not available, a valuation technique is used.

The judgment as to whether a market is active may include, although not necessarily determinative, lower transaction volumes, reduced transaction sizes and, in some cases, no observable trading activity for short periods. In inactive markets, assurance is obtained that the transaction price provides evidence of fair value or determined that the adjustments to transaction prices are necessary to measure the fair value of the instrument.

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for such financial instruments, the derivation of fair value is more judgmental. An instrument in its entirety is classified as valued using significant unobservable inputs (Level III) if, in the opinion of management, a significant proportion of the instrument s carrying amount is driven by unobservable inputs. Unobservable in this context means that there is little or no current market data available from which to determine the price at which an arm s length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Additional information is provided in the section headed Effect of changes in significant unobservable assumptions to reasonably possible alternatives below.

To operationalize Aegon s fair value hierarchy, individual securities are assigned a fair value level based primarily on the type of security and the source of the prices (e.g. index, third-party pricing service, broker, internally modeled). Periodically, this logic for assigning fair value levels is reviewed to determine if any modifications are necessary in the context of the current market environment.

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Fair value of financial assets and liabilities

The estimated fair values of Aegon s financial assets and liabilities are presented in the respective notes to the statement of financial position together with their carrying values. The estimated fair values correspond with the amounts at which the financial instruments at Aegon s best estimate could have been traded at the balance sheet date between knowledgeable, willing parties in arm s length transactions. When available, Aegon uses quoted market prices in active markets to determine the fair value of investments and derivatives. In the absence of an active market, the fair value of investments in financial assets is estimated by using other market observable data, such as corroborated external quotes and present value or other valuation techniques. An active market is one in which transactions are taking place regularly on an arm s length basis. A fair value measurement assumes that an asset or liability is exchanged in an orderly transaction between market participants, and accordingly, fair value is not determined based upon a forced liquidation or distressed sale.

Valuation techniques are used when Aegon determines the market is inactive or quoted market prices are not available for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, to arrive at the price at which an orderly transaction would occur between market participants at the measurement date. Therefore, unobservable inputs reflect Aegon s own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available.

Aegon employs an oversight structure over valuation of financial instruments that includes appropriate segregation of duties. Senior management, independent of the investing functions, is responsible for the oversight of control and valuation policies and for reporting the results of these policies. For fair values determined by reference to external quotation or evidenced pricing parameters, independent price determination or validation is utilized to corroborate those inputs. Further details of the validation processes are set out below.

Valuation of financial instruments is based on a pricing hierarchy, in order to maintain a controlled process that will systematically promote the use of prices from sources in which Aegon has the most confidence, where the least amount of manual intervention exists and to embed consistency in the selection of price sources. Depending on asset type the pricing hierarchy consists of a waterfall that starts with making use of market prices from indices and follows with making use of third-party pricing services or brokers.

Shares

When available, Aegon uses quoted market prices in active markets to determine the fair value of its shares. Fair values for unquoted shares are estimated using observations of the price/earnings or price/cash flow ratios of quoted companies considered comparable to the companies being valued. Valuations are adjusted to account for company-specific issues and the lack of liquidity inherent in an unquoted investment. Illiquidity adjustments are generally based on available market evidence. In addition, a variety of other factors are reviewed by management, including, but not limited to, current operating performance, changes in market outlook and the third-party financing environment.

The fair values of investments held in non-quoted investment funds (hedge funds, private equity funds) are determined by management after taking into consideration information provided by the fund managers. Aegon reviews the valuations each month and performs analytical procedures and trending analyses to ensure the fair values are appropriate.

Debt securities

The fair values of debt securities are determined by management after taking into consideration several sources of data. When available, Aegon uses quoted market prices in active markets to determine the fair value of its debt securities. As stated previously, Aegon s valuation policy utilizes a pricing hierarchy which dictates that publicly available prices are initially sought from indices and third party pricing services. In the event that pricing is not available from these sources, those securities are submitted to brokers to obtain quotes. The majority of brokers quotes are non-binding. As part of the pricing process, Aegon assesses the appropriateness of each quote (i.e., as to whether the quote is based on observable market transactions or not) to determine the most appropriate estimate of fair value. Lastly, securities are priced using internal cash flow modeling techniques. These valuation methodologies commonly use the following inputs: reported trades, bids, offers, issuer spreads, benchmark yields, estimated prepayment speeds, and/or estimated cash flows.

To understand the valuation methodologies used by third-party pricing services Aegon reviews and monitors the applicable methodology documents of the third-party pricing services. Any changes to their methodologies are noted and reviewed for reasonableness. In addition, Aegon performs in-depth reviews of prices received from third-party pricing services on a sample basis. The objective for such reviews is to demonstrate that Aegon can corroborate detailed information such as assumptions, inputs and

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methodologies used in pricing individual securities against documented pricing methodologies. Only third-party pricing services and brokers with a substantial presence in the market and with appropriate experience and expertise are used.

Third-party pricing services will often determine prices using recently reported trades for identical or similar securities. The third-party pricing service makes adjustments for the elapsed time from the trade date to the balance sheet date to take into account available market information. Lacking recently reported trades, third-party pricing services and brokers will use modeling techniques to determine a security price where expected future cash flows are developed based on the performance of the underlying collateral and discounted using an estimated market rate. Also included within the modeling techniques for RMBS, CMBS and CDO securities are estimates of the speed at which the principal will be repaid over their remaining lives. These estimates are determined based on historical repayment speeds (adjusted for current markets) as well as the structural characteristics of each security.

Periodically, Aegon performs an analysis of the inputs obtained from third-party pricing services and brokers to ensure that the inputs are reasonable and produce a reasonable estimate of fair value. Aegon s asset specialists and investment valuation specialists consider both qualitative and quantitative factors as part of this analysis. Several examples of analytical procedures performed include, but are not limited to, recent transactional activity for similar debt securities, review of pricing statistics and trends and consideration of recent relevant market events. Other controls and procedures over pricing received from indices, third-party pricing services, or brokers include validation checks such as exception reports which highlight significant price changes, stale prices or un-priced securities. Additionally, Aegon performs back testing on a sample basis. Back testing involves selecting a sample of securities trades and comparing the prices in those transactions to prices used for financial reporting. Significant variances between the price used for financial reporting and the transaction price are investigated to explain the cause of the difference.

Credit ratings are also an important consideration in the valuation of securities and are included in the internal process for determining Aegon s view of the risk associated with each security. However, Aegon does not rely solely on external credit ratings and there is an internal process, based on market observable inputs, for determining Aegon s view of the risks associated with each security.

Aegon s portfolio of private placement securities (held at fair value under the classification of available-for-sale or fair value through profit or loss) is valued using a matrix pricing methodology. The pricing matrix is obtained from a third-party service provider and indicates current spreads for securities based on weighted average life, credit rating, and industry sector. Each month, Aegon s asset specialists review the matrix to ensure the spreads are reasonable by comparing them to observed spreads for similar bonds traded in the market. Other inputs to the valuation include coupon rate, the current interest rate curve used for discounting and an illiquidity premium to account for the illiquid nature of these securities. The illiquidity premiums are determined based upon the pricing of recent transactions in the private placements market; comparing the value of the privately offered security to a similar public security. The impact of the illiquidity premium for private placement securities to the overall valuation is insignificant.

Mortgage loans, policy loans and private loans *(held at amortized cost)*

For private loans, fixed interest mortgage loans and other loans originated by the Group, the fair value used for disclosure purposes is estimated by discounting expected future cash flows using a current market rate applicable to financial instruments with similar yield, credit quality and maturity characteristics.

The fair value of floating interest rate mortgage loans, policy loans and private placements used for disclosure purposes is assumed to be approximated by their carrying amount, adjusted for changes in credit risk. Credit risk adjustments are based on market observable credit spreads if available, or management s estimate if not market observable.

In 2012, Aegon The Netherlands changed the discount rate used in determining the fair value of its mortgage loan portfolio. One of the main changes in discount rate is the replacement of an entity specific funding spread by a more generic liquidity premium. As a result the disclosed fair value is better aligned with available market information. As the mortgage loan portfolio is measured at amortized cost, this change in fair value measurement does not impact net income or shareholders equity of Aegon The Netherlands.

Money market and other short-term investments and deposits with financial institutions

The fair value of assets maturing within a year is assumed to be approximated by their carrying amount adjusted for credit risk where appropriate. Credit risk adjustments are based on market observable credit spreads if available, or management s estimate if not market observable.

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Free standing financial derivatives

Where quoted market prices are not available, other valuation techniques, such as option pricing or stochastic modeling, are applied. The valuation techniques incorporate all factors that a typical market participant would consider and are based on observable market data when available. Models are validated before they are used and calibrated to ensure that outputs reflect actual experience and comparable market prices.

Fair values for exchange-traded derivatives, principally futures and certain options, are based on quoted market prices in active markets. Fair values for over-the-counter (OTC) derivative financial instruments represent amounts estimated to be received from or paid to a third party in settlement of these instruments. These derivatives are valued using pricing models based on the net present value of estimated future cash flows, directly observed prices from exchange-traded derivatives, other OTC trades, or external pricing services. Most valuations are derived from swap and volatility matrices, which are constructed for applicable indices and currencies using current market data from many industry standard sources. Option pricing is based on industry standard valuation models and current market levels, where applicable. The pricing of complex or illiquid instruments is based on internal models or an independent third party. For long-dated illiquid contracts, extrapolation methods are applied to observed market data in order to estimate inputs and assumptions that are not directly observable. To value OTC derivatives, management uses observed market information, other trades in the market and dealer prices. Controls and procedures regarding the fair values of free standing derivatives are similar to the controls as described for the debt securities.

Aegon normally mitigates counterparty credit risk in derivative contracts by entering into collateral agreements where practical and in ISDA master netting agreements for each of the Group s legal entities to facilitate Aegon s right to offset credit risk exposure. In the event no collateral is held by Aegon or the counterparty, the fair value of derivatives is adjusted for credit risk based on market observable spreads. Changes in the fair value of derivatives attributable to changes in counterparty credit risk were not significant.

Derivatives embedded in insurance contracts including guarantees

Certain guarantees for minimum benefits in insurance and investment contracts are carried at fair value. These guarantees include guaranteed minimum withdrawal benefits (GMWB) in the United States, United Kingdom and Japan which are offered on some variable annuity products and are also assumed from a ceding company; minimum interest rate guarantees on insurance products offered in the Netherlands, including group pension and traditional products; variable annuities sold in Europe and Japan; and guaranteed minimum accumulation benefits on segregated funds sold in Canada.

The fair values of these guarantees are calculated as the present value of future expected payments to policyholders less the present value of assessed rider fees attributable to the guarantees. Given the complexity and long-term nature of these guarantees which are unlike instruments available in financial markets, their fair values are determined by using stochastic techniques under a variety of market return scenarios. A variety of factors are considered, including expected market rates of return, equity and interest rate volatility, credit spread, correlations of market returns, discount rates and actuarial assumptions.

The expected returns are based on risk-free rates. The credit spread is set by using the credit default swap (CDS) spreads of a reference portfolio of life insurance companies (including Aegon), adjusted to reflect the subordination of senior debt holders at the holding company level to the position of policyholders at the operating company level (who have priority in payments to other creditors). Aegon s assumptions are set by region to reflect differences in the valuation of the guarantee embedded in the insurance contracts.

For equity volatility, Aegon uses a term structure assumption with market-based implied volatility inputs for the first five years and a long-term forward rate assumption of 25% thereafter. The volume of observable option trading from which volatilities are derived generally declines as the contracts term increases, therefore, the volatility curve grades from implied volatilities for five years to the ultimate rate. The resulting volatility assumption in year 20 for the S&P 500 index (expressed as a spot rate) was 24.4% at December 31, 2012 and 25.7% at December 31, 2011. Correlations of market returns across underlying indices are based on historical market returns and their inter-relationships over a number of years preceding the valuation date. These assumptions are reviewed at each valuation date, and updated based on historical experience and observable market data, including market transactions such as acquisitions and reinsurance transactions.

Assumptions regarding policyholder behavior, such as lapses, included in the models are derived in the same way as the assumptions used to measure insurance liabilities.

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Since many of the assumptions are unobservable and are considered to be significant inputs to the liability valuation, the liability included in future policy benefits has been reflected within Level III of the fair value hierarchy. Refer to note 46 for more details about Aegon s guarantees.

Investment contracts

Investment contracts issued by Aegon are either carried at fair value (if they are designated as financial liabilities at fair value through profit or loss) or amortized cost (with fair value being disclosed in the notes to the consolidated financial statements). These contracts are not quoted in active markets and their fair values are determined by using valuation techniques, such as discounted cash flow methods and stochastic modeling or in relation to the unit price of the underlying assets. All models are validated and calibrated. A variety of factors are considered, including time value, volatility, policyholder behavior, servicing costs and fair values of similar instruments.

Similar to embedded derivatives in insurance contracts, certain investment products are not quoted in active markets and their fair values are determined by using valuation techniques. Because of the dynamic and complex nature of these cash flows, stochastic or similar techniques under a variety of market return scenarios are often used. A variety of factors are considered, including expected market rates of return, market volatility, correlations of market returns, discount rates and actuarial assumptions.

The expected returns are based on risk-free rates, such as the current London Inter-Bank Offered Rate (LIBOR) swap rates and associated forward rates or the current rates on local government bonds. Market volatility assumptions for each underlying index are based on observed market implied volatility data and/or observed market performance. Correlations of market returns for various underlying indices are based on observed market returns and their inter-relationships over a number of years preceding the valuation date. Current risk-free spot rates are used to determine the present value of expected future cash flows produced in the stochastic projection process.

Assumptions on customer behavior, such as lapses, included in the models are derived in the same way as the assumptions used to measure insurance liabilities.

Fair value hierarchy

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Financial assets carried at fair value	Level I	Level II	Level III	**Total 2012**
Available-for-sale investments				
Shares	224	256	376	856
Debt securities	23,433	70,203	2,683	96,319
Money market and other short-term instruments	8	8,705	-	8,713
Other investments at fair value	21	310	883	1,214
	23,686	**79,474**	**3,942**	**107,102**
Fair value through profit or loss				
Shares	953	90	-	1,043
Debt securities	60	1,363	77	1,500
Money market and other short-term instruments	741	343	-	1,084
Other investments at fair value	-	589	1,416	2,005
Investments for account of policyholders [1]	89,254	61,693	1,715	152,662
Derivatives	26	20,827	301	21,154
	91,034	**84,905**	**3,509**	**179,448**
Total financial assets at fair value	**114,720**	**164,379**	**7,451**	**286,550**
Financial liabilities carried at fair value				
Investment contracts for account of policyholders	10,028	19,050	109	29,187
Borrowings [2]	531	519	-	1,050
Derivatives	21	15,534	2,316	17,871
	10,580	**35,103**	**2,425**	**48,108**

[1] The investments for account of policyholders included in the table above represents those investments carried at fair value through profit or loss.
[2]

Borrowings included in the table above contain those borrowings that are carried at fair value through profit or loss. Total borrowings on the statement of financial position also contain borrowings carried at amortized cost that are not included in the above schedule.

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Financial assets carried at fair value	Level I	Level II	Level III	Total 2011
Available-for-sale investments				
Shares	287	123	459	869
Debt securities	21,552	70,359	2,811	94,722
Money market and other short-term instruments	-	9,382	-	9,382
Other investments at fair value	60	28	799	887
	21,899	**79,892**	**4,069**	**105,860**
Fair value through profit or loss				
Shares	797	171	-	968
Debt securities	53	1,357	119	1,529
Money market and other short-term instruments	728	362	-	1,090
Other investments at fair value	-	516	1,428	1,944
Investments for account of policyholders [1)]	81,551	57,621	2,225	141,397
Derivatives	23	15,180	301	15,504
	83,152	**75,207**	**4,073**	**162,432**
Total financial assets at fair value	**105,051**	**155,099**	**8,142**	**268,292**
Financial liabilities carried at fair value				
Investment contracts for account of policyholders	7,916	18,605	166	26,687
Borrowings [2)]	516	494	-	1,010
Derivatives	19	10,461	2,248	12,728
	8,451	**29,560**	**2,414**	**40,425**

1 The investments for account of policyholders included in the table above represents those investments carried at fair value through profit or loss.
2 Borrowings included in the table above contain those borrowings that are carried at fair value through profit or loss. Total borrowings on the statement of financial position also contain borrowings carried at amortized cost that are not included in the above schedule.

Significant transfers between Level I and II

During 2012, the amount of assets transferred from Level I to Level II classification was EUR 1 million (2011: EUR 4 million), due to changes in liquidity for specific debt securities.

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Movements in Level III financial instruments measured at fair value

Financial assets carried at fair value	At January 1, 2012	Total gains / losses in income statement [1]	Total gains / losses in OCI	Purchases	Sales	Settlements	Net exchange difference	Transfers from levels I and II	Transfers to levels I and II	At December 31, 2012	Total gains or losses for the period included in the profit and loss for assets held at December 31, 2012 [2]
Available for sale investments											
Shares	459	5	18	55	(156)	(5)	(2)	8	(6)	376	-
Debt securities	2,811	58	122	400	(310)	(555)	(21)	1,075	(897)	2,683	-
Other investments at fair value	799	(132)	61	223	(40)	(14)	(15)	1	-	883	-
	4,069	**(69)**	**201**	**678**	**(506)**	**(574)**	**(38)**	**1,084**	**(903)**	**3,942**	**-**
Fair value through profit or loss											
Shares	-	-	-	-	-	-	-	-	-	-	-
Debt securities	119	6	-	-	(35)	(6)	-	6	(13)	77	(4)
Other investments at fair value	1,428	231	-	96	(315)	-	(22)	174	(176)	1,416	221
Investments for account of policyholders	2,225	57	-	185	(839)	-	9	230	(152)	1,715	58
Derivatives	301	(19)	-	207	(194)	-	9	-	(3)	301	(15)
	4,073	**275**	**-**	**488**	**(1,383)**	**(6)**	**(4)**	**410**	**(344)**	**3,509**	**260**
Financial liabilities carried at fair value											
Investment contracts for account of policyholders	(166)	2	-	-	54	-	1	-	-	(109)	-
Derivatives	(2,248)	(83)	-	(2)	4	-	11	2	-	(2,316)	(114)
	(2,414)	**(81)**	**-**	**(2)**	**58**	**-**	**12**	**2**	**-**	**(2,425)**	**(114)**

[1] Includes impairments and movements related to fair value hedges.
[2] Total gains / (losses) for the period during which the financial instrument was in Level III.

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Financial assets carried at fair value	At January 1, 2011	Total gains / losses in income statement [1]	Total gains / losses in OCI	Purchases	Sales	Settlements	Net exchange difference	Transfers from levels I and II	Transfers to levels I and II	At December 31, 2011	Total gains or losses for the period included in the profit and loss for assets held at December 31, 2011 [2]
Available for sale investments											
Shares	555	72	(117)	122	(179)	(1)	6	2	(1)	459	-
Debt securities	3,788	30	(4)	556	(273)	(587)	15	427	(1,141)	2,811	-
Other investments at fair value	805	(120)	32	133	(65)	(8)	22	-	-	799	-
	5,148	**(18)**	**(89)**	**811**	**(517)**	**(596)**	**43**	**429**	**(1,142)**	**4,069**	**-**
Fair value through profit or loss											
Shares	1	2	-	-	-	(10)	-	8	(1)	-	-
Debt securities	132	(7)	-	1	(28)	(1)	1	25	(4)	119	(6)
Other investments at fair value	1,205	116	-	107	(170)	-	48	203	(81)	1,428	128
Investments for account of policyholders	2,352	(40)	-	301	(342)	-	22	129	(197)	2,225	22
Derivatives	178	145	-	13	(29)	(15)	9	-	-	301	165
	3,868	**216**	**-**	**422**	**(569)**	**(26)**	**80**	**365**	**(283)**	**4,073**	**309**
Financial liabilities carried at fair value											
Investment contracts for account of policyholders	(178)	9	-	-	7	-	(4)	-	-	(166)	-
Derivatives	(1,050)	(1,153)	-	(1)	7	-	(51)	-	-	(2,248)	(480)
	(1,228)	**(1,144)**	**-**	**(1)**	**14**	**-**	**(55)**	**-**	**-**	**(2,414)**	**(480)**

[1] Includes impairments and movements related to fair value hedges.

[2] Total gains / (losses) for the period during which the financial instrument was in Level III.

During 2012, Aegon transferred certain financial instruments from Levels I and II to Level III of the fair value hierarchy. The amount of the total assets transferred was EUR 1,496 million (2011: EUR 794 million). The reason for the change in level was that the market for these securities had become inactive, which led to a change in market observability of prices. Prior to transfer, the fair value for the Level I and II securities was determined using observable market transactions or corroborated broker quotes for the same or similar instruments. Since the transfer, all such assets have been valued using valuation models incorporating significant non market-observable inputs or not corroborated broker quotes.

Similarly, during 2012, Aegon transferred certain financial instruments from Level III to other levels of the fair value hierarchy. The recorded amount of the total assets transferred was EUR 1,247 million (2011: EUR 1,425 million). The change in level was mainly the result of a return of activity in the market for these securities.

The total net amount of loss recognized in the income statement on Level III financial instruments amounted to EUR 125 million (pre-tax) (2011: EUR 946 million loss).

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Effect of changes in significant unobservable assumptions to reasonably possible alternatives

The following table shows the sensitivity of the fair value of Level III instruments to changes in key assumptions, by class of instrument:

		December 31, 2012			December 31, 2011		
			Effect of reasonably possible alternative assumptions (+/-)			Effect of reasonably possible alternative assumptions (+/-)	
Financial assets carried at fair value	Note	Carrying amount	increase	decrease	Carrying amount	increase	decrease
Available for sale investments							
Shares	a	376	18	(18)	459	21	(21)
Debt securities	b	2,683	127	(127)	2,811	143	(143)
Other	c	883	14	(13)	799	13	(13)
Financial assets designated at fair value through profit or loss							
Debt securities		77	7	(7)	119	5	(5)
Other investments at fair value	d	1,416	124	(124)	1,428	142	(142)
Derivatives	e	182	17	(14)	7	1	(1)
Financial liabilities carried at fair value							
Derivatives	f	2,316	117	(112)	2,248	101	(112)

Investments for account of policyholders are excluded from the reasonably possible alternative assumptions disclosure. Policyholder assets, and their returns, belong to policyholders and do not impact Aegon s net income or equity. The effect on total assets is offset by the effect on total liabilities.

In order to determine reasonably possible alternative assumptions, Aegon adjusted key unobservable models inputs are as follows:

a. Available-for-sale shares include shares in the Federal Home Loan Bank for an amount of EUR 126 million (2011: EUR 143 million) that are measured at par. The bank has implicit financial support from the United States government. The redemption value of the shares is fixed at par and can only be redeemed by the bank. Remaining share positions were stressed by 10% up or down.
b. Debt securities mainly consist of corporate bonds (EUR 580 million; 2011: EUR 742 million) and other structured debt securities (EUR 1,975 million; 2011: EUR 1,962 million). For corporate bonds the most significant unobservable input for the valuation of these securities is the credit spread / illiquidity premium. Aegon adjusted the price, based on the bid / ask spread Aegon observed in the market for these types of securities. For investments in structured debt securities (ABS, RMBS and CMBS), the most significant unobservable input for valuation of these securities is the credit spread / illiquidity premium. Aegon adjusted the discount rate by 100 basis points up or down for this input.
c. Other mainly consists of tax credits that are measured at fair value using an internal model. The most significant unobservable input for valuation of these tax credits is the discount rate. Aegon adjusted the discount rate by 50 basis points up or down for this input.
d. Other investments at fair value include investments exposed to real estate (EUR 667 million; 2011: EUR 522 million) and private equity investments (EUR 647 million; 2011: EUR 731 million). Aegon adjusted the assumption pertaining to real estate values up or down by 10%. This change is reflective of the range presented to senior management when analyzing investment opportunities for approval. For private equity investments the underlying investments are of a very diversified nature in terms of type of investments, investment strategy and sector. There is no one significant unobservable assumption or combination of assumptions that could be identified and used to compute a reasonably possible alternative assumption analysis for this portfolio.
e. Included in derivatives is EUR 167 million (2011: EUR 0 million) relating to a longevity index derivative of Aegon The Netherlands. Aegon adjusted longevity with 2% up or down for this input, compared to the prospective mortality table in determining the value of this derivative. Derivatives exclude derivatives for account of policyholders amounting to EUR 119 million (2011: EUR 294 million).
f. Derivatives mainly consist of embedded derivatives related to guarantees for which the most significant unobservable input is the credit spread. The credit spread was increased or decreased by 20 basis points.

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Impairment of financial assets

There are a number of significant risks and uncertainties inherent in the process of monitoring investments and determining if impairment exists. These risks and uncertainties include the risk that the Group s assessment of an issuer s ability to meet all of its contractual obligations will change based on changes in the credit characteristics of that issuer and the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated. Any of these situations could result in a charge against the income statement to the extent of the impairment charge recorded.

Debt securities

Aegon regularly monitors industry sectors and individual debt securities for evidence of impairment. This evidence may include one or more of the following: 1) deteriorating market to book ratio, 2) increasing industry risk factors, 3) deteriorating financial condition of the issuer, 4) covenant violations, 5) high probability of bankruptcy of the issuer or 6) recognized credit rating agency downgrades. Additionally, for ABS, cash flow trends and underlying levels of collateral are monitored.

Residential mortgage-backed securities (RMBS) are monitored and reviewed on a monthly basis. Detailed cash flow models using the current collateral pool and capital structure on the portfolio are performed quarterly. Model output is generated under a base and several stress-case scenarios. Aegon s RMBS asset specialists utilize industry modeling software to perform a loan-by-loan, bottom-up approach to modeling. Key assumptions used in the models are projected defaults, loss severities, and prepayments. Each of these key assumptions varies greatly based on the significantly diverse characteristics of the current collateral pool for each security. Loan-to-value, loan size, and borrower credit history are some of the key characteristics used to determine the level of assumption that is utilized.

Defaults were estimated by identifying the loans that are in various delinquency buckets and defaulting a certain percentage of them over the near-term and long-term. Assumed defaults on delinquent loans are dependent on the specific security s collateral attributes and historical performance. Loss severity assumptions were determined by obtaining historical rates from broader market data and by adjusting those rates for vintage, specific pool performance, collateral type, mortgage insurance and estimated loan modifications. Prepayments were estimated by examining historical averages of prepayment activity on the underlying collateral. Once the entire pool is modeled, the results are analyzed by internal asset specialists to determine whether or not a particular tranche or holding is at risk for not collecting all contractual cash flows taking into account the seniority and other terms of the tranches held. Aegon will impair its particular tranche to fair value where it would not be able to receive all contractual cash flows.

Commercial mortgage-backed securities (CMBS) are monitored and reviewed on a monthly basis. Detailed cash flow models using the current collateral pool and capital structure on the portfolio are performed quarterly. Model output is generated under base and several stress-case scenarios by Aegon s CMBS asset specialists. For conduit securities, a widely recognized industry modeling software is used to perform a loan-by-loan, bottom-up approach to modeling. For non-conduit securities, a CMBS asset specialist works closely with Aegon s real estate valuation group to determine underlying asset valuation and risk. Both methodologies incorporate external estimates on the property market, capital markets, property cash flows, and loan structure. Results are then closely analyzed by the asset specialist to determine whether or not a principal or interest loss is expected to occur. Aegon will impair a particular tranche to fair value where it would not be able to receive all contractual cash flows.

Other ABS securities are monitored and reviewed on a monthly basis. Where ratings have declined to below investment grade, the individual debt securities have been modeled. Results are then closely analyzed by the asset specialist to determine whether or not a principal or interest loss is expected to occur. Aegon will impair its particular tranche to fair value where it would not be able to receive all contractual cash flows.

Shares

Objective evidence of impairment of an investment in an equity instrument classified as available-for-sale includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. Significant or prolonged decline is defined as an unrealized loss position for more than 6 months or a fair value of less than 80% of the original cost price of the investment. Additionally, as part of an ongoing process, the equity analysts actively monitor earnings releases, company fundamentals, new developments and industry trends for any signs of possible impairment. If an available-for-sale equity security is impaired based upon Aegon s qualitative or quantitative impairment criteria, any further declines in the fair value at subsequent reporting dates are recognized as impairments. Therefore, at each reporting period, for an equity security that is

determined to be impaired based upon Aegon s impairment criteria, an impairment is recognized for the difference between the fair value and the original cost basis, less any previously recognized impairments.

Goodwill

Goodwill is reviewed and tested for impairment under a fair value approach. Goodwill must be tested for impairment at least annually or more frequently as a result of an event or change in circumstances that would indicate an impairment charge may be necessary. The recoverable amount is the higher of the value in use and fair value less costs to sell for a cash-generating unit. Impairment testing requires the determination of the value in use or fair value less costs for each of Aegon s identified cash generating units.

The valuation utilized the best available information, including assumptions and projections considered reasonable and supportable by management. The assumptions used in the valuation involve significant judgments and estimates. Refer to note 21 for more details.

Valuation of defined benefit plans

The liabilities or assets recognized in the statement of financial position in respect of defined benefit plans is the difference between the present value of the projected defined benefit obligation at the balance sheet date and the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity that approximate the terms of the related pension liability. Actuarial assumptions used in the measurement of the liability include the discount rate, the expected return on plan assets, estimated future salary increases and estimated future pension increases. To the extent that actual experience deviates from these assumptions, the valuation of defined benefit plans and the level of pension expenses recognized in the future may be affected.

Recognition of deferred tax assets

Deferred tax assets are established for the tax benefit related to deductible temporary differences, carry forwards of unused tax losses and carry forwards of unused tax credits when in the judgment of management it is more likely than not that Aegon will receive the tax benefits. Since there is no absolute assurance that these assets will ultimately be realized, management reviews Aegon s deferred tax positions periodically to determine if it is more likely than not that the assets will be realized. Periodic reviews include, among other things, the nature and amount of the taxable income and deductible expenses, the expected timing when certain assets will be used or liabilities will be required to be reported and the reliability of historical profitability of businesses expected to provide future earnings. Furthermore, management considers tax-planning strategies it can utilize to increase the likelihood that the tax assets will be realized. These strategies are also considered in the periodic reviews.

Recognition of provisions

Provisions are established for contingent liabilities when it is probable that a past event has given rise to a present obligation or loss, the settlement of the obligation will probably lead to an outflow of resources embodying economic benefits and the amount can be reasonably estimated. Management exercises judgment in evaluating the probability that a loss will be incurred. The estimate of the amount of a loss requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure.

4 Financial and insurance risks

General

As an insurance company, Aegon is in the business of risk and as a result is exposed to a variety of risks. A description of Aegon s risk management and control systems is given below on the basis of significant identified risks for the company. Some risks, such as currency translation risk, are related to the international nature of Aegon s business. Other risks include insurance related risks, such as changes in mortality and morbidity. However, Aegon s largest exposures are to changes in financial markets (e.g. interest rate, credit and equity market risks) that affect the value of the investments, liabilities from products that Aegon sells, deferred expenses and value of business acquired.

Aegon manages risk at local level where business is transacted, based on principles and policies established at the Group level. Aegon s integrated approach to risk management involves common measurement of risk and scope of risk coverage to allow for aggregation of the Group s risk position.

To manage its risk exposure, Aegon has risk policies in place. Many of these policies are group-wide while others are specific to the unique situation of local businesses. The Group level policies limit the Group s exposure to major risks such as equity, interest rates,

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credit and currency. The limits in these policies in aggregate remain within the Group s overall tolerance for risk and the Group s financial resources. Operating within this policy framework, Aegon employs risk management programs including asset liability management (ALM) processes and models, hedging programs (which are largely conducted via the use of derivatives) and insurance programs (which are largely conducted through the use of reinsurance). These risk management programs are in place in each country unit and are not only used to manage risk in each unit, but are also part of the Group s overall risk management.

Aegon operates a Derivative Use Policy and a Reinsurance Use Policy to govern its usage of derivatives and reinsurance. These policies establish the control, authorization, execution and monitoring requirements of the usage of such instruments. In addition, these policies stipulate necessary mitigation of credit risk created through these derivatives and reinsurance risk management tools. For derivatives, credit risk is normally mitigated by requirements to post collateral via credit support annex agreements. For reinsurance, credit risk is normally mitigated by downgrade triggers allowing Aegon s recapture of business, funds withheld by treaties (when Aegon owns the assets) and assets held in trust for the benefit of Aegon (in the event of reinsurer insolvency).

As part of its risk management programs, Aegon takes inventory of its current risk position across risk categories. Aegon also measures the sensitivity of net income and shareholders equity under both deterministic and stochastic scenarios. Management uses the insight gained through these what if? scenarios to manage the Group s risk exposure and capital position. The models, scenarios and assumptions used are reviewed regularly and updated as necessary.

Results of Aegon s sensitivity analyses are presented throughout this section to show the estimated sensitivity of net income and shareholders equity to various scenarios. For each type of market risk, the analysis shows how net income and shareholders equity would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date. For each sensitivity test the impact of a reasonably possible change in a single factor is shown. The analysis considers the interdependency between interest rates and lapse behavior for products sold in the Americas where there is clear evidence of dynamic lapse behavior. Management action is taken into account to the extent that it is part of Aegon s regular policies and procedures, such as established hedging programs. However, incidental management actions that would require a change in policies and procedures are not considered.

Each sensitivity analysis reflects the extent to which the shock tested would affect management s critical accounting estimates and judgment in applying Aegon s accounting policies. Market-consistent assumptions underlying the measurement of non-listed assets and liabilities are adjusted to reflect the shock tested. The shock may also affect the measurement of assets and liabilities based on assumptions that are not observable in the market. For example, a shock in interest rates may lead to changes in the amortization schedule of DPAC or to increased impairment losses on equity investments. Although management s short-term assumptions may change if there is a reasonably possible change in a risk factor, long-term assumptions will generally not be revised unless there is evidence that the movement is permanent. This fact is reflected in the sensitivity analyses provided below.

The accounting mismatch inherent in IFRS is also apparent in the reported sensitivities. A change in interest rates has an immediate impact on the carrying amount of assets measured at fair value. However, the shock will not have a similar effect on the carrying amount of the related insurance liabilities that are measured based on prudent assumptions or on management s long-term expectations. Consequently, the different measurement bases for assets and liabilities lead to increased volatility in IFRS net income and shareholders equity. Aegon has classified a significant part of its investment portfolio as available-for-sale , which is one of the main reasons why the economic shocks tested have a different impact on net income than on shareholders equity. Unrealized gains and losses on these assets are not recognized in the income statement but are booked directly to the revaluation reserves in shareholders equity, unless impaired. As a result, economic sensitivities predominantly impact shareholders equity but leave net income unaffected. The effect of movements of the revaluation reserve on capitalization ratios and capital adequacy are minimal. Aegon s target ratio for the composition of its capital base is based on shareholders equity excluding the revaluation reserve.

The sensitivities do not reflect what the net income for the period would have been if risk variables had been different because the analysis is based on the exposures in existence at the reporting date rather than on those that actually occurred during the year. Nor are the results of the sensitivities intended to be an accurate prediction of Aegon s future shareholders equity or earnings. The analysis does not take into account the impact of future new business, which is an important component of Aegon s future earnings. It also does not consider all methods available to management to respond to changes in the financial environment, such as changing investment portfolio allocations or adjusting premiums and crediting rates. Furthermore, the results of the analyses cannot be extrapolated for wider variations since effects do not tend to be linear. No risk management process can clearly predict future results.

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Currency exchange rate risk

As an international group, Aegon is subject to foreign currency translation risk. Foreign currency exposure exists when policies are denominated in currencies other than the issuer s functional currency. Currency risk in the investment portfolios backing insurance and investment liabilities is managed using asset liability matching principles. Assets allocated to equity are kept in local currencies to the extent shareholders equity is required to satisfy regulatory and self-imposed capital requirements. Therefore, currency exchange rate fluctuations will affect the level of shareholders equity as a result of translation of subsidiaries into euro, the Group s presentation currency. Aegon holds the remainder of its capital base (perpetual capital securities, subordinated and senior debt) in various currencies in amounts that are targeted to correspond to the book value of the country units. This balancing mitigates currency translation impacts on shareholders equity and leverage ratios. Aegon does not hedge the income streams from the main non-euro units and, as a result, earnings may fluctuate due to currency translation. As Aegon has significant business segments in the Americas and in the United Kingdom, the principal sources of exposure from currency fluctuations are from the differences between the US dollar and the euro and between the UK pound and the euro. Aegon may experience significant changes in net income and shareholders equity because of these fluctuations.

Aegon operates a Currency Risk Policy which applies currency risk exposure limits both at Group and regional levels, and under which direct currency speculation or program trading by country units is not allowed unless explicit approval has been granted by the Group Risk and Capital Committee. Assets should be held in the functional currency of the business written or hedged back to that currency. Where this is not possible or practical, remaining currency exposure should be sufficiently documented and limits are placed on the total exposure at both group level and for individual country units.

Information on Aegon s 3-year historical net income / (loss) and shareholders equity in functional currency are shown in the table below:

	2012	2011	2010
Net income			
Americas (in USD)	1,316	895	1,458
The Netherlands (in EUR)	252	419	711
United Kingdom (in GBP)	137	(45)	72
New markets (in EUR)	249	111	118
Equity in functional currency			
Americas (in USD)	23,892	22,750	21,208
The Netherlands (in EUR)	5,355	4,210	4,080
United Kingdom (in GBP)	3,460	2,947	2,469
New markets (in EUR)	2,451	2,320	2,067

The exchange rates for US dollar and UK pound per euro for each of the last five year-ends are set forth in the table below:

Closing rates	2012	2011	2010	2009	2008
USD	1.32	1.30	1.34	1.44	1.39
GBP	0.81	0.84	0.86	0.89	0.95

Aegon Group companies foreign currency exposure from monetary assets and liabilities denominated in foreign currencies is not material.

The estimated approximate effects on net income and shareholders equity of movements in the exchange rates of Aegon s non-euro currencies relative to the euro as included in the table below are due to the translation of subsidiaries and joint-ventures in the consolidated financial statements.

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Sensitivity analysis of net income and shareholders equity to translation risk

Movement of markets [1)]	Estimated approximate effects on net income	Estimated approximate effects on shareholders equity
2012		
Increase by 15% of non-euro currencies relative to the euro	193	2,621
Decrease by 15% of non-euro currencies relative to the euro	(193)	(2,621)
2011		
Increase by 15% of non-euro currencies relative to the euro	77	3,079
Decrease by 15% of non-euro currencies relative to the euro	(77)	(3,079)

[1] The effect of currency exchange movements is reflected as a one-time shift up or down in the value of the non-euro currencies relative to the euro on December 31.

Interest rate risk

Aegon bears interest rate risk with many of its products. In cases where cash flows are highly predictable, investing in assets that closely match the cash flow profile of the liabilities can offset this risk. For some Aegon country units, local capital markets are not well developed, which prevents the complete matching of assets and liabilities for those businesses. For some products, cash flows are less predictable as a result of policyholder actions that can be affected by the level of interest rates.

In periods of rapidly increasing interest rates, policy loans, surrenders and withdrawals may and usually do increase. Premiums in flexible premium policies may decrease as policyholders seek investments with higher perceived returns. This activity may result in cash payments by Aegon requiring the sale of invested assets at a time when the prices of those assets are adversely affected by the increase in market interest rates; this may result in realized investment losses. These cash payments to policyholders result in a decrease in total invested assets and a decrease in net income. Among other things, early withdrawals may also require accelerated amortization of DPAC, which in turn reduces net income.

During periods of sustained low interest rates, Aegon may not be able to preserve margins as a result of minimum interest rate guarantees and minimum guaranteed crediting rates provided on policies. Also, investment earnings may be lower because the interest earnings on new fixed-income investments are likely to have declined with the market interest rates. Mortgages and redeemable bonds in the investment portfolio are more likely to be repaid as borrowers seek to borrow at lower interest rates and Aegon may be required to reinvest the proceeds in securities bearing lower interest rates. Accordingly, net income declines as a result of a decrease in the spread between returns on the investment portfolio and the interest rates either credited to policyholders or assumed in reserves.

Aegon manages interest rate risk closely taking into account all of the complexity regarding policyholder behavior and management action. Aegon employs sophisticated interest rate measurement techniques and actively uses derivatives and other risk mitigation tools to closely manage its interest rate risk exposure. Aegon operates an Interest Rate Risk policy that limits the amount of interest rate risk to which the Group is exposed. All derivative use is governed by Aegon s Derivative Use Policy.

The following table shows interest rates at the end of each of the last five years.

	2012	2011	2010	2009	2008
3-month US LIBOR	0.31%	0.58%	0.30%	0.25%	1.42%
3-month EURIBOR	0.19%	1.36%	1.01%	0.70%	2.89%
10-year US Treasury	1.76%	1.88%	3.29%	3.83%	2.22%

10-year Dutch government	1.50%	2.19%	3.15%	3.56%	3.54%

The sensitivity analysis in the table below shows an estimate of the effect of a parallel shift in the yield curves on net income and shareholders equity. In general, increases in interest rates have a negative effect on shareholders equity and a positive impact on net income in the current year because it results in unrealized losses on investments that are carried at fair value. The rising interest rates would also cause the fair value of the available-for-sale bond portfolio to decline and the level of unrealized gains would become too low to support recoverability of the full deferred tax asset triggering an allowance charge to income. The offsetting economic gain on the insurance and investment contracts is however not fully reflected in the sensitivities because many of these liabilities are not

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measured at fair value. Over time, the short-term reduction in net income due to rising interest rates would be offset by higher net income in later years, all else being equal. Therefore, rising interest rates are not considered a long-term risk to the Group.

The sensitivity analysis reflects the assets and liabilities held at year end. This does not necessarily reflect the risk exposure during the year as significant events do not necessarily occur on January 1.

Parallel Movement of Yield Curve	Estimated approximate effects on net income	Estimated approximate effects on shareholders equity
2012		
Shift up 100 basis points	285	(4,143)
Shift down 100 basis points	(271)	3,598
2011		
Shift up 100 basis points	77	(3,714)
Shift down 100 basis points	(55)	3,435

Credit risk

As premiums and deposits are received, these funds are invested to pay for future policyholder obligations. For general account products, Aegon typically bears the risk for investment performance equaling the return of principal and interest. Aegon is exposed to credit risk on its general account fixed-income portfolio (debt securities, mortgages and private placements), OTC derivatives and reinsurance contracts. Some issuers have defaulted on their financial obligations for various reasons, including bankruptcy, lack of liquidity, downturns in the economy, downturns in real estate values, operational failure and fraud. During the financial crisis, Aegon incurred significant investment impairments on Aegon s investment assets due to defaults and overall declines in the capital markets. Further excessive defaults or other reductions in the value of these securities and loans could have a materially adverse effect on Aegon s business, results of operations and financial condition.

The table that follows shows the Group s maximum exposure to credit risk from investments in general account financial assets, as well as general account derivatives and reinsurance assets, collateral held and net exposure. Please refer to note 49 and note 50 for further information on capital commitments and contingencies, and on collateral given, which may expose the Group to credit risk.

2012	Maximum exposure to credit risk	Cash	Securities	Letters of credit guarantees	Real estate property	Master netting agreements	Other	Total collateral	Surplus collateral (collateralization)	Net exposure
Shares	1,899	-	-	-	-	-	-	-	-	1,899
Debt securities - carried at fair value	97,819	-	-	822	-	-	-	822	-	96,997
Debt securities - carried at amortized cost	189	-	9	-	-	-	-	9	-	180
Money market and other short-term investments - carried at fair value	9,797	-	718	-	-	-	-	718	17	9,096
Mortgage loans - carried at amortized cost	27,077	1,450	-	1,567	35,806	-	2	38,825	12,707	959
Private loans - carried at amortized cost	1,013	-	-	-	-	-	-	-	-	1,013

Other loans - carried at amortized cost	2,490	-	-	-	-	-	2,073	2,073	1,324	1,741
Other financial assets - carried at fair value	3,219	-	1	-	-	-	-	1	-	3,218
Derivatives	20,844	5,242	655	-	-	14,599	-	20,496	121	469
Reinsurance assets	11,891	-	6,516	201	-	-	-	6,717	-	5,174
At December 31	**176,238**	**6,692**	**7,899**	**2,590**	**35,806**	**14,599**	**2,075**	**69,661**	**14,169**	**120,746**

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2011	Maximum exposure to credit risk	Cash	Securities	Letters of credit guarantees	Real estate property	Master netting agreements	Other	Total collateral	Surplus collateral (over collateralization)	Net exposure
Shares	1,837	-	-	-	-	-	-	-	-	1,837
Debt securities - carried at fair value	96,251	-	-	1,009	-	-	-	1,009	-	95,242
Debt securities - carried at amortized cost	168	-	-	-	-	-	-	-	-	168
Money market and other short-term investments - carried at fair value	10,472	-	1,345	-	-	-	-	1,345	28	9,155
Mortgage loans - carried at amortized cost	26,012	1,146	-	1,187	36,027	-	1	38,361	13,117	768
Private loans - carried at amortized cost	927	-	-	-	-	-	-	-	-	927
Other loans - carried at amortized cost	2,797	-	-	-	-	-	2,160	2,160	972	1,609
Other financial assets - carried at fair value	2,831	-	1	-	-	-	-	1	-	2,830
Derivatives	14,791	4,439	514	-	-	9,873	-	14,826	190	155
Reinsurance assets	11,439	-	5,549	232	-	-	-	5,781	-	5,658
At December 31	**167,525**	**5,585**	**7,409**	**2,428**	**36,027**	**9,873**	**2,161**	**63,483**	**14,307**	**118,349**

Shares

Further information on equity risk is provided in section equity market and other investment risk .

Debt securities

Several bonds in Aegon USA s portfolio are insured by monoline insurers. Further information on the monoline insurers is provided in section Additional information on credit risk, unrealized losses and impairments .

Collateral for structured securities such as ABS, RMBS and CMBS is not included in the table above. Whilst collateral for structured securities is present, the collateral is however related to the cash flows for paying the principal and interest on the securities and not to mitigate credit risk. The credit risk management relating to structured securities is disclosed in the credit risk concentrations section of this note.

Money market and short term investments

The collateral reported for the money market and short term investments are related to tri-party repurchase agreements (repo s). Within tri-party repo s Aegon invests under short term reverse repurchase agreements and the counterparty posts collateral to a third party custodian. The collateral posted is typically high-quality short term securities and is only accessible to Aegon in the event the counterparty defaults.

Mortgage loans

The real estate collateral for mortgages includes both residential and commercial properties. The collateral for commercial mortgage loans in Aegon Americas is measured at fair value. At a minimum, on an annual basis, a fair value is estimated for each individual real estate property that has been pledged as collateral. When a loan is originally provided, an external appraisal is obtained to estimate the value of the property. In subsequent years, the value is typically estimated internally using various professionally accepted valuation methodologies. Internal appraisals are performed by qualified, professionally accredited personnel. International valuation standards are used and the most significant assumptions made during the valuation of real estate are the current cost of reproducing or

replacing the property, the value that the property s net earning power will support, and the value indicated by recent sales of comparable properties. Valuations are primarily supported by market evidence. For Aegon The Netherlands collateral for the residential mortgages is measured as the foreclosure value which is indexed periodically.

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Cash collateral for mortgage loans includes the savings that have been received to redeem the underlying mortgage loans at redemption date. These savings are part of the credit side of the statement of financial position, but reduce the credit risk for the mortgage loan as a whole.

Guarantees that have been received regarding mortgage loans that fulfill certain criteria of the Dutch Mortgage loan Guarantee (NHG) are presented in the letters of credit/guarantees column. These specific mortgage loans are partly guaranteed by a Dutch Government Trust (Stichting Waarborgfonds Eigen Woningen). The guarantee encompasses the remaining debt for these mortgage loans (being the remainder of the mortgage loan minus the forced sale auction value).

Derivatives

The master netting agreements column in the table relates to derivative liability positions which are used in Aegon s credit risk management. The offset in the master netting agreements column includes balances where there is a legally enforceable right of offset, but no intention to settle these balances on a net basis under normal circumstances. As a result, there is a net exposure for credit risk management purposes. However, as there is no intention to settle these balances on a net basis, they do not qualify for net presentation for accounting purposes.

Reinsurance assets

The collateral related to the reinsurance assets include assets in trust that are held by the reinsurer for the benefit of Aegon. The assets in trust can be accessed to pay policyholder benefits in the event the reinsurers fail to perform under the terms of their contract. Further information on the related reinsurance transactions is included in note 26.

Other loans

The collateral included in the other column represents the policyholders account value for policy loans. The excess of the account value over the loan value is included in the surplus collateral column. For further information on the policy loans refer to note 22.1.

The total collateral includes both under- and over-collateralized positions. To present a net exposure of credit risk, the over collateralization, which is shown in the surplus collateral column, is extracted from the total collateral.

CDOs and CDSs

Aegon has entered into free-standing credit derivative transactions (Single Tranche Synthetic CDOs and Single Name Credit Default Swaps - CDSs). The positions outstanding at the end of the year were:

	2012		2011	
CDOs and CDSs	**Notional**	**Fair value**	Notional	Fair value
Synthetic CDOs	58	19	39	(2)
CDSs	2,174	12	3,861	(25)
Total	**2,232**	**31**	**3,900**	**(27)**

	2012		2011	
Credit derivative disclosure by quality	**Notional**	**Fair value**	Notional	Fair value
AAA	93	1	1	-
AA	269	2	205	(1)
A	763	19	938	(11)
BBB	966	(2)	624	(5)
BB	126	10	60	(1)
B	10	1	8	-
CCC	-	-	2	-
CC	-	-	2	-
Not rated	5	-	16	-
	2,232	**31**	**1,856**	**(18)**
Canadian credit derivatives	-	-	2,044	(9)

Total	**2,232**	**31**	**3,900**	**(27)**

Certain derivatives are used to add risk by selling protection in the form of single name credit default swaps and tranches of synthetic collateralized debt obligations. The table above provides a breakdown to credit quality of these credit derivatives. Refer to note 24 for more details.

In 2012, the swaps linked to collateralized debt obligations (Canadian credit derivatives), with a notional amount of EUR 2.0 billion at December 31, 2011, were unwound.

Credit risk management

Aegon manages credit risk exposure by individual counterparty, sector and asset class, including cash positions. Normally, Aegon mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and in ISDA master netting agreements for each of Aegon s legal entities to facilitate Aegon s right to offset credit risk exposure. Main counterparties to these transactions are investment banks which are typically rated A or higher. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aegon or its counterparty. Transactions requiring Aegon or its counterparty to post collateral are typically the result of OTC derivative trades, comprised mostly of interest rate swaps, currency swaps, and credit swaps. Collateral received is mainly cash (USD and EUR). The Credit Support Agreements that outline the acceptable collateral require high quality instruments to be posted. In 2012 and 2011, Aegon did not take possession of collateral or call on other credit enhancements. The credit risk associated with financial assets subject to a master netting agreement is eliminated only to the extent that financial liabilities due to the same counterparty will be settled after the assets are realized.

The extent to which the exposure to credit risk is reduced through a master netting agreement may change substantially within a short period of time because the exposure is affected by each transaction subject to the arrangement. Aegon may also mitigate credit risk in reinsurance contracts by including down-grade clauses that allow the recapture of business, retaining ownership of assets required to support liabilities ceded or by requiring the reinsurer to hold assets in trust. For the resulting net credit risk exposure, Aegon employs deterministic and stochastic credit risk modeling in order to assess the Group s credit risk profile, associated earnings and capital implications due to various credit loss scenarios.

Aegon operates a Credit Name Limit Policy under which limits are placed on the aggregate exposure that it has to any one counterparty. Limits are placed on the exposure at both group level and individual country units. The limits also vary by a rating system, which is a composite of the main rating agencies (S&P, Moody s and Fitch) and Aegon s internal rating of the counterparty. If an exposure exceeds the stated limit, then the exposure must be reduced to the limit for the country unit and rating category as soon as possible. Exceptions to these limits can only be made after explicit approval from Aegon s Group Risk and Capital Committee (GRCC). The policy is reviewed regularly.

At December 31, 2012, there were four violations of the Credit Name Limit Policy at Group level, three received exemptions from Aegon s GRCC and one from the US RCC. Two violations were casued by downgrades. Exposures to these names are being reduced. At December 31, 2011, there were two violations of the Credit Name Limit Policy at Group level. One was granted an exemption from Aegon s GRCC. The second one was a minor violation resulting from exchange rate movements.

At December 31, 2012, Aegon s largest credit exposures are to Austria, France, HSBC, JP Morgan and Rabobank. Aegon had large investments in sovereign backed assets, the largest being in Germany, the Netherlands, USA, UK and Austria. Highly rated sovereign assets (AAA rated) and domestically issued and owned in local currency sovereign exposures are excluded from the Credit Name Limit Policy.

Aegon Group level long-term counterparty exposure limits at the end of 2012 (unchanged compared to 2011) are as follows:

Amounts in EUR million	Group Limit
AAA	900
AA	900
A	600
BBB	400
BB	250
B	125
CCC or lower	50

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Credit rating

The ratings distribution of general account portfolios of Aegon s major country units, excluding reinsurance assets, are presented in the table that follows, organized by rating category and split by assets that are valued at fair value and assets that are valued at amortized cost. Disclosure of ratings follows a hierarchy of S&P, Moody s, Fitch, Internal and National Association of Insurance Commissioners (NAIC).

	Americas		The Netherlands		United Kingdom		New Markets		Total 2012 [1]		
Credit rating general account investments, excluding reinsurance assets 2012	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	**Amortized cost**	**Fair value**	**Total carrying value**
Sovereign exposure	-	6,551	26	8,537	-	2,730	-	112	26	17,930	17,956
AAA	879	7,878	478	985	-	198	-	168	1,357	9,988	11,345
AA	3,431	9,124	206	4,077	-	2,189	-	478	3,637	15,868	19,505
A	1,662	26,841	127	3,280	-	3,880	90	1,030	1,879	35,048	36,927
BBB	408	18,402	70	2,026	-	2,057	85	1,439	563	23,924	24,487
BB	232	2,145	11	192	-	160	7	434	249	2,931	3,180
B	9	1,318	4	135	-	27	3	42	15	1,522	1,537
CCC or lower	8	883	-	15	-	10	-	16	8	924	932
Assets not rated	2,109	4,257	19,580	18,726	5	64	537	199	22,231	23,633	45,864
Total	**8,738**	**77,399**	**20,502**	**37,973**	**5**	**11,315**	**722**	**3,918**	**29,965**	**131,768**	**161,733**
Past due and / or impaired assets	172	1,506	522	266	-	30	161	7	856	1,810	2,666
At December 31	**8,910**	**78,905**	**21,024**	**38,239**	**5**	**11,345**	**883**	**3,925**	**30,821**	**133,578**	**164,399**

[1] Includes investments of Holding and other activities.

	Americas		The Netherlands		United Kingdom		New Markets		Total 2011 [1]		
Credit rating general account investments, excluding reinsurance assets 2011	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Total carrying value
Sovereign exposure	-	6,430	89	9,085	-	2,632	-	172	89	18,320	18,409
AAA	718	10,014	379	1,612	-	150	-	246	1,097	12,765	13,862
AA	3,505	9,337	359	1,883	-	1,756	56	1,245	3,920	14,219	18,139
A	2,478	26,382	178	3,185	-	3,557	36	1,011	2,692	34,152	36,844
BBB	797	18,930	72	1,642	-	1,639	44	689	913	22,910	23,823
BB	283	2,088	20	189	-	109	11	409	314	2,794	3,108
B	4	1,050	6	7	-	24	3	26	13	1,106	1,119
CCC or lower	7	554	-	24	-	-	-	16	7	594	601

Assets not rated	2,177	4,555	17,356	12,591	8	55	492	178	20,033	17,635	37,668
Total	**9,969**	**79,340**	**18,459**	**30,218**	**8**	**9,922**	**642**	**3,991**	**29,078**	**124,495**	**153,573**
Past due and / or impaired assets	291	1,426	367	227	-	24	169	(9)	827	1,686	2,513
At December 31	**10,260**	**80,766**	**18,826**	**30,445**	**8**	**9,946**	**811**	**4,000**	**29,905**	**126,181**	**156,086**

[1] Includes investments of Holding and other activities.

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The following table shows the credit quality of the gross positions in the statement of financial position for general account reinsurance assets specifically:

	Carrying value 2012	Carrying value 2011
AAA	6	5
AA	3,970	7,891
A	5,546	2,213
Below A	1,895	43
Not rated	474	1,287
At December 31	**11,891**	**11,439**

Credit risk concentration

The tables that follow present specific credit risk concentration information for general account financial assets.

Credit risk concentrations debt securities and money market investments 2012	Americas	The Netherlands	United Kingdom	New Markets	Total 2012 [1]	Of which past due and / or impaired assets
Residential mortgage backed securities (RMBSs)	5,079	1,141	639	323	7,183	1,232
Commercial mortgage backed securities (CMBSs)	5,227	9	438	147	5,821	65
Asset Backed Securities (ABSs) - CDOs backed by ABS, Corp. Bonds, Bank loans	507	781	-	-	1,287	18
ABSs Other	2,476	322	1,055	61	3,915	61
Financial - Banking	5,103	1,812	1,671	418	9,743	27
Financial - Other	13,086	235	1,453	258	15,051	8
Industrial	25,986	2,822	2,180	1,055	32,042	25
Utility	5,403	610	878	248	7,138	3
Sovereign exposure	9,611	11,523	2,966	1,522	25,625	-
At December 31	**72,478**	**19,255**	**11,280**	**4,032**	**107,805**	**1,439**

[1] Includes investments of Holding and other activities.

Credit risk concentrations mortgage loans	Americas	The Netherlands	United Kingdom	New Markets	Total 2012 [1]	Of which past due and / or impaired assets
Agricultural	261	-	-	-	261	30
Apartment	1,152	-	-	-	1,152	-
Industrial	1,095	-	-	-	1,095	46
Office	2,314	16	-	-	2,330	46

Retail	1,728	17	-	-	1,745	45
Other commercial	253	40	-	-	293	12
Residential	34	19,818	-	349	20,201	667
At December 31	**6,837**	**19,891**	**-**	**349**	**27,077**	**846**

[1] Includes investments of Holding and other activities.

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Credit risk concentrations debt securities and money market investments 2011	Americas	The Netherlands	United Kingdom	New Markets	Total 2011 [1)]	Of which past due and / or impaired assets
Residential mortgage backed securities (RMBSs)	5,031	1,300	527	302	7,160	1,127
Commercial mortgage backed securities (CMBSs)	5,964	2	384	137	6,487	4
Asset Backed Securities (ABSs) - CDOs backed by ABS, Corp. Bonds, Bank loans	633	732	-	-	1,365	23
ABSs Other	3,131	262	986	59	4,440	71
Financial - Banking	4,942	2,806	1,289	444	10,209	35
Financial - Other	13,744	289	1,151	264	15,463	28
Industrial	26,332	2,316	2,006	1,010	31,665	28
Utility	5,678	438	821	259	7,196	34
Sovereign exposure	9,096	9,495	2,726	1,589	22,906	-
At December 31	**74,551**	**17,640**	**9,890**	**4,064**	**106,891**	**1,350**

[1] Includes investments of Holding and other activities.

Credit risk concentrations mortgage loans	Americas	The Netherlands	United Kingdom	New Markets	Total 2011	Of which past due and / or impaired assets
Agricultural	352	-	-	-	352	66
Apartment	1,459	-	-	-	1,459	8
Industrial	1,372	-	-	-	1,372	38
Office	2,783	29	-	-	2,812	110
Retail	1,816	18	-	-	1,834	60
Other commercial	295	37	-	-	332	11
Residential	39	17,465	-	347	17,851	527
At December 31	**8,116**	**17,549**	**-**	**347**	**26,012**	**820**

The fair value of Aegon Americas commercial and agricultural mortgage loan portfolio as per December 31, 2012 amounts to EUR 7,317 million (2011: EUR 8,563 million). The loan to value (LTV) amounts to about 61% (2011: 64%). Of the portfolio 1.43% (2011: 2.37%) is in delinquency (defined as 60 days in arrears). In 2012, Aegon Americas recognized EUR 24 million impairments (net of recoveries) on this portfolio. In 2012, Aegon Americas foreclosed upon, or recovered EUR 83 million of real state. The 2012 additional recoveries associated with these loans at the time of foreclosure amounted to EUR 2 million (2011: impairment of EUR 4 million).

The fair value of Aegon The Netherlands mortgage loan portfolio as per December 31, 2012 amounts to EUR 24,114 million (2011: EUR 18,910 million). The LTV amounts to about 92% (2011: 94%). A significant part of the portfolio (53%; 2011: 54%) is government guaranteed. Of the portfolio, 2.4% (2011: 1.0%) is in delinquency (defined as 60 days in arrears). Impairments in 2012 amounted to EUR 16 million (2011: EUR 12 million). Historical defaults of the portfolio have been between 2 and 9 basis points per year.

Included in the debt securities and money market investments are EUR 189 million of assets that have been classified as held-to-maturity and are therefore carried at amortized cost (2011: EUR 168 million), of which EUR 31 million government bonds (2011: EUR 31 million) and EUR 158 million corporate exposure (2011: EUR 137 million).

Monoline insurers

About EUR 0.9 billion of the bonds in Aegon USA s portfolio are insured by monoline insurers (2011: EUR 1.1 billion), of which EUR 419 million of bonds (2011: EUR 516 million) in the EUR 1.2 billion subprime portfolio (2011: EUR 1.4 billion). Expected claims against the monolines amount to EUR 108 million (2011: EUR 120 million), although an insolvency by one of the monolines could create significant market price volatility for the affected holdings.

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The following table breaks down bonds in Aegon USA s portfolio that are insured by monoline insurers. The disclosure by rating follows a hierarchy of S&P, Moody s, Fitch, Internal and NAIC.

	2012		2011	
Bonds insured by monoline insurers	**Amortized cost**	**Fair value**	Amortized cost	Fair value
AAA	53	57	121	125
AA	224	208	274	233
< AA	615	541	752	614
At December 31	**892**	**806**	**1,147**	**972**

The rating that is provided by the rating agencies on these guaranteed bonds is the higher of the guarantor s rating or the rating of the underlying bond itself.

Of the EUR 892 million (2011: EUR 1,147 million) indirect exposure on the monoline insurers, 34% relates to MBIA, 27% to AMBAC, 7% to FGIC and 24% to FSA (2011: 34% related to MBIA, 25% to AMBAC, 10% to FGIC and 26% to FSA).

At the end of 2012, Aegon USA had no indirect exposure via wrapped bonds via holdings in monoline insurers and derivative counterparty exposure where monoline insurers are Aegon s counterparty (2011: EUR 8 million which was entirely related to MBIA).

Additional information on credit risk, unrealized losses and impairments

Debt instruments

The amortized cost and fair value of debt securities, money market investments and other, included in Aegon s available-for-sale (AFS) and held to maturity (HTM) portfolios, are as follows as of December 31:

2012	Amortized cost	Unrealized gains	Unrealized losses	**Total fair value**	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Debt securities						
United States Government	5,067	779	(9)	5,837	5,256	581
Dutch Government	3,483	448	(1)	3,930	3,729	200
Other Government	13,134	1,957	(50)	15,041	13,517	1,524
Mortgage backed securities	10,381	839	(326)	10,894	8,626	2,268
Asset backed securities	7,037	475	(440)	7,072	4,389	2,683
Corporate	47,864	6,455	(585)	53,734	48,584	5,151
Money market investments	8,713	-	-	8,713	8,713	-
Other	1,147	123	(56)	1,214	854	360
Total	**96,826**	**11,076**	**(1,467)**	**106,435**	**93,668**	**12,767**
Of which held by Aegon Americas, NL and UK	93,066	10,793	(1,397)	102,462	90,513	11,949

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2011	Amortized cost	Unrealized gains	Unrealized losses	Total fair value	Fair value of instruments with unrealized gains	Fair value of instruments with unrealized losses
Debt securities						
United States Government	5,046	765	(17)	5,794	4,669	1,125
Dutch Government	3,436	341	-	3,777	3,702	75
Other Government	11,241	1,606	(168)	12,679	10,496	2,183
Mortgage backed securities	11,756	526	(746)	11,536	7,885	3,651
Asset backed securities	8,006	339	(738)	7,607	3,520	4,087
Corporate	50,268	4,866	(1,637)	53,497	41,962	11,535
Money market investments	9,382	-	-	9,382	9,382	-
Other	929	48	(90)	887	368	519
Total	**100,064**	**8,491**	**(3,396)**	**105,159**	**81,984**	**23,175**
Of which held by Aegon Americas, NL and UK	96,086	8,288	(3,204)	101,170	79,800	21,370

Unrealized bond losses by sector

The composition by industry categories of debt securities and money market investments that are included in Aegon s available-for-sale and held to maturity portfolios in an unrealized loss position held by Aegon at December 31 is presented in the following table:

	December 31, 2012		December 31, 2011	
Unrealized losses - debt securities and money market investments	**Carrying value of instruments with unrealized losses**	**Gross unrealized losses**	Carrying value of instruments with unrealized losses	Gross unrealized losses
Residential mortgage backed securities (RMBSs)	2,121	(413)	3,084	(838)
Commercial mortgage backed securities (CMBSs)	857	(103)	1,616	(211)
Asset Backed Securities (ABSs) - CDOs backed by ABS, Corp. Bonds, Bank loans	993	(86)	1,277	(197)
ABSs - Other	980	(164)	1,765	(238)
Financial Industry - Banking	1,503	(336)	4,846	(896)
Financial Industry - Brokerage	21	(3)	73	(8)
Financial Industry - Insurance	573	(58)	1,011	(226)
Financial Industry - REITs	148	(5)	291	(12)
Financial Industry - Financial other	218	(28)	494	(84)
Industrial - Basic Industry	182	(6)	426	(23)
Industrial - Capital Goods	248	(14)	489	(44)
Industrial - Consumer cyclical	338	(20)	516	(55)
Industrial - Consumer non-cyclical	447	(17)	538	(28)
Industrial - Energy	200	(14)	353	(37)
Industrial - Technology	187	(8)	304	(15)
Industrial - Transportation	320	(23)	400	(39)
Industrial - Communications	242	(16)	822	(79)
Industrial - Industrial other	71	(9)	220	(32)
Utility - Electric	285	(17)	508	(48)
Utility - Natural gas	105	(5)	165	(6)
Utility - Utility other	2	-	21	(1)
Sovereign	2,371	(65)	3,437	(189)
Total	**12,412**	**(1,410)**	**22,656**	**(3,306)**

Of which held by Aegon Americas, NL and UK	11,590	(1,341)	20,851	(3,114)

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Unrealized losses - debt securities and money market investments held by Aegon Americas, Aegon The Netherlands and Aegon UK	December 31, 2012 Carrying value of instruments with unrealized losses	Gross unrealized losses	December 31, 2011 Carrying value of instruments with unrealized losses	Gross unrealized losses
Residential mortgage backed securities (RMBSs)	1,987	(397)	2,884	(805)
Commercial mortgage backed securities (CMBSs)	847	(102)	1,608	(210)
Asset Backed Securities (ABSs) - CDOs backed by ABS, Corp. Bonds, Bank loans	993	(86)	1,277	(197)
ABSs - Other	967	(162)	1,738	(235)
Financial Industry - Banking	1,414	(328)	4,588	(846)
Financial Industry - Brokerage	21	(3)	73	(8)
Financial Industry - Insurance	555	(58)	979	(222)
Financial Industry - REITs	148	(5)	284	(12)
Financial Industry - Financial other	175	(16)	415	(65)
Industrial - Basic Industry	179	(5)	413	(22)
Industrial - Capital Goods	240	(13)	484	(43)
Industrial - Consumer cyclical	332	(19)	502	(53)
Industrial - Consumer non-cyclical	425	(17)	521	(27)
Industrial - Energy	198	(14)	337	(36)
Industrial - Technology	187	(8)	297	(14)
Industrial - Transportation	304	(22)	392	(38)
Industrial - Communications	227	(14)	770	(72)
Industrial - Industrial other	51	(5)	184	(27)
Utility - Electric	278	(16)	463	(45)
Utility - Natural gas	97	(4)	161	(6)
Utility - Utility other	2	-	17	(1)
Sovereign	1,963	(47)	2,464	(130)
Total	**11,590**	**(1,341)**	**20,851**	**(3,114)**

The information presented above is subject to rapidly changing conditions. As such, Aegon expects the level of securities with overall unrealized losses to fluctuate. The recent volatility of financial market conditions has resulted in increased recognition of both investment gains and losses, as portfolio risks are adjusted through sales and purchases.

As of December 31, 2012, there are EUR 10,670 million of gross unrealized gains and EUR 1,341 million of gross unrealized losses in the AFS debt securities portfolio of Aegon Americas, Aegon The Netherlands and Aegon UK. No one issuer represents more than 4% of the total unrealized loss position. The largest single issuer unrealized loss is EUR 51 million and relates to Belfius Bank SA, a bank owned by the Belgian government which was created subsequent to the restructuring of Dexia SA.

Financial and credit market conditions were generally strong in the second half of 2012 after being mixed in the first half. Developed-world growth remains below potential, frustrating attempts to generate a strong recovery. The credit crisis that began as a result of the subprime mortgage loan crisis continues to evolve into concerns about governmental borrowing and debt levels across much of the world. European sovereign debt rallied significantly over the second half of the year as policy efforts to stabilize sovereign and banking credit have begun to get traction. High governmental debt levels remain a concern in the US, as well, including those of state and local governments. Most world equity markets performed well during the second half of 2012 and now show strong gains for the year. In the U.S., the Federal Reserve maintained a Fed Funds rate near zero. US Treasury rates remained in a relatively low yield range during the second half of 2012, reflecting concerns about future growth, strong Federal Reserve market intervention, and reduced market concern about inflation. Corporate default rates remained low in 2012 due largely to readily available access to funding and strong corporate balance sheet fundamentals. Commodity prices have been mixed in 2012 with energy prices generally low.

Impairment of financial assets

Aegon regularly monitors industry sectors and individual debt securities for indicators of impairment. These indicators may include one or more of the following: 1) deteriorating market to book ratio, 2) increasing industry risk factors, 3) deteriorating financial condition of the issuer, 4) covenant violations of the issuer, 5) high probability of bankruptcy of the issuer, or 6) nationally recognized credit rating agency downgrades. Additionally, for asset-backed securities, cash flow trends and underlying levels of collateral are monitored. A security is impaired if there is objective evidence that a loss event has occurred after the initial recognition of the asset that has a

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negative impact on the estimated future cash flows. A specific security is considered to be impaired when it is determined that not all amounts due (both principal and interest) will be collected as contractually scheduled.

In the sections below a description is provided on the composition of the categories of debt securities and money market investments. Individual issuers rated below investment grade in any sector, which have unrealized loss positions greater than EUR 25 million, will be disclosed separately. Furthermore, quality ratings of investment portfolios are based on a hierarchy of S&P, Moody s, Fitch, Internal and NAIC.

Residential mortgage-backed securities

Aegon Americas, Aegon The Netherlands and Aegon UK hold EUR 6,763 million of residential mortgage-backed securities (RMBS), of which EUR 4,979 million is held by Aegon USA, EUR 639 million by Aegon UK and EUR 1,141 million by Aegon The Netherlands. Residential mortgage-backed securities are securitizations of underlying pools of non-commercial mortgages on real estate. The underlying residential mortgages have varying credit characteristics and are pooled together and sold in tranches. The following table shows the breakdown of Aegon USA s RMBS available-for-sale portfolio. Additionally, Aegon USA has investments in RMBS of EUR 97 million (2011: EUR 133 million), which are classified as fair value through profit or loss.

AFS RMBS by quality	AAA	AA	A	BBB	<BBB	**Total amortized cost**	**Total fair value**
GSE guaranteed	-	1,336	193	-	-	1,529	1,632
Prime Jumbo	10	11	3	14	252	290	290
Alt-A	18	43	-	10	571	642	735
Negative Amortization Floaters	-	36	18	44	728	826	858
Reverse Mortgage RMBS	-	-	-	222	77	299	213
Subprime mortgage [1)]	177	285	61	69	644	1,236	1,124
Manufactured housing [1)]	22	15	12	24	7	80	80
Other housing [1)]	46	-	-	-	-	46	47
At December 31, 2012	**273**	**1,726**	**287**	**383**	**2,279**	**4,948**	**4,979**
Of which insured	5	174	13	16	284	492	427

[1] Reported as part of asset backed securities in the table on page 187.

AFS RMBS by quality	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
GSE guaranteed	-	1,733	4	-	-	1,737	1,824
Prime Jumbo	63	11	8	10	248	340	318
Alt-A	27	-	-	11	541	579	577
Negative Amortization Floaters	136	17	43	29	680	905	621
Reverse Mortgage RMBS	-	4	-	242	89	335	262
Subprime mortgage [1)]	415	292	20	62	591	1,380	1,116
Manufactured housing [1)]	32	17	14	35	9	107	106
Other housing [1)]	70	-	-	-	-	70	69
At December 31, 2011	**743**	**2,074**	**89**	**389**	**2,158**	**5,453**	**4,893**
Of which insured	20	140	19	30	325	534	423

[1] Reported as part of asset backed securities in the table on page 188.

RMBS of Aegon USA are monitored and reviewed on a monthly basis. Detailed cash flow models using the current collateral pool and capital structure on the portfolio are updated and reviewed quarterly. Model output is generated under base and stress-case scenarios. Aegon s RMBS asset specialists utilize widely recognized industry modeling software to perform a loan-by-loan, bottom-up approach to modeling. Key assumptions used in the models are projected defaults, loss severities, and prepayments. Each of these key assumptions varies greatly based on the significantly diverse characteristics of the current collateral pool for each security. Loan-to-value, loan size, and borrower credit history are some of the key characteristics used to determine the level of assumption that is utilized. Defaults were estimated by identifying the loans that are in various delinquency buckets and defaulting a certain percentage

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of them over the near-term and long-term. Assumed defaults on delinquent loans are dependent on the specific security s collateral attributes and historical performance.

Loss severity assumptions were determined by obtaining historical rates from broader market data and by adjusting those rates for vintage, specific pool performance, collateral type, mortgage insurance and estimated loan modifications. Prepayments were estimated by examining historical averages of prepayment activity on the underlying collateral. Quantitative ranges of significant assumptions within Aegon s modeling process for Prime Jumbo, Alt-A and Negative Amortization RMBS are as follows: prepayment assumptions range from approximately 0.5% to 25% with a weighted average of approximately 4.8%, assumed defaults on delinquent loans range from 50% to 100% with a weighted average of approximately 84.6%, assumed defaults on current loans are dependent on the specific security s collateral attributes and historical performance, while loss severity assumptions range from approximately 13.9% to 75%, with a weighted average of approximately 54.3%. Additionally, quantitative ranges of significant assumptions within Aegon s modeling process for the RMBS subprime mortgage portfolio are as follows: prepayment assumptions range from approximately 2% to 6% with a weighted average of approximately 5.2%, assumed defaults on delinquent loans range from 60% to 100% with a weighted average of approximately 87.2%, assumed defaults on current loans are dependent on the specific security s collateral attributes and historical performance, while loss severity assumptions range from approximately 62% to 103%, with a weighted average of approximately 72.9%.

Once the entire pool is modeled, the results are closely analyzed by Aegon s asset specialists to determine whether or not Aegon s particular tranche or holding is at risk for not collecting all contractual cash flows taking into account the seniority and other terms of the tranches held. Aegon impaired its particular tranche to fair value where it would not be able to receive all contractual cash flows.

The total gross unrealized loss on AFS RMBS of Aegon Americas, Aegon The Netherlands and Aegon UK amount to EUR 397 million, of which EUR 351 million relates to positions of Aegon USA, and the total net unrealized gain on available-for-sale RMBS is EUR 157 million, including a EUR 31 million net unrealized gain relating to positions of Aegon USA. The unrealized loss in the sector is primarily a result of the housing downturn the United States has experienced since 2007. Even with the stabilization over the past two years, fundamentals in RMBS continue to be weak, which impacts the magnitude of the unrealized loss. Delinquencies and severities in property liquidations remain at an elevated level, while prepayments remain at historically low levels. Due to the weak fundamental situation, reduced liquidity, and the requirement for higher yields due to market uncertainty, credit spreads remain elevated across the asset class.

The fair values of Aegon USA s RMBS instruments were determined as follows:

	Level II	Level III	Total 2012	Level II	Level III	Total 2011
RMBS	4,730	349	5,079	4,504	515	5,019

RMBS Alt-A Mortgages

Aegon s RMBS portfolio includes exposure to securitized home loans classified as Alt-A, fully owned by Aegon USA. This AFS portfolio totals EUR 735 million at December 31, 2012, with net unrealized gains of EUR 93 million, compared to a net unrealized loss position at December 31, 2011. Alt-A loans are made to borrowers whose qualifying mortgage characteristics do not meet the standard underwriting criteria established by the GSEs. The typical Alt-A borrower has a credit score high enough to obtain an A standing, which is especially important since the score must compensate for the lack of other necessary documentation related to borrower income and/or assets.

RMBS Alt-A mortgages by quality	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
Vintage year							
2004 & Prior	18	4	-	8	10	40	42
2005	-	-	-	2	91	93	107
2006	-	-	-	-	210	210	255
2007	-	39	-	-	186	225	258
2008	-	-	-	-	74	74	73
At December 31, 2012	**18**	**43**	**-**	**10**	**571**	**642**	**735**

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RMBS Alt-A mortgages by quality	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
Vintage year							
2004 & Prior	27	-	-	9	12	48	49
2005	-	-	-	2	90	92	93
2006	-	-	-	-	122	122	123
2007	-	-	-	-	215	215	209
2008	-	-	-	-	102	102	103
At December 31, 2011	**27**	**-**	**-**	**11**	**541**	**579**	**577**

Negative Amortization (Option ARMs) Mortgages

As part of Aegon s RMBS portfolio, Aegon holds EUR 858 million of securitized negative amortization mortgages with net unrealized gains of EUR 32 million at December 31, 2012, fully owned by Aegon USA. Negative amortization mortgages (also known as Option ARMs) are loans whereby the payment made by the borrower may be less than the accrued interest due and the difference is added to the loan balance. When the accrued balance of the loan reaches the negative amortization limit (typically 110% to 125% of the original loan amount), the loan recalibrates to a fully amortizing level and a new minimum payment amount is determined. The homeowner s new minimum payment amount can be significantly higher than the original minimum payment amount. The timing of when these loans reach their negative amortization cap will vary, and is a function of the accrual rate on each loan, the minimum payment rate on each loan and the negative amortization limit itself. Typically, these loans are estimated to reach their negative amortization limit between 3 and 5 years from the date of origination.

Aegon USA s portfolio of securitized exposure to negative amortization mortgages is primarily invested in super-senior securities. The tables below summarize the credit quality and the vintage year of the available-for-sale negative amortization mortgages of Aegon USA. Additionally, Aegon USA has investments in RMBS negative amortization mortgages of EUR 0.2 million (2011: EUR 1 million), which are classified as fair value through profit or loss.

RMBS Negative amortization mortgages							
Vintage year	**AAA**	**AA**	**A**	**BBB**	**<BBB**	**Total amortized cost**	**Total fair value**
2004 & Prior	-	-	14	-	5	19	19
2005	-	35	4	44	240	323	294
2006	-	-	-	-	304	304	346
2007	-	-	-	-	179	179	198
2008	-	-	-	-	1	1	1
At December 31, 2012	**-**	**35**	**18**	**44**	**729**	**826**	**858**

RMBS Negative amortization mortgages							
Vintage year	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
2004 & Prior	-	-	16	-	6	22	15
2005	136	17	27	29	129	338	213
2006	-	-	-	-	337	337	242
2007	-	-	-	-	197	197	140
2008	-	-	-	-	11	11	11
At December 31, 2011	**136**	**17**	**43**	**29**	**680**	**905**	**621**

RMBS - Reverse Mortgages

As part of Aegon s AFS RMBS portfolio, Aegon holds EUR 213 million of securitized reverse mortgages, with net unrealized losses of EUR 86 million at December 31, 2012, fully owned by Aegon USA. Reverse mortgages are loans in which a senior homeowner borrows to release the equity available in his home. No repayment is required until the borrower dies or sells the home. At time of origination, the loan is structured so that the home value will exceed the loan amount at liquidation, taking into account the rate at which interest is accruing, expected home price movements, and the expected length of the loan.

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The table below summarizes vintage and quality of the AFS RMBS - reverse mortgages portfolio of Aegon USA.

RMBS Reverse Mortgages by quality							
Vintage year	AAA	AA	A	BBB	<BBB	**Total amortized cost**	**Total fair value**
2005 & Prior	-	-	-	-	77	77	59
2006	-	-	-	65	-	65	46
2007	-	-	-	157	-	157	108
At December 31, 2012	**-**	**-**	**-**	**222**	**77**	**299**	**213**

RMBS Reverse Mortgages by quality							
Vintage year	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
2005 & Prior	-	-	-	-	89	89	84
2006	-	-	-	74	-	74	56
2007	-	-	-	168	-	168	117
2011	-	4	-	-	-	4	5
At December 31, 2011	**-**	**4**	**-**	**242**	**89**	**335**	**262**

RMBS - Subprime Mortgages

As part of Aegon s AFS RMBS portfolio, Aegon holds EUR 1,124 million of securitized RMBS - Subprime mortgages, with net unrealized losses of EUR 112 million at December 31, 2012, fully owned by Aegon USA. RMBS - Subprime mortgages are secured by pools of residential mortgage loans primarily those which are categorized as subprime.

Aegon categorizes mortgage backed securities issued by a securitization trust as having subprime mortgage exposure when the average credit score (FICO) of the underlying mortgage borrowers in a securitization trust is below 660 at issuance. Aegon also categorizes mortgage backed securities issued by a securitization trust with second lien mortgages as subprime mortgage exposure, even though a significant percentage of second lien mortgage borrowers may not necessarily have credit scores below 660 at issuance. The table below summarizes vintage and quality of the AFS RMBS - Subprime mortgage portfolio of Aegon USA. Additionally, Aegon USA has investments in RMBS Subprime mortgages of EUR 4 million (2011: EUR 4 million), which are classified as fair value through profit or loss.

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The table below summarizes the comparative information on vintage and quality of the AFS RMBS - subprime mortgage portfolio of Aegon USA.

Vintage year	AAA	AA	A	BBB	<BBB	Total amortized cost	Of which insured	Total fair value
2004 & Prior	57	58	42	18	61	236	38	225
2005	25	30	4	-	106	165	-	153
2006	38	39	-	12	50	139	9	160
2007	28	118	-	-	41	187	85	197
2008	-	32	-	-	-	32	32	27
Total Sub-prime Mortgages- fixed rate	**148**	**277**	**46**	**30**	**258**	**759**	**164**	**762**
2004 & Prior	3	4	-	1	34	42	27	31
2005	3	-	3	26	22	54	-	48
2006	-	-	2	4	65	71	7	36
2007	-	-	-	-	83	83	18	54
2008	-	-	-	-	-	-	-	-
Total Sub-prime Mortgages- floating rate	**6**	**4**	**5**	**31**	**204**	**250**	**52**	**169**
2004 & Prior	23	2	5	8	6	44	19	40
2005	-	-	-	-	24	24	24	24
2006	-	-	5	-	50	55	55	55
2007	-	2	-	-	102	104	104	74
Total Second Lien Mortgages [1)]	**23**	**4**	**10**	**8**	**182**	**227**	**202**	**193**
At December 31, 2012	**177**	**285**	**61**	**69**	**644**	**1,236**	**418**	**1,124**

[1] Second lien collateral primarily composed of loans to prime and Alt-A borrowers.

Vintage year	AAA	AA	A	BBB	<BBB	Total amortized cost	Of which insured	Total fair value
2004 & Prior	216	52	6	8	32	314	55	288
2005	99	44	-	4	50	197	-	170
2006	18	42	-	-	50	110	11	99
2007	31	110	-	2	46	189	93	160
2008	-	34	-	-	-	34	34	27
Total Sub-prime Mortgages- fixed rate	**364**	**282**	**6**	**14**	**178**	**844**	**193**	**744**
2004 & Prior	3	4	-	1	38	46	30	32
2005	14	-	-	21	10	45	-	31
2006	2	-	-	2	69	73	7	26
2007	-	-	-	3	85	88	21	49
2008	-	-	-	-	-	-	-	-
Total Sub-prime Mortgages- floating rate	**19**	**4**	**-**	**27**	**202**	**252**	**58**	**138**
2004 & Prior	32	3	6	21	8	70	35	61
2005	-	-	-	-	30	30	30	29
2006	-	-	8	-	52	60	60	58
2007	-	3	-	-	121	124	124	86
Total Second Lien Mortgages [1)]	**32**	**6**	**14**	**21**	**211**	**284**	**249**	**234**

At December 31, 2011	**415**	**292**	**20**	**62**	**591**	**1,380**	**500**	**1,116**

[1] Second lien collateral primarily composed of loans to prime and Alt-A borrowers.

There is one individual issuer rated below investment grade in this RMBS sector which have unrealized loss position greater than EUR 25 million.

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	Category	Fair value	Unrealized Loss	Rating	Aging of unrealized Loss
Soundview Hm Eq Ln 2006-OPT11	RMBS - Subprime Mortgage	7	(38)	CC	> 24 months

For the RMBS - Subprime mortgage holding, the underlying collateral pool has experienced higher than expected delinquencies and losses, which was further exacerbated by the impact of declining home values on borrowers using affordability products. This has led to the underlying collateral pool having reduced cash flows in comparison to expectations at origination. Increased losses have eroded the subordination in this security, which in turn has led to a decline in the level of protection to Aegon s tranche within the collateral pool. Despite the decline in the level of protection provided by the subordination for this security, cash flow modeling continues to indicate full recovery of principal and interest.

Securities are impaired to fair value when Aegon expects that it will not receive all contractual cash flows on Aegon s tranches. As the remaining unrealized losses in the RMBS portfolio relate to holdings where Aegon expects to receive full principal and interest, Aegon does not consider the underlying investments to be impaired as of December 31, 2012.

Commercial mortgage-backed securities

Aegon Americas, Aegon The Netherlands and Aegon UK hold EUR 5,606 million of AFS commercial mortgage-backed securities (CMBS), of which EUR 5,137 million is held by Aegon USA, EUR 438 million by Aegon UK and EUR 8 million by Aegon The Netherlands. CMBS are securitizations of underlying pools of mortgages on commercial real estate. The underlying mortgages have varying risk characteristics and are pooled together and sold in different rated tranches. The company s CMBS include conduit, large loan, single borrower, commercial real estate collateral debt obligations (CRE CDOs), collateral debt obligations (CDOs), government agency, and franchise loan receivable trusts.

The total gross unrealized loss on AFS CMBS of Aegon Americas, Aegon The Netherlands and Aegon UK amounts to EUR 102 million, of which EUR 102 million relates to positions of Aegon USA. The total net unrealized gain on CMBS is EUR 344 million, of which EUR 247 million (2011: EUR 64 million) relates to positions of Aegon USA. The commercial real estate market previously experienced a deterioration in property level fundamentals over 2008-2010, which led to an increase in CMBS loan-level delinquencies. The introduction of 30% credit enhanced tranches within the 2005-2008 vintage deals provide some offset to these negative fundamentals. Over the last year, the CMBS market experienced several positive factors as commercial real estate fundamentals have begun to display some signs of stabilization. The pace of credit deterioration appears to be moderating as property transactions have increased and there is greater availability of financing for commercial real estate. Liquidity has improved within the CMBS market, but a broad re-pricing of risk has kept credit spreads on legacy subordinate CMBS tranches at wide levels.

The tables below summarize the credit quality of Aegon USA s AFS CMBS portfolio. Additionally, Aegon USA has investments in CMBS of EUR 62 million (2011: EUR 81 million), which are classified as fair value through profit or loss.

CMBS by quality	AAA	AA	A	BBB	<BBB	**Total amortized cost**	**Total fair value**
CMBS	3,678	354	394	212	168	4,806	5,095
CMBS and CRE CDOs	-	-	1	19	64	84	42
At December 31, 2012	**3,678**	**354**	**395**	**231**	**232**	**4,890**	**5,137**

CMBS by quality	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
CMBS	4,075	371	856	211	160	5,673	5,792
CMBS and CRE CDOs	11	10	10	39	46	116	61
At December 31, 2011	**4,086**	**381**	**866**	**250**	**206**	**5,789**	**5,853**

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The table below summarizes vintage and quality of the available-for-sale CMBS portfolio of Aegon USA.

Vintage year	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
2004 & Prior	338	134	38	10	58	578	565
2005	436	9	27	43	25	540	565
2006	941	45	34	6	68	1,094	1,161
2007	765	86	241	154	81	1,327	1,399
2008	113	76	54	19	-	262	275
2009	70	2	-	-	-	72	82
2010	297	-	-	-	-	297	332
2011	202	-	-	-	-	202	225
2012	516	2	-	-	-	518	533
At December 31, 2012	**3,678**	**354**	**394**	**232**	**232**	**4,890**	**5,137**

Vintage year	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
2004 & Prior	856	160	53	16	46	1,131	1,116
2005	528	26	155	53	10	772	785
2006	1,104	84	125	23	55	1,391	1,418
2007	912	84	380	158	94	1,628	1,642
2008	140	19	153	-	-	312	302
2009	72	6	-	-	-	78	86
2010	301	3	-	-	-	304	321
2011	173	-	-	-	-	173	183
At December 31, 2011	**4,086**	**382**	**866**	**250**	**205**	**5,789**	**5,853**

CMBS of Aegon USA are monitored and reviewed on a monthly basis. Detailed cash flow models using the current collateral pool and capital structure on the portfolio are updated and reviewed quarterly. Model output is generated under base and several stress-case scenarios by Aegon s internal CMBS asset specialists. For conduit securities, a widely recognized industry modeling software is used to perform a loan-by-loan, bottom-up approach. For non-conduit securities, a CMBS asset specialist works closely with Aegon s real estate valuation group to determine underlying asset valuation and risk. Both methodologies incorporate external estimates on the property market, capital markets, property cash flows, and loan structure. Results are then closely analyzed by the asset specialist to determine whether or not a principal or interest loss is expected to occur.

Securities are impaired to fair value when Aegon expects that it will not receive all contractual cash flows on its tranches. As the remaining unrealized losses in the CMBS portfolio relate to holdings where Aegon expects to receive full principal and interest, Aegon does not consider the underlying investments to be impaired as of December 31, 2012.

The fair values of Aegon USA s CMBS instruments were determined as follows:

	Level II	Level III	Total 2012	Level II	Level III	Total 2011
CMBS	5,145	54	5,199	5,875	60	5,935

Asset-backed securities

Aegon Americas, Aegon The Netherlands and Aegon UK hold EUR 5,124 million of AFS ABS instruments of which EUR 2,907 million is held by Aegon USA. The total gross unrealized loss on ABSs is EUR 248 million, of which EUR 139 million relates to positions of Aegon USA, and the total net unrealized gain on ABSs is EUR 43 million, of which EUR 51 million net losses relates to positions of Aegon USA. These are securitizations of underlying pools of credit card receivables, auto financing loans, small business loans, bank loans, and other receivables. The underlying assets of the asset backed securities have been pooled together and sold in tranches with varying credit ratings. The breakdown of quality of the available-for-sale ABS portfolio of Aegon USA is as follows:

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Vintage year	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
Credit Cards	386	63	313	112	3	877	913
Autos	287	4	-	-	-	291	297
Small business loans	5	10	46	152	87	300	242
CDOs backed by ABS, Corp. Bonds, Bank loans	260	207	15	-	30	512	501
Other ABS	382	255	88	90	163	978	954
At December 31, 2012	**1,320**	**539**	**462**	**354**	**283**	**2,958**	**2,907**

Vintage year	AAA	AA	A	BBB	<BBB	Total amortized cost	Total fair value
Credit Cards	768	52	199	330	5	1,354	1,397
Autos	321	45	-	-	41	407	412
Small business loans	58	21	60	167	63	369	296
CDOs backed by ABS, Corp. Bonds, Bank loans	343	298	23	-	36	700	634
Other ABS	370	243	145	71	190	1,019	942
At December 31, 2011	**1,860**	**659**	**427**	**568**	**335**	**3,849**	**3,681**

The fair values of Aegon USA s ABS instruments were determined as follows:

	Level II	Level III	Total 2012	Level II	Level III	Total 2011
ABSs	1,981	926	2,907	2,637	1,044	3,681

ABS - Small Business Loans

The net unrealized loss on the ABS - small business loans is EUR 58 million. The unrealized loss in the ABS - small business loan portfolio is a function of increased credit spreads for existing positions and a lengthening of expected cash flows as refinancing activities within this sector have slowed. Additionally, delinquencies and losses in the collateral pools within Aegon s small business loan securitizations have increased since 2007, as a result of the overall economic slowdown. Banks and finance companies have also scaled back their lending to small businesses. Aegon s ABS - small business loan portfolio is concentrated in senior note classes. Thus in addition to credit enhancement provided by the excess spread, reserve account, and over-collateralization, Aegon s positions are also supported by subordinated note classes. Aegon s ABS - small business loan portfolio is also primarily secured by commercial real estate, with the original loan to value (LTV) of the underlying loans typically ranging between 60-70%. Positions are monitored monthly with cash flow modeling updated and reviewed quarterly on all securities within the sector. Assumed defaults on delinquent loans are dependent on the specific security s collateral attributes and historical experience. Results are then closely analyzed by the asset specialist to determine whether or not a principal or interest loss is expected to occur. Securities are impaired to fair value when Aegon expects that it will not receive all contractual cash flows on its tranches. The remaining ABS - small business loan portfolio positions are not considered impaired as of December 31, 2012.

There is one individual issuer rated below investment grade in this ABS sector which has unrealized loss position greater than EUR 25 million.

	Category	Fair value	Unrealized Loss	Rating	Aging of unrealized Loss
Bayview Comm Asset TR 2007-5A	ABS - Small Business Loan	8	(25)	D	> 24 months

For the ABS - Small Business Loan holding, the underlying collateral pool has experienced higher than expected delinquencies and losses, which is further exacerbated by the impact of declining commercial real estate values. This has led to the underlying collateral pool having reduced cash flows in comparison to expectations at origination. Increased collateral losses have reduced the subordination available as credit enhancement to this security, which in turn has led to a decline in the level of protection to Aegon s tranche within the collateral pool. Despite the decline in the level of protection provided by the subordination for this security, cash flow modeling

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continues to indicate full recovery of principal and interest, Aegon does not consider the underlying investments to be impaired as of December 31, 2012.

ABS - CDOs backed by ABS, corporate bonds, bank loans

The net unrealized loss on the CDOs backed by ABS, Corporate Bonds, and Bank Loans is EUR 11 million. CDO s are primarily secured by pools of corporate bonds and leveraged bank loans. The unrealized loss is a function of decreased liquidity and increased credit spreads in the market for structured finance. All of the individual debt securities have been modeled using the current collateral pool and capital structure. Assumed defaults on delinquent loans are dependent on the specific security s collateral attributes and historical experience. Results are then closely analyzed by the asset specialist to determine whether or not a principal or interest loss is expected to occur. Securities are impaired to fair value when Aegon expects that it will not receive all contractual cash flows on its tranches. The remaining CDO portfolio positions are not considered impaired as of December 31, 2012.

There is one individual issuer rated below investment grade in this ABS sector which has unrealized loss position greater than EUR 25 million.

	Category	Fair value	Unrealized Loss	Rating	Aging of unrealized Loss
SVG Diamond Holdings II Limited	ABS - CDO	90	(28)	BBB, CCC	> 24 months

For the ABS - CDO holding, the underlying collateral pool contains exposure to roughly 40 private equity funds containing approximately 500 distinct investments in the underlying portfolio of companies. Due to the worsened economic climate the valuation of the underlying private equity investments has declined in comparison to expectations at origination. Increased collateral losses have reduced the subordination available as credit enhancement to this security, which in turn has led to a decline in the level of protection to Aegon s tranche within the collateral pool. Despite the decline in the level of protection provided by the subordination for this security, cash flow modeling continues to indicate full recovery of principal and interest, Aegon does not consider the underlying investments to be impaired as of December 31, 2012.

Other ABSs

The net unrealized loss on Other ABSs is EUR 24 million. ABS - other includes debt issued by securitization trusts collateralized by various other assets including student loans, timeshare loans, franchise loans and other asset categories. The unrealized losses are a function of decreased liquidity and increased credit spreads in the market. Where ratings have declined to below investment grade, the individual debt securities have been modeled. Assumed defaults on delinquent loans are dependent on the specific security s collateral attributes and historical experience. Results are then closely analyzed by the asset specialist to determine whether or not a principal or interest loss is expected to occur. Securities are impaired to fair value when Aegon expects that it will not receive all contractual cash flows on its tranches. As the remaining unrealized losses in the ABS - other portfolio relate to holdings where Aegon expects to receive full principal and interest, Aegon does not consider the underlying investments to be impaired as December 31, 2012.

Financial

The Financial Industry sector is further subdivided into banking, brokerage, insurance, REIT s and financial other. Companies within Aegon s financial sector are generally high in credit quality and, as a whole, represent a large portion of the corporate debt market.

In spite of weak global economic growth, market sentiment improved in the second half of 2012 following important steps towards addressing the European Sovereign Debt Crisis coupled with large-scale interventions by central banks. Beginning with the EU Summit in June, EU leaders have committed to decisive steps to strengthen the common currency, including steps to create a stronger Banking Union and Fiscal Union for the euro area. The creation of the European Stability Mechanism (ESM) and a Single Supervisory Mechanism to regulate banks in the Eurozone has helped calm concerns that the euro currency is not strong enough to survive a funding crisis or banking crisis in a member state. Furthermore the European Central Bank has committed to stabilize the common currency by purchasing government bonds under its new Outright Monetary Purchase (OMT) program. In the U.S. economic conditions appear to be improving, the Federal Reserve has committed to ongoing quantitative easing until labor market conditions improve, and the Fiscal Cliff agreement provided near-term relief.

Banking

The banking sub-sector in Aegon s portfolio is relatively large, diverse, and of high quality. Aegon holds EUR 8,319 million (2011: EUR 10,209 million) of AFS bonds issued by banks. The net unrealized gain on these bonds amounts to EUR 326 million (2011: EUR 680 million). The unrealized losses in the banking sub-sector primarily reflect the size of Aegon s holdings, low floating

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rate coupons on some securities, and credit spread widening in the sector due to the Sovereign debt crisis in Europe as well as residual impact from both the U.S. financial crisis concerns over the U.S. Fiscall Cliff. As a whole, the sub-sector improved in the second half of 2012, following a volatile first half. Decisive steps by EU leaders and world central banks to stabilize the euro and improve funding conditions calmed investor concerns that a euro breakup was imminent. Credit spreads continue to reflect some uncertainty over new efforts by regulators to impose burden sharing on creditors in order to quickly stabilize or wind up troubled banks. While these measures have made securities more volatile in the near-term, new, more stringent global legislation on bank capital and liquidity requirements, is intended to reduce overall risk in the sector going forward and decouple troubled banks from the Sovereign. Furthermore, central banks appear committed to providing liquidity to the market, while asset write-downs and credit losses have diminished substantially in all but the most troubled countries.

The value of Aegon s investments in deeply subordinated securities in the financial services sector may be significantly impacted if issuers of certain securities with optional deferral features exercise the option to defer coupon payments or are required to defer as a condition of receiving government aid. The deeply subordinated securities issued by non-US Banks are broadly referred to as capital securities which can be categorized as Tier 1 or Upper Tier 2. Capital securities categorized as Tier 1 are typically perpetual with a non-cumulative coupon that can be deferred under certain conditions. Capital securities categorized as Upper Tier 2 are generally perpetual with a cumulative coupon that is deferrable under certain conditions. The deeply subordinated securities issued by US Banks can be categorized as Trust Preferred or Hybrid. Capital securities categorized as trust preferred typically have an original maturity of 30 years with call features after 10 years with a cumulative coupon that is deferrable under certain conditions. Capital securities categorized as hybrid typically have an original maturity of more than 30 years, may be perpetual and are generally subordinate to traditional trust preferred securities.

The following table highlights Aegon s credit risk to capital securities within the banking sector:

	Americas	The Netherlands	United Kingdom	New Markets	Amortized cost	Fair Value
Hybrid	120	-	25	-	145	155
Trust preferred	453	-	17	-	470	400
Tier 1	217	-	240	20	477	451
Upper Tier 2	433	-	78	4	514	348
At December 31, 2012	**1,223**	**-**	**360**	**24**	**1,606**	**1,354**
Hybrid	163	-	26	-	189	157
Trust preferred	572	-	17	-	589	466
Tier 1	311	165	393	36	905	680
Upper Tier 2	438	24	126	10	598	394
At December 31, 2011	**1,484**	**189**	**562**	**46**	**2,281**	**1,697**

There are four individual issuers rated below investment grade in the banking sub-sector which have unrealized losses greater than EUR 25 million.

	Category	Fair value	Unrealized Loss	Rating	Aging of unrealized Loss
Belfius Bank & Insurance	Banking	53	(51)	B	> 24 months
Lloyds Banking Group PLC	Banking	49	(33)	BB+ / BB	> 24 months
Royal Bank of Scotland Group PLC	Banking	49	(30)	BB+ / BB-	> 24 months
Bank of America Corp	Banking	89	(28)	BB+	> 24 months

Aegon s available-for-sale debt securities for Belfius Bank SA have a fair value of EUR 53 million as of December 31, 2012. These below investment grade securities are Upper Tier 2 and had gross unrealized losses of EUR 51 million as of December 31, 2012. Belfius Bank SA was created subsequent to the restructuring of Dexia SA. Dexia s reliance on short-term wholesale funding caused a near-collapse as funding markets froze in 2008 and 2009. Capital injections from Belgium, France and Luxembourg along with guarantees on Dexia s funding provided sufficient access to funding markets until the Sovereign debt crisis in 2011 put too much strain on Dexia s large funding needs. In November 2011, a new restructuring plan was put in place for Dexia SA and 100% of Dexia Bank Belgium was sold to the Belgian state. Aegon s bonds now form part of the capital structure of that entity which was rebranded as Belfius Bank SA during the first half of 2012. Payments continue to be made on Aegon s holdings in accordance with the original bond agreements.

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Aegon evaluated the near-term prospects of the issuer and it is believed that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2012.

Aegon s available-for-sale debt securities for Lloyds Banking Group PLC have a fair value of EUR 59 million as of December 31, 2012, of which EUR 49 million relates to holdings rated below investment grade. The Upper Tier 2 securities are rated from BB+ to BB depending on the individual features of the debt securities. As of December 31, 2012 gross unrealized losses were EUR 34 million, of which EUR 33 million relates to holdings rated below investment grade. Lloyds Banking Group PLC was created from the merger of Lloyds TSB and HBOS PLC in the fall of 2008 as the shutdown in capital markets threatened the sustainability of HBOS PLC s wholesale funding and specialist lending model. Following an emergency capital injection, the UK Government currently owns 40.2% of the combined Lloyds Banking Group PLC. As a result of the state aid that Lloyds received during the height of the crisis, the European Commission, among other things, required the Group to cancel dividends and coupons on existing discretionary-pay hybrid securities for a two year period beginning January 31, 2010. As a result of the coupon ban, in 2010 Aegon impaired its Lloyds securities with optional deferral language and non-cumulative coupons. The two-year ban has expired and Lloyds is paying coupons (and paid all arrears of interest) on Aegon s securities. Lloyds continues to make progress on its restructuring plans, showing improvement in the profitability levels of its core businesses, lowering balance sheet leverage, improving capital ratios, reducing reliance on wholesale funding, and significantly increasing liquidity reserves. Aegon evaluated the near-term prospects of the issuer and it is believed that the contractual terms of these investments will be met going forward and these remaining investments are not impaired as of December 31, 2012.

Aegon s available-for-sale debt securities for Royal Bank of Scotland Group plc (RBS) have a fair value of EUR 49 million as of December 31, 2012, which are all rated below investment grade. The Tier 1 and Upper Tier 2 securities are rated BB+ to BB-, depending on the individual features of the debt securities. As of December 31, 2012 gross unrealized losses were EUR 30 million, of which EUR 30 million related to holdings rated below investment grade. RBS is one of the world s largest universal banks with historically prominent positions in both global wholesale banking and in UK financial services. The bank was impacted by the global financial market crisis in 2008 and, ultimately, the UK government was forced to take a majority equity stake in the bank to stabilize it. In addition, a large portion of RBS riskiest assets where placed under the UK s Asset Protection Plan (APS), limiting the potential loss to RBS. RBS announced its exit from the APS program in October, the culmination of several years of hard work to get its balance sheet and funding needs downsized to a sustainable level. In light of the significant amount of state aid that RBS received, the European Commission, among other things, required RBS to defer dividends and coupons on certain of its existing hybrid securities (including certain Tier 1, Upper Tier 2, preference and B shares) for two years from April 30, 2010. As such, in 2010, Aegon impaired its RBS securities with optional deferral language and non-cumulative coupons. The coupon ban has since expired. RBS continues to make progress on its restructuring plan, showing improvement in the profitability levels of its core businesses, lowering balance sheet leverage, improving capital ratios, reducing reliance on wholesale funding, and significantly increasing liquidity reserves. Aegon evaluated the near-term prospects of the issuer and it is believed that the contractual terms of these investments will be met and these remaining investments are not impaired as of December 31, 2012.

Aegon s available-for-sale debt securities for Bank of America Corp (BAC) have a fair value of EUR 104 million as December 31, 2012, of which EUR 89 million relates to holdings rated below investment grade. As of December 31, 2012 gross unrealized losses were EUR 30 million, of which EUR 28 million relates to holdings below investment grade. BAC is one of the largest banking organizations in the US. While challenges remain for BAC, particularly in the mortgage business, the process of stabilization in the credit profile appears to be ongoing, including an emphasis on actions to build capital, reduce non-core assets and restore confidence. Payments continue to be made on Aegon s holdings in accordance with the original bond agreements. Aegon evaluated the near-term prospects of the issuer and it is believed that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2012.

Financial Industry Other

The unrealized losses in this sub-sector primarily reflect general spread widening on companies due to several factors. These include mortgage market, low interest rate environment, equity market and economic issues plus increased liquidity and capital markets concerns, which has been compounded in some cases by the structure of the securities (subordination or other structural features and duration). Aegon evaluated the near-term prospects of the issuers in relation to the severity and duration of the unrealized loss and does not consider those investments to be impaired as of December 31, 2012.

There are no individual issuers rated below investment grade in the financial industry other sub-sector which have unrealized losses greater than EUR 25 million.

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Industrial

The Industrial sector is further subdivided into various sub sectors Aegon evaluated the near-term prospects of the issuers and it is believed that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2012.

Utility

The Utility sector is further subdivided into electrical, natural gas and other sub-sectors. Aegon evaluated the near-term prospects of the issuers and it is believed that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2012.

Sovereign

Aegon Americas, Aegon The Netherlands and Aegon UK s government issued available-for-sale debt securities include emerging market sovereign bonds, US Treasury bonds, agency and state bonds. All of the issuers in the sovereign sector continue to make payments in accordance with the original bond agreements. Aegon evaluated the near-term prospects of the issuers and it is believed that the contractual terms of these investments will be met and these investments are not impaired as of December 31, 2012.

European peripheral countries

	Americas		The Netherlands		United Kingdom		New Markets		**December 31, 2012 Total**	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	**Amortized cost**	**Fair value**
Portugal	16	16	46	38	16	18	29	25	107	97
Italy	182	181	262	270	238	226	71	76	753	753
Ireland	235	262	212	192	13	14	15	16	475	484
Greece	23	25	4	2	-	-	-	-	27	27
Spain	245	256	446	435	179	180	1,618	1,555	2,488	2,426
	701	**740**	**970**	**937**	**446**	**438**	**1,733**	**1,672**	**3,850**	**3,787**

	December 31, 2011									
	Americas		The Netherlands		United Kingdom		New Markets		Total	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
Portugal	52	52	70	45	28	26	52	34	202	157
Italy	230	200	490	445	278	220	97	84	1,095	949
Ireland	258	279	220	194	88	98	16	13	582	584
Greece	22	23	5	4	6	3	1	1	34	32
Spain	327	316	843	759	272	265	1,752	1,624	3,194	2,965
	889	**871**	**1,628**	**1,447**	**673**	**612**	**1,842**	**1,757**	**5,107**	**4,687**

As part of Aegon s de-risking activities, exposure to the European peripheral countries (Portugal, Italy, Ireland, Greece and Spain) has been reduced over the past year. The highest concentration remains in Spain, which is a reflection of Aegon s operations in that country. The figures included in the table below are shown on a gross basis and do not reflect the effect of any hedging activities and include Aegon s proportionate share in the investments of its associates, of which CAM Aegon Holding Financiero (Spain) is the most significant.

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	Central Government		Banks		RMBS		Corporates and other		**December 31, 2012 Total**	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	**Amortized cost**	**Fair value**
Portugal	4	4	13	10	36	32	54	51	107	97
Italy	43	43	86	84	35	36	589	590	753	753
Ireland	20	20	-	-	160	140	295	324	475	484
Greece	-	-	-	-	4	2	23	25	27	27
Spain	897	875	198	188	686	638	707	725	2,488	2,426
	964	**942**	**297**	**282**	**921**	**848**	**1,668**	**1,715**	**3,850**	**3,787**

	Central Government		Banks		RMBS		Corporates and other		December 31, 2011 Total	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
Portugal	13	7	28	22	66	48	95	80	202	157
Italy	46	38	243	206	54	50	752	654	1,095	949
Ireland	30	26	11	12	260	243	281	303	582	584
Greece	1	1	11	7	-	-	22	24	34	32
Spain	1,022	962	436	366	928	840	808	797	3,194	2,968
	1,112	**1,034**	**729**	**613**	**1,308**	**1,181**	**1,958**	**1,858**	**5,107**	**4,687**

Aegon does not have credit protection against exposure in the countries included in the tables.

In 2012, Aegon did not record any impairments on its exposure to central governments of the European peripheral countries (2011: nil).

Unrealized loss by maturity

The table below shows the composition by maturity of all debt securities, both available-for-sale and held to maturity, in an unrealized loss position held by Aegon Americas, Aegon The Netherlands and Aegon UK.

	December 31, 2012		December 31, 2011	
	Carrying value of securities with gross unrealized losses	**Gross unrealized losses**	Carrying value of securities with gross unrealized losses	Gross unrealized losses
One year or less	939	(22)	1,710	(68)
Over 1 thru 5 years	2,938	(198)	6,026	(582)
Over 5 thru 10 years	2,251	(286)	4,859	(708)
Over 10 years	5,462	(835)	8,256	(1,756)
Total	**11,590**	**(1,341)**	**20,851**	**(3,114)**

Unrealized loss by credit quality

The table below shows the composition by credit quality of debt securities, both available-for-sale and held to maturity, in an unrealized loss position held by Aegon Americas, Aegon The Netherlands and Aegon UK.

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	December 31, 2012		December 31, 2011	
	Carrying value of securities with gross unrealized losses	Gross unrealized losses	Carrying value of securities with gross unrealized losses	Gross unrealized losses
Treasury Agency	1,748	(18)	1,996	(53)
AAA	1,029	(17)	2,700	(207)
AA	1,417	(109)	2,271	(277)
A	2,079	(174)	5,064	(556)
BBB	3,031	(355)	5,842	(983)
BB	1,114	(228)	1,449	(434)
B	701	(207)	747	(240)
Below B	471	(233)	782	(364)
Total	**11,590**	**(1,341)**	**20,851**	**(3,114)**

The table below provides the length of time a security has been below cost and the respective unrealized loss.

	At December 31, 2012			
	Investment grade carrying value of securities with gross unrealized losses	Below investment grade carrying value of securities with gross unrealized losses	Investment grade unrealized loss	Below investment grade unrealized loss
0 - 6 months	3,258	245	(104)	(8)
6 - 12 months	507	59	(21)	(4)
> 12 months	5,539	1,982	(548)	(656)
Total	**9,304**	**2,286**	**(673)**	**(668)**

	At December 31, 2011			
	Investment grade carrying value of securities with gross unrealized losses	Below investment grade carrying value of securities with gross unrealized losses	Investment grade unrealized loss	Below investment grade unrealized loss
0 - 6 months	6,458	728	(294)	(69)
6 - 12 months	817	284	(97)	(42)
> 12 months	10,598	1,966	(1,685)	(927)
Total	**17,873**	**2,978**	**(2,076)**	**(1,038)**

The majority of the unrealized losses relate to investment grade holdings where credit spreads have widened in the near term in conjunction with concerns over the current macroeconomic conditions.

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The table below provides the length of time a below investment grade security has been in an unrealized loss and the percentage of carrying value (CV) to amortized cost.

Aging and severity unrealized losses

	2012		2011	
Aging and severity unrealized losses	**Carrying value**	**Unrealized losses**	Carrying value	Unrealized losses
CV 70-100% of amortized cost	243	(7)	725	(66)
CV 40-70% of amortized cost	1	-	3	(3)
CV < 40 % of amortized cost	1	(1)	-	-
0-6 months	**245**	**(8)**	**728**	**(69)**
CV 70-100% of amortized cost	59	(4)	274	(35)
CV 40-70% of amortized cost	-	-	10	(7)
CV < 40 % of amortized cost	-	-	-	-
6-12 months	**59**	**(4)**	**284**	**(42)**
CV 70-100% of amortized cost	164	(28)	165	(21)
CV 40-70% of amortized cost	3	(3)	6	(5)
CV < 40 % of amortized cost	-	(2)	-	-
12-24 months	**167**	**(33)**	**171**	**(26)**
CV 70-100% of amortized cost	1,519	(273)	1,053	(207)
CV 40-70% of amortized cost	264	(224)	679	(527)
CV < 40 % of amortized cost	32	(126)	63	(167)
> 24 months	**1,815**	**(623)**	**1,795**	**(901)**
Total	**2,286**	**(668)**	**2,978**	**(1,038)**

Realized gains and losses on debt securities of Aegon Americas, Aegon The Netherlands and Aegon UK

Realized gains and losses on debt securities of Aegon Americas, Aegon The Netherlands and Aegon UK	Gross realized gains	Gross realized losses
December 31, 2012		
Debt securities	755	(285)
December 31, 2011		
Debt securities	957	(376)

The table below provides the length of time the security was below cost prior to the sale and the respective realized loss for assets not considered impaired.

	Gross realized losses		
	0 - 12 months	>12 months	Total
December 31, 2012			
Debt securities	(59)	(226)	(285)
December 31, 2011			

Debt securities	(223)	(153)	(376)

Impairment losses and recoveries

The composition of Aegon Americas, Aegon The Netherlands and Aegon UK s bond impairment losses and recoveries by issuer for the period ended December 31, 2012 is presented in the table below. Those issuers with impairments or recoveries above EUR 25 million are specifically noted.

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	2012	2011
	(Impairment) / Recovery	(Impairment) / Recovery
Impairments:		
Countrywide Alt LN 2006-0A10	-	(55)
American Home Mtge 2007-5 A1	-	(54)
GSR Mtge Ln TR 2007-0A1 2A3A	-	(27)
Bank of Ireland	-	(29)
Other (none individually greater than EUR 25 million)	(157)	(177)
Subtotal	**(157)**	**(342)**
Recoveries:		
Total recoveries	54	48
Sub-total	**54**	**48**
Net (impairments) and recoveries	**(103)**	**(294)**

Net (impairments) and recoveries

Net impairments during 2012 totaled EUR 103 million (2011 full year: EUR 294 million), including EUR 120 million (2011: EUR 251 million) of gross impairments related to residential mortgage backed securities in the Americas.

During 2012, Aegon recognized EUR 54 million (2011: EUR 48 million) in recoveries on previously impaired securities. In each case where a recovery was taken on structured securities, improvements in underlying cash flows for the security were documented and modeling results improved significantly. Recoveries on non-structured securities were supported by documented credit events combined with significant market value improvements.

Past due and impaired assets

The tables that follow provide information on past due and individually impaired financial assets for the whole Aegon Group. An asset is past due when a counterparty has failed to make a payment when contractually due. Assets are impaired when an impairment loss has been charged to the income statement relating to this asset. After the impairment loss is reversed in subsequent periods, the asset is no longer considered to be impaired. When the terms and conditions of financial assets have been renegotiated, the terms and conditions of the new agreement apply in determining whether the financial assets are past due.

Aegon s policy is to pursue realization of the collateral in an orderly manner as and when liquidity permits. Aegon generally does not use the non-cash collateral for its own operations.

	2012				2011			
Past due but not impaired assets	0-6 months	6-12 months	> 1 year	**Total**	0-6 months	6-12 months	> 1 year	Total
Debt securities - carried at fair value	1	63	24	88	54	70	49	173
Mortgage loans	68	4	42	114	50	10	52	112
Other loans	1	-	2	3	-	-	1	1
Accrued interest	-	-	2	2	-	-	2	2
At December 31	**70**	**67**	**70**	**207**	**104**	**80**	**104**	**288**

Impaired financial assets	Carrying amount 2012	Carrying amount 2011
Shares	347	306
Debt securities - carried at fair value	1,352	1,177
Mortgage loans	734	708
Private Loans	2	-
Other loans	4	6
Other financial assets - carried at fair value	23	30
At December 31	**2,462**	**2,227**

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Equity instruments classified as available-for-sale

Objective evidence of impairment of an investment in an equity instrument classified as available-for-sale includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment. Significant or prolonged decline is generally defined within Aegon as an unrealized loss position for more than six months or a fair value of less than 80% of the cost price of the investment. Additionally, as part of an ongoing process, the equity analysts actively monitor earnings releases, company fundamentals, new developments and industry trends for any signs of possible impairment.

These factors typically require significant management judgment. The impairment review process has resulted in EUR 1 million of impairment charges for the period ended December 31, 2012 (2011: EUR 10 million) for Aegon Americas, Aegon The Netherlands and Aegon UK.

As of December 31, 2012, there are EUR 262 million of gross unrealized gains and EUR 18 million of gross unrealized losses in the equity portfolio of Aegon (2011: EUR 183 million of gross unrealized gains and EUR 23 million of gross unrealized losses). There are no securities held by Aegon with an unrealized loss above EUR 5 million. The table below represents the unrealized gains and losses on share positions held by Aegon Americas, Aegon The Netherlands and Aegon UK.

	Cost basis	Carrying value	Net unrealized gains / (losses)	Carrying value of securities with gross unrealized gains	Gross unrealized gains	Carrying value of securities with gross unrealized losses	Gross unrealized losses
December 31, 2012							
Shares	568	812	244	731	262	81	(18)
December 31, 2011							
Shares	642	802	160	682	183	120	(23)

The composition of shares by industry sector in an unrealized loss position held by Aegon Americas, Aegon The Netherlands and Aegon UK at December 31, 2012 and December 31, 2011 is presented in the table below.

	2012		2011	
Unrealized losses on shares	**Carrying value of instruments with unrealized losses**	**Gross unrealized losses**	Carrying value of instruments with unrealized losses	Gross unrealized losses
Communication	-	-	5	-
Consumer cyclical	17	-	20	(2)
Consumer non-cyclical	-	-	1	-
Financials	42	(17)	82	(21)
Funds	7	(1)	5	-
Other	15	-	7	-
Total	**81**	**(18)**	**120**	**(23)**

Impairment losses on shares

The table below provides the length of time the shares held by Aegon Americas, Aegon The Netherlands and Aegon UK were below cost prior to the impairment in 2012.

In million EUR	0- 6 months
December 31, 2012	
Shares	(2)
December 31, 2011	
Shares	(7)

There were no issuers with impairments above EUR 25 million.

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Equity market risk and other investments risk

Fluctuations in the equity, real estate and capital markets have affected Aegon s profitability, capital position and sales of equity related products in the past and may continue to do so. Exposure to equity, real estate and capital markets exists in both assets and liabilities. Asset exposure exists through direct equity investment, where Aegon bears all or most of the volatility in returns and investment performance risk. Equity market exposure is also present in insurance and investment contracts policyholder accounts where funds are invested in equities, backing variable annuities, unit-linked products and mutual funds. Although most of the risk remains with the policyholder, lower investment returns can reduce the asset management fee earned by Aegon on the asset balance in these products. In addition, some of this business has minimum return or accumulation guarantees. Aegon also operates an Investment and Counterparty Policy that limits the Group s overall counterparty risk exposure.

The general account equity, real estate and other non-fixed-income portfolio of Aegon is as follows:

Equity, real estate and non-fixed income exposure	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Total 2012
Equity funds	868	686	-	44	-	1,598
Common shares [1)]	322	10	51	4	-	387
Preferred shares	221	-	-	-	-	221
Investments in real estate	766	1,912	-	1	-	2,679
Hedge funds	625	2	-	-	-	627
Other alternative investments	1,503	-	-	-	-	1,503
Other financial assets	768	-	-	15	-	783
At December 31	**5,073**	**2,610**	**51**	**64**	**-**	**7,798**

[1] Common shares in Holding and other activities includes the elimination of treasury shares in the general account for an amount of EUR 8 million.

Equity, real estate and non-fixed income exposure	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Total 2011
Equity funds	751	396	-	56	-	1,203
Common shares [1)]	327	28	54	4	9	422
Preferred shares	149	1	-	-	-	150
Investments in real estate	775	2,009	-	-	-	2,784
Hedge funds	634	18	-	-	-	652
Other alternative investments	1,499	-	-	-	-	1,499
Other financial assets	626	102	-	13	-	741
At December 31	**4,761**	**2,554**	**54**	**73**	**9**	**7,451**

[1] Common shares in Holding and other activities includes the elimination of treasury shares in the general account for an amount of EUR 6 million.

Market risk concentrations - shares	Americas	The Netherlands	United Kingdom	New Markets	Total 2012 [1]	Of which impaired assets
Communication	37	1	-	-	38	-
Consumer cyclical	34	3	-	-	37	32

Consumer non-cyclical	2	-	-	-	2	1
Financials	1,274	3	7	11	1,295	161
Funds	-	395	45	33	473	139
Industries	19	2	-	1	22	-
Resources	-	1	-	-	1	-
Services cyclical	-	-	-	-	-	-
Services non-cyclical	-	6	-	-	6	-
Technology	3	-	-	-	3	-
Other	21	1	-	3	25	14
At December 31	**1,390**	**412**	**52**	**48**	**1,902**	**347**

[1] Includes investments of Holding and other activities.

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Market risk concentrations - shares	Americas	The Netherlands	United Kingdom	New Markets	Total 2011 [1]	Of which impaired assets
Communication	35	1	-	-	36	-
Consumer cyclical	38	2	-	-	40	34
Consumer non-cyclical	2	5	-	-	7	4
Financials	1,095	17	7	5	1,133	93
Funds	-	456	47	53	556	146
Industries	-	4	-	1	5	3
Resources	-	4	-	-	4	3
Services cyclical	-	2	-	-	2	1
Services non-cyclical	-	8	-	-	8	1
Technology	4	3	-	-	7	2
Other	36	3	-	-	39	19
At December 31	**1,210**	**505**	**54**	**59**	**1,837**	**306**

[1] Includes investments of Holding and other activities.

The table that follows sets forth the closing levels of certain major indices at the end of the last five years.

	2012	2011	2010	2009	2008
S&P 500	1,426	1,258	1,258	1,115	903
Nasdaq	3,020	2,605	2,653	2,269	1,577
FTSE 100	5,898	5,572	5,900	5,413	4,434
AEX	343	312	355	335	247

The sensitivity analysis of net income and shareholders equity to changes in equity prices is presented in the table below. The sensitivity of shareholders equity and net income to changes in equity markets reflects changes in the market value of Aegon s portfolio, changes in DPAC amortization, contributions to pension plans for Aegon s employees and the strengthening of the guaranteed minimum benefits, when applicable. The results of equity sensitivity tests are non-linear. The main reason for this is due to equity options sold to clients that are embedded in some of these products and that more severe scenarios could cause accelerated DPAC amortization and guaranteed minimum benefits provisioning, while moderate scenarios may not. Aegon generally has positive income benefits from equity market increases and negative impacts from equity market declines as it earns fees on policyholder account balances and provides minimum guarantees for account values. Aegon added out-of-money options in its portfolio to provide additional protection for equity market declines without negative impacts when equity markets rise.

Sensitivity analysis of net income and shareholders equity to equity markets Immediate change of	Estimated approximate effects on net income	Estimated approximate effects on shareholders equity
2012		
Equity increase 10%	(30)	(5)
Equity decrease 10%	(135)	(178)
Equity increase 20%	(101)	(37)
Equity decrease 20%	(253)	(324)
2011		
Equity increase 10%	91	119
Equity decrease 10%	(111)	(135)
Equity increase 20%	167	222
Equity decrease 20%	(255)	(299)

Liquidity risk

Liquidity risk is inherent in much of Aegon s business. Each asset purchased and liability sold has its own liquidity characteristics. Some liabilities are surrenderable while some assets, such as privately placed loans, mortgage loans, real estate and limited partnership interests, have low liquidity. If Aegon requires significant amounts of cash on short notice in excess of normal cash requirements and existing credit facilities, it may have difficulty selling these investments at attractive prices or in a timely manner.

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Aegon operates a Liquidity Risk Policy under which country units are obliged to maintain sufficient levels of highly liquid assets to meet cash demands by policyholders and account holders over the next two years. Potential cash demands are assessed under a stress scenario including spikes in disintermediation risk due to rising interest rates and concerns over Aegon s financial strength due to multiple downgrades of the Group s credit rating. At the same time, the liquidity of assets other than cash and government issues is assumed to be severely impaired for an extended period of time. All units and Aegon Group must maintain enough liquidity in order to meet all cash needs under this extreme scenario.

Aegon holds EUR 34,295 million of general account investments in cash, money market products and sovereign bonds that are readily saleable or redeemable on demand (2011: EUR 32,773 million). The Group expects to meet its obligations, even in a stressed liquidity event, from operating cash flows and the proceeds of maturing assets as well as these highly liquid assets. Further, the Group has access to back up credit facilities, as described in note 39, amounting to EUR 3,268 million which were unused at the end of the reporting period (2011: EUR 3,623 million).

The maturity analysis below shows the remaining contractual maturities of each category of financial liabilities (including coupon interest). When the counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which it can be required to be paid. Financial liabilities that can be required to be paid on demand without any delay are reported in the category On demand . If there is a notice period, it has been assumed that notice is given immediately and the repayment has been presented at the earliest date after the end of the notice period. When the amount payable is not fixed, the amount reported is determined by reference to the conditions existing at the reporting date. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date.

To manage the liquidity risk arising from financial liabilities, Aegon holds liquid assets comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements. Hence, Aegon believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

Maturity analysis - gross undiscounted contractual cash flows (for non-derivatives)

	On demand	< 1 yr amount	1 < 5 yrs amount	5 < 10 yrs amount	> 10 yrs amount	Total amount
2012						
Trust pass-through securities	-	8	35	44	188	275
Subordinated loans	-	1	20	-	398	419
Borrowings [1)]	93	1,573	9,118	873	3,370	15,027
Investment contracts [2)]	8,434	3,020	3,902	968	1,090	17,414
Investment contracts for account of policyholders [2)]	20,342	5,192	-	-	2	25,536
Other financial liabilities	4,518	4,616	1,430	724	26	11,314
2011						
Trust pass-through securities	-	9	36	45	200	290
Subordinated loans	-	-	18	-	-	18
Borrowings [1)]	50	2,672	5,515	1,090	3,333	12,660
Investment contracts [2)]	9,564	2,583	6,151	665	1,406	20,369
Investment contracts for account of policyholders [2)]	17,758	5,386	-	-	-	23,144
Other financial liabilities	10,610	3,371	1,478	689	-	16,148

1 Borrowings include debentures and other loans, short term deposits, bank overdrafts and commercial paper; refer to note 39 for more details.
2 Excluding investment contracts with discretionary participating features.

Aegon s liquidity management is based on expected claims and benefit payments rather than on the contractual maturities. The projected cash benefit payments in the table below are based on management s best estimates of the expected gross benefits and expenses, partially offset by the expected gross premiums, fees and charges relating to the existing business in force. Estimated cash benefit payments are based on mortality, morbidity and lapse assumptions based on Aegon s historical experience, modified for recently observed trends. Actual payment obligations may differ if experience varies from these assumptions. The cash benefit payments are presented on an undiscounted basis and are before deduction of tax and before reinsurance.

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Financial liabilities relating to insurance and investment contracts [1)]	On demand	< 1 yr amount	1 < 5 yrs amount	5 < 10 yrs amount	> 10 yrs amount	Total amount
2012						
Insurance contracts	-	7,363	29,566	26,026	144,411	207,366
Insurance contracts for account of policyholders	-	5,042	21,071	19,905	70,971	116,989
Investment contracts	-	6,178	7,235	2,462	4,606	20,481
Investment contracts for account of policyholders	95	6,417	23,191	20,653	57,291	107,647
2011						
Insurance contracts	-	6,362	27,605	22,533	128,545	185,045
Insurance contracts for account of policyholders	-	5,989	21,909	19,499	65,464	112,861
Investment contracts	-	6,203	10,135	2,117	5,412	23,867
Investment contracts for account of policyholders	95	6,023	20,712	19,853	68,182	114,865

1 The liability amount in the consolidated financial statements reflects the discounting for interest as well as adjustments for the timing of other factors as described above. As a result, the sum of the cash benefit payments shown for all years in the table exceeds the corresponding liability amounts included in notes 35, 36, 37 and 38.

The following table details the Group s liquidity analysis for its derivative financial instruments, based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

Maturity analysis (derivatives [1)]) (Contractual cash flows) 2012	On demand	< 1 yr amount	1 < 5 yrs amount	5 < 10 yrs amount	> 10 yrs amount	Total amount
Gross settled						
Cash inflows	-	11,349	15,442	19,038	38,762	84,591
Cash outflows	-	(11,418)	(15,747)	(19,264)	(37,480)	(83,909)
Net settled						
Cash inflows	-	1,049	6,528	560	2,526	10,663
Cash outflows	-	(930)	(4,951)	(294)	(2,033)	(8,208)

1 Financial derivatives include all derivatives regardless whether they have a positive or a negative value. It does not include bifurcated embedded derivatives. These are presented together with the host contract. For interest rate derivatives only cash flows related to the pay leg are taken into account for determining the gross undiscounted cash flows.

Maturity analysis (derivatives [1])

(Contractual cash flows) 2011	On demand	< 1 yr amount	1 < 5 yrs amount	5 < 10 yrs amount	> 10 yrs amount	Total amount
Gross settled						
Cash inflows	-	13,980	14,951	17,267	32,344	78,542
Cash outflows	-	(14,055)	(14,777)	(17,515)	(31,636)	(77,983)
Net settled						
Cash inflows	-	330	1,067	1,545	5,299	8,241
Cash outflows	-	(344)	(554)	(989)	(3,140)	(5,027)

[1] Financial derivatives include all derivatives regardless whether they have a positive or a negative value. It does not include bifurcated embedded derivatives. These are presented together with the host contract. For interest rate derivatives only cash flows related to the pay leg are taken into account for determining the gross undiscounted cash flows.

Underwriting risk

Aegon s earnings depend significantly upon the extent to which actual claims experience differs from the assumptions used in setting the prices for products and establishing the technical liabilities and liabilities for claims. To the extent that actual claims experience is less favorable than the underlying assumptions used in establishing such liabilities, income would be reduced. Furthermore, if these higher claims were part of a permanent trend, Aegon may be required to increase liabilities, which could reduce income. In addition, certain acquisition costs related to the sale of new policies and the purchase of policies already in force have been recorded as assets on the statement of financial position and are being amortized into income over time. If the assumptions relating to the future

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profitability of these policies (such as future claims, investment income and expenses) are not realized, the amortization of these costs could be accelerated and may even require write offs due to unrecoverability. This could have a materially adverse effect on Aegon s business, results of operations and financial condition.

Sources of underwriting risk include policy lapses and policy claims (such as mortality and morbidity). In general, Aegon is at risk if policy lapses increase as sometimes Aegon is unable to fully recover up front expenses in selling a product despite the presence of commission recoveries or surrender charges and fees. For mortality and morbidity risk, Aegon sells certain types of policies that are at risk if mortality or morbidity increases, such as term life insurance and accident insurance, and sells certain types of policies that are at risk if mortality decreases (longevity risk) such as annuity products. Aegon is also at risk if expenses are higher than assumed by management.

Aegon monitors and manages its underwriting risk by underwriting risk type. Attribution analysis is performed on earnings and reserve movements in order to understand the source of any material variation in actual results from what was expected. Aegon s units also perform experience studies for underwriting risk assumptions, comparing Aegon s experience to industry experience as well as combining Aegon s experience and industry experience based on the depth of the history of each source to Aegon s underwriting assumptions. Where policy charges are flexible in products, Aegon uses these analyses as the basis for modifying these charges, with a view to maintain a balance between policyholder and shareholder interests. Aegon also has the ability to reduce expense levels over time, thus mitigating unfavorable expense variation.

Sensitivity analysis of net income and shareholders equity to various underwriting risks is shown in the table that follows. The sensitivities represent an increase or decrease of mortality and morbidity rates over best estimate. Increases in mortality rates lead to an increase in the level of benefits and claims. The impact on net income and shareholders equity of sales transactions of investments required to meet the higher cash outflow is reflected in the sensitivities.

Sensitivity analysis of net income and shareholders equity to changes in various underwriting risks	**2012**		2011	
Estimated approximate effect	**On shareholders equity**	**On net income**	On shareholders equity	On net income
20% increase in lapse rates	(95)	(82)	(45)	(46)
20% decrease in lapse rates	69	86	46	48
10% increase in mortality rates	(86)	(70)	(57)	(58)
10% decrease in mortality rates	53	67	59	59
10% increase in morbidity rates	(83)	(69)	(67)	(67)
10% decrease in morbidity rates	52	69	66	66

A change in actual experience with mortality or morbidity rates may not lead to a change in the assumptions underlying the measurement of the insurance liabilities as management may recognize that the change is temporary. Life insurers are also exposed to longevity risk. Increased life expectation above Aegon s assumed life expectation at the time of underwriting negatively impacts its results. Refer to note 2.19 for a discussion on how longevity assumptions are accounted for.

In 2012, Aegon The Netherlands partially hedges the risk of future longevity increases in the Netherlands related to a part of its insurance liabilities. Aegon The Netherlands bought a longevity index derivative, which will pay out if in twenty years the mortality rates have decreased more than a predetermined percentage compared to the base scenario at the moment of signing the contract. Payout of the derivative is defined based on a cumulative cash index , which represents the cumulative payout to a predefined (synthetic) insured population in relation to the expected payout (in the base scenario) to this same population. Both parties in the contract have the possibility to terminate the contract after ten years (early termination clause). The payout is maximized at a predetermined percentage compared to the base scenario.

On March 1, 2011, the European Court of Justice (ECJ) delivered a judgment in the Test Achats case which relates to the ability of an insurance company to use gender as a rating factor when pricing risk. The ECJ has ruled that using gender as a rating factor when pricing risk is invalid. However, the ECJ has granted a transitional period for relief for implementation. The effect of this is that, as from December 21, 2012, it will be unlawful to use gender-related factors for determining premiums and benefits under insurance policies.

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Other risks

In December 2008, Aegon issued EUR 3 billion of non-voting convertible core capital securities to Vereniging Aegon, which was funded by the Dutch State and which subsequently required approval by the European Commission. In connection with the approval granted by the European Commission Aegon agreed with the Dutch Ministry of Finance to certain requirements on Aegon and its future actions. These requirements included behavioral constraints and structural measures. The behavioral constraints expired with the full repurchase of the convertible core capital securities and repayment of the Dutch State on June 15, 2011.

The structural measures that remained in force throughout 2012 include a reduction of the total U.S. general account assets, full delta hedging of the U.S. variable annuity guaranteed minimum income benefit back book, improvement of the ratio of consolidated shareholders equity to total equity base to at least 75% by December 2012, acceleration of the run-off of certain portfolios, and selling or putting into run-off Aegon s U.K. bulk purchase annuity business.

5 Segment information

Income statement - Underlying earnings	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	**Segment total**	Associates eliminations	**Consolidated**
2012									
Underlying earnings before tax	1,317	315	105	274	(220)	(4)	**1,787**	(7)	**1,780**
Fair value items	(76)	112	(31)	(1)	(4)	-	-	-	-
Realized gains / (losses) on investments	175	138	84	10	-	-	407	-	407
Impairment charges	(181)	(37)	-	(26)	(4)	2	(246)	1	(245)
Impairment reversals	64	8	-	-	-	(2)	70	-	70
Other income / (charges)	(28)	(279)	34	113	(2)	-	(162)	-	(162)
Run-off businesses	2	-	-	-	-	-	2	-	2
Income before tax	**1,273**	**257**	**192**	**370**	**(230)**	**(4)**	**1,858**	**(6)**	**1,852**
Income tax (expense) / benefit	(248)	(5)	(23)	(121)	71	-	(326)	6	(320)
Net income	**1,025**	**252**	**169**	**249**	**(159)**	**(4)**	**1,532**	**-**	**1,532**
Intersegment underlying earnings	(191)	(60)	(62)	286	27	-	-	-	-
Revenues									
2012									
Life insurance gross premiums	6,541	3,004	6,047	1,374	-	(73)	16,893	(227)	16,666
Accident and health insurance	1,833	220	-	188	5	(5)	2,241	-	2,241
General insurance	-	475	-	144	-	-	619	-	619
Total gross premiums	**8,374**	**3,699**	**6,047**	**1,706**	**5**	**(78)**	**19,753**	**(227)**	**19,526**
Investment income	3,654	2,212	2,337	319	374	(374)	8,522	(21)	8,501
Fee and commission income	1,177	329	133	524	-	(263)	1,900	-	1,900
Other revenues	5	-	-	3	5	-	13	(3)	10
Total revenues	**13,210**	**6,240**	**8,517**	**2,552**	**384**	**(715)**	**30,188**	**(251)**	**29,937**
Inter-segment revenues	31	2	1	310	371	-	-	-	-

In 2012, Aegon has revised its financial reporting to reflect changes in its organization. Businesses in Asia, which were previously managed by Aegon Americas, are included in the Asia line of business within the New Markets segment. For the full year 2011, the underlying earnings before tax generated by the Asian operations totaling EUR 37 million were previously reported under the Americas segment.

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Income statement - Underlying earnings 2011	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	Segment total	Associates eliminations	Consolidated
Underlying earnings before tax	1,273	298	5	249	(306)	3	**1,522**	(13)	**1,509**
Fair value items	(477)	156	(6)	(30)	(59)	-	(416)	-	(416)
Realized gains / (losses) on investments	119	269	51	7	-	-	446	-	446
Impairment charges	(306)	(16)	(62)	(61)	-	1	(444)	4	(440)
Impairment reversals	56	1	-	-	-	(1)	56	-	56
Other income / (charges)	(35)	(164)	(57)	7	(18)	-	(267)	-	(267)
Run-off businesses	28	-	-	-	-	-	28	-	28
Income before tax	**658**	**544**	**(69)**	**172**	**(383)**	**3**	**925**	**(9)**	**916**
Income tax (expense) / benefit	(15)	(125)	17	(61)	131	-	(53)	9	(44)
Net income	**643**	**419**	**(52)**	**111**	**(252)**	**3**	**872**	**-**	**872**
Intersegment underlying earnings	(157)	(105)	(68)	257	73				
Revenues 2011									
Life insurance gross premiums	6,004	3,213	6,474	1,600	-	(55)	17,236	(383)	16,853
Accident and health insurance	1,672	216	-	179	-	-	2,067	-	2,067
General insurance	-	452	-	149	-	-	601	-	601
Total gross premiums	**7,676**	**3,881**	**6,474**	**1,928**	**-**	**(55)**	**19,904**	**(383)**	**19,521**
Investment income	3,565	2,192	2,154	320	392	(385)	8,238	(70)	8,168
Fee and commission income	766	329	137	469	-	(237)	1,464	-	1,464
Other revenues	1	-	-	1	4	-	6	-	6
Total revenues	**12,008**	**6,402**	**8,765**	**2,718**	**396**	**(677)**	**29,612**	**(453)**	**29,159**
Inter-segment revenues	28	2	2	270	375				

Income statement - Underlying earnings 2010	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	Segment total	Associates eliminations	Consolidated
Underlying earnings before tax	1,414	385	72	245	(283)	-	**1,833**	(9)	**1,824**
Fair value items	(24)	361	(9)	(10)	(97)	-	221	-	221
Realized gains / (losses) on investments	376	155	14	17	96	-	658	(2)	656
Impairment charges	(463)	(17)	(39)	(22)	-	(1)	(542)	-	(542)
Impairment reversals	81	6	3	-	-	-	90	-	90
Other income / (charges)	(304)	38	48	(58)	(34)	1	(309)	-	(309)
Run-off businesses	(26)	-	-	-	-	-	(26)	-	(26)
Income before tax	**1,054**	**928**	**89**	**172**	**(318)**	**-**	**1,925**	**(11)**	**1,914**
Income tax (expense) / benefit	50	(217)	(5)	(53)	60	-	(165)	11	(154)
Net income	**1,104**	**711**	**84**	**119**	**(258)**	**-**	**1,760**	**-**	**1,760**
Intersegment underlying earnings	(131)	(51)	(67)	225	24				
Revenues 2010									
Life insurance gross premiums	6,499	3,185	7,425	1,731	-	(47)	18,793	(427)	18,366
Accident and health insurance	1,748	201	-	174	-	-	2,123	(2)	2,121
General insurance	-	451	-	159	-	-	610	-	610
Total gross premiums	**8,247**	**3,837**	**7,425**	**2,064**	**-**	**(47)**	**21,526**	**(429)**	**21,097**
Investment income	3,999	2,161	2,340	308	375	(349)	8,834	(72)	8,762
Fee and commission income	1,015	348	164	486	-	(269)	1,744	-	1,744
Other revenues	1	-	-	4	1	-	6	(1)	5
Total revenues	**13,262**	**6,346**	**9,929**	**2,862**	**376**	**(665)**	**32,110**	**(502)**	**31,608**
Inter-segment revenues	24	1	3	292	345				

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The Group uses underlying earnings before tax in its segment reporting as an important indicator of its financial performance. The reconciliation of this measure to the income before tax is shown below. Aegon believes that underlying earnings before tax, together with the other information included in this report, provides a meaningful measure for the investing public to evaluate Aegon s business relative to the businesses of its peers.

	Note	2012	2011	2010
Underlying earnings before tax		**1,780**	**1,509**	**1,824**
Fair value items		(142)	(308)	369
Realized gains and (losses) on financial investments	10	549	803	564
Gains and (losses) on investments in real estate	10	(53)	(49)	135
Fair value changes on economic hedges for which no hedge accounting is applied	10	(88)	(117)	(119)
Ineffective portion of hedge transactions for which hedge accounting is applied	10	5	13	(1)
Realized gains and (losses) on repurchased debt	10	7	4	18
DPAC / VOBA offset	14	(138)	(289)	(27)
Impairment (charges)/reversals	15	(180)	(481)	(694)
Other income / (charges)	11, 12, 14, 16, 17	110	(197)	(129)
Run-off businesses		2	28	(26)
Income/(loss) before tax		**1,852**	**916**	**1,914**

Other selected income statement items	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Total
2012						
Amortization of deferred expenses, VOBA and future servicing rights	830	83	295	140	-	1,348
Depreciation	31	23	10	16	11	91
Impairment charges / (reversals) on financial assets, excluding receivables	122	28	-	26	4	180
Impairment charges / (reversals) on non-financial assets and receivables	4	8	-	14	-	26
2011						
Amortization of deferred expenses, VOBA and future servicing rights	1,092	91	258	131	-	1,572
Depreciation	33	19	8	13	5	78
Impairment charges / (reversals) on financial assets, excluding receivables	271	15	63	57	-	406
Impairment charges / (reversals) on non-financial assets and receivables	(1)	71	5	2	-	77
2010					-	
Amortization of deferred expenses, VOBA and future servicing rights	1,043	99	250	118	-	1,510
Depreciation	41	18	12	15	2	88

Impairment charges / (reversals) on financial assets, excluding receivables	454	11	36	24	-	525
Impairment charges / (reversals) on non-financial assets and receivables	161	(2)	1	16	-	176

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Number of employees	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Total
2012						
Employees - excluding agents	9,900	4,136	2,721	4,353	450	21,560
Agent employees	1,604	321	72	827	23	2,847
Total	**11,504**	**4,457**	**2,793**	**5,180**	**473**	**24,407**
2011						
Employees - excluding agents	10,182	4,457	3,122	4,161	327	22,249
Agent employees	1,630	382	81	946	-	3,039
Total	**11,812**	**4,839**	**3,203**	**5,107**	**327**	**25,288**
2010						
Employees - excluding agents	11,223	4,652	4,056	4,161	316	24,408
Agent employees	1,450	470	82	1,064	-	3,066
Total	**12,673**	**5,122**	**4,138**	**5,225**	**316**	**27,474**

Summarized assets and liabilities per segment	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	Total
2012							
Assets							
VOBA and future servicing rights	1,563	66	396	218	-	-	2,243
Investments general account	86,459	42,838	11,338	4,790	759	(2)	146,182
Investments for account of policyholders	65,970	25,094	55,886	6,726	-	(6)	153,670
Investments in associates	90	79	8	648	4	-	829
Deferred expenses	7,225	178	3,600	684	-	-	11,687
Other assets	16,977	27,243	2,288	3,090	39,067	(37,210)	51,455
Total assets	**178,284**	**95,498**	**73,516**	**16,156**	**39,830**	**(37,218)**	**366,066**
Liabilities							
Insurance contracts general account	68,153	23,850	9,932	4,837	(7)	(1,556)	105,209
Insurance contracts for account of policyholders	45,589	26,158	2,011	3,113	-	-	76,871
Investment contracts general account	12,256	4,655	672	185	-	-	17,768
Investment contracts for account of policyholders	20,381	2	54,422	3,613	-	-	78,418
Other liabilities	13,779	35,478	2,211	1,952	10,176	(5,457)	58,139
Total liabilities	**160,158**	**90,143**	**69,248**	**13,700**	**10,169**	**(7,013)**	**336,405**

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Summarized assets and liabilities per segment	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	Total
2011							
Assets							
VOBA and future servicing rights	1,794	73	401	215	-	-	2,483
Investments general account	89,573	39,019	9,952	4,782	755	(2)	144,079
Investments for account of policyholders	61,729	23,223	51,166	6,415	-	(4)	142,529
Investments in associates	77	52	9	600	4	-	742
Deferred expenses	7,049	239	3,498	646	-	-	11,432
Other assets	17,009	18,890	3,187	2,928	35,878	(33,781)	44,111
Total assets	**177,231**	**81,496**	**68,213**	**15,586**	**36,637**	**(33,787)**	**345,376**
Liabilities							
Insurance contracts general account	69,626	22,437	9,377	4,801	-	(1,267)	104,974
Insurance contracts for account of policyholders	43,909	24,488	2,091	2,937	-	-	73,425
Investment contracts general account	14,408	5,534	719	186	-	-	20,847
Investment contracts for account of policyholders	17,823	-	50,132	3,478	-	-	71,433
Other liabilities	13,937	24,826	2,362	1,858	10,903	(4,923)	48,963
Total liabilities	**159,703**	**77,285**	**64,681**	**13,260**	**10,903**	**(6,190)**	**319,642**

Investments	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	**Total**
2012							
Shares	1,390	412	51	48	-	(2)	1,899
Bonds	63,686	19,256	11,066	4,000	-	-	98,008
Loans	8,910	20,972	5	693	-	-	30,580
Other financial assets	11,707	286	216	48	759	-	13,016
Investments in real estate	766	1,912	-	1	-	-	2,679
Investments general account	**86,459**	**42,838**	**11,338**	**4,790**	**759**	**(2)**	**146,182**
Shares	-	8,406	28,378	3,720	-	(6)	40,498
Bonds	-	16,266	12,997	430	-	-	29,693
Separate accounts and investment funds	65,970	-	10,099	1,259	-	-	77,328
Other financial assets	-	422	3,404	1,317	-	-	5,143
Investments in real estate	-	-	1,008	-	-	-	1,008
Investments for account of policyholders	**65,970**	**25,094**	**55,886**	**6,726**	**-**	**(6)**	**153,670**
Investments on balance sheet	152,429	67,932	67,224	11,516	759	(8)	299,852
Off balance sheet investments third parties	100,725	-	10	57,217	-	-	157,952
Total revenue generating investments	253,154	**67,932**	**67,234**	**68,733**	**759**	**(8)**	**457,804**
Investments							
Available-for-sale	72,271	19,717	11,287	3,808	19	-	107,102
Loans	8,910	20,972	5	693	-	-	30,580
Held-to-maturity	-	-	-	189	-	-	189
Financial assets at fair value through profit or loss	70,482	25,331	54,924	6,825	740	(8)	158,294
Investments in real estate	766	1,912	1,008	1	-	-	3,687
Total investments on balance sheet	**152,429**	**67,932**	**67,224**	**11,516**	**759**	**(8)**	**299,852**
Investments in associates	90	79	8	648	4	-	829
Other assets	25,765	27,487	6,284	3,992	39,106	(37,249)	65,385
Consolidated total assets	**178,284**	**95,498**	**73,516**	**16,156**	**39,869**	**(37,257)**	**366,066**

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Investments	Americas	The Netherlands	United Kingdom	New Markets	Holding and other activities	Eliminations	Total
2011							
Shares	1,209	505	54	60	11	(2)	1,837
Bonds	64,853	17,640	9,890	4,036	-	-	96,419
Loans	10,260	18,825	8	643	-	-	29,736
Other financial assets	12,476	40	-	43	744	-	13,303
Investments in real estate	775	2,009	-	-	-	-	2,784
Investments general account	**89,573**	**39,019**	**9,952**	**4,782**	**755**	**(2)**	**144,079**
Shares	-	7,608	26,045	3,459	-	(4)	37,108
Bonds	-	15,124	11,975	277	-	-	27,376
Separate accounts and investment funds	61,729	-	8,495	1,060	-	-	71,284
Other financial assets	-	491	3,519	1,619	-	-	5,629
Investments in real estate	-	-	1,132	-	-	-	1,132
Investments for account of policyholders	**61,729**	**23,223**	**51,166**	**6,415**	**-**	**(4)**	**142,529**
Investments on balance sheet	151,302	62,242	61,118	11,197	755	(6)	286,608
Off balance sheet investments third parties	91,951	-	-	44,959	-	-	136,910
Total revenue generating investments	**243,253**	**62,242**	**61,118**	**56,156**	**755**	**(6)**	**423,518**
Investments							
Available-for-sale	74,060	18,016	9,896	3,861	27	-	105,860
Loans	10,260	18,825	8	643	-	-	29,736
Held-to-maturity	-	-	-	168	-	-	168
Financial assets at fair value through profit or loss	66,207	23,392	50,082	6,525	728	(6)	146,928
Investments in real estate	775	2,009	1,132	-	-	-	3,916
Total investments on balance sheet	**151,302**	**62,242**	**61,118**	**11,197**	**755**	**(6)**	**286,608**
Investments in associates	77	52	9	600	4	-	742
Other assets	25,852	19,202	7,086	3,789	35,878	(33,781)	58,026
Consolidated total assets	**177,231**	**81,496**	**68,213**	**15,586**	**36,637**	**(33,787)**	**345,376**

6 Premium income and premiums to reinsurers

	Gross	Reinsurance
2012		
Life	16,666	3,324
Non-Life	2,860	411
Total	**19,526**	**3,735**
2011		
Life	16,853	3,042
Non-Life	2,668	365
Total	**19,521**	**3,407**
2010		
Life	18,366	1,509
Non-Life	2,731	350
Total	**21,097**	**1,859**

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7 Investment income

	2012	2011	2010
Interest income	7,367	7,256	7,957
Dividend income	983	745	632
Rental income	151	166	173
Total investment income	**8,501**	**8,167**	**8,762**
Investment income related to general account	5,956	5,823	6,258
Investment income for account of policyholders	2,545	2,344	2,504
Total	**8,501**	**8,167**	**8,762**

Investment income from financial assets held for general account	**2012**	2011	2010
Available-for-sale	4,181	4,119	4,509
Loans	1,511	1,429	1,363
Held-to-maturity	8	7	5
Financial assets designated at fair value through profit or loss	139	125	155
Real estate	86	93	100
Derivatives	28	26	113
Other	3	24	13
Total	**5,956**	**5,823**	**6,258**

Investment income from:	**2012**	2011	2010
Shares	983	745	632
Debt securities and money market instruments	5,770	5,716	6,405
Loans	1,511	1,429	1,363
Real estate	151	166	173
Other	86	111	189
Total	**8,501**	**8,167**	**8,762**

Included in interest income is EUR 197 million (2011: EUR 118 million; 2010: EUR 122 million) in respect of interest income accrued on impaired financial assets. The interest income on financial assets that are not carried at fair value through profit or loss amounted to EUR 5,643 million (2011: EUR 5,540 million; 2010: EUR: 5,854 million).

8 Fee and commission income

	2012	2011	2010
Fee income from asset management	1,096	700	914
Sales commissions	394	381	409
Commissions from intermediary activities	195	208	232
Other	215	176	189
Total fee and commission income	**1,900**	**1,465**	**1,744**

Included in fee and commission income is EUR 79 million of fees on trust and fiduciary activities (2011: EUR 76 million; 2010: EUR 109 million). EUR 3 million of fees were recognized on financial assets and liabilities that are not carried at fair value with changes in the fair value recognized in the income statement (2011: EUR 4 million; 2010: EUR 3 million).

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9 Income from reinsurance ceded

	2012	2011	2010
Recovered claims and benefits	7,040	2,206	2,248
Change in technical provisions	(3,199)	137	(530)
Commissions	287	432	151
Total	**4,128**	**2,775**	**1,869**

Income from reinsurance ceded represents mainly claims made under reinsured insurance policies.

The increase in Income from reinsurance ceded in 2012 compared to 2011 is mainly the result of the increased income from external reinsurance following the divestment of the life reinsurance business, Transamerica Reinsurance, to SCOR, completed on August 9, 2011.

10 Results from financial transactions

Results from financial transactions comprise:	**2012**	2011	2010
Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives	419	44	257
Realized gains and losses on financial investments	549	803	564
Gains and (losses) on investments in real estate	(53)	(49)	135
Net fair value change of derivatives	303	1,165	1,340
Net fair value change on for account of policyholder financial assets at fair value through profit or loss	11,855	(2,133)	13,217
Net fair value change on investments in real estate for account of policyholders	(46)	20	73
Net foreign currency gains and (losses)	10	(17)	60
Net fair value change on borrowings and other financial liabilities	(48)	(24)	(2)
Realized gains and (losses) on repurchased debt	7	4	18
Total	**12,996**	**(187)**	**15,662**

Included in the results from financial transactions is an amount of EUR 93 million of cash received from total return swaps.

Net fair value change of general account financial investments at fair value through profit or loss, other than derivatives comprise:	**2012**	2011	2010
Shares	76	(50)	95
Debt securities and money market investments	70	(22)	49
Other	273	116	113
Total	**419**	**44**	**257**

Other in 2012 mainly includes net fair value changes of alternative investments.

Realized gains and losses on financial investments comprise:	**2012**	2011	2010
Shares	37	190	64
Debt securities and money market investments	492	610	553
Loans	45	37	13
Other	(25)	(34)	(66)
Total	**549**	**803**	**564**

Realized gains and losses on financial investments comprise:	**2012**	2011	2010
Available-for-sale investments	504	766	551
Loans	45	37	13
Total	**549**	**803**	**564**

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Net fair value change of derivatives comprise:	2012	2011	2010
Net fair value change on free standing derivatives	448	2,334	747
Net fair value change on embedded derivatives	(62)	(1,065)	713
Ineffective portion of hedge transactions to which hedge accounting is applied	5	13	(1)
Fair value changes on economic hedges for which no hedge accounting is applied	(88)	(117)	(119)
Total	**303**	**1,165**	**1,340**

The ineffective portion of hedge transactions to which hedge accounting is applied comprises:	2012	2011	2010
Fair value change on hedging instruments in a fair value hedge	(13)	(99)	146
Fair value change on hedged items in fair value hedge	28	111	(152)
Ineffectiveness fair value hedge	15	12	(6)
Ineffectiveness cash flow hedges	(10)	1	5
Total	**5**	**13**	**(1)**

Net fair value change on for account of policyholder financial assets at fair value through profit or loss comprise:	2012	2011	2010
Shares	3,190	(2,030)	5,018
Debt securities and money market investments	1,461	946	905
Deposits with financial institutions	18	4	16
Separate accounts and unconsolidated investment funds	7,186	(1,053)	7,278
Total	**11,855**	**(2,133)**	**13,217**

Net fair value changes on for account of policyholder financial assets at fair value through profit or loss are offset by Claims and benefits paid to policyholders reported in Policyholder claims and benefits (note 12).

11 Other income

	2012	2011	2010
Other income	151	39	40

Other income in 2012 mainly included the gain on the sale of Aegon s interest in Prisma Capital Partners LP (Prisma) of EUR 100 million and the gain following the ending of the life, health and pension partnership with Banca Cívica of EUR 35 million. For more details on these two transactions refer to note 25 and 51 respectively. In 2011 other income primarily included a benefit related to the settlement of legal claims of EUR 37 million. In 2010 other income primarily included a gain of EUR 33 million related to the sale of the funeral insurance business in the Netherlands.

12 Policyholder claims and benefits

	2012	2011	2010
Claims and benefits paid to policyholders	20,992	16,814	18,909
Gains / (losses) on separate accounts	6,240	(598)	6,013
Change in valuation of liabilities for insurance and investment contracts	7,923	4,014	13,206
Total	**35,155**	**20,230**	**38,128**

Claims and benefits reflects the claims and benefits paid to policyholders, including claims and benefits in excess of account value for products for which deposit accounting is applied and the change in valuation of liabilities for insurance and investment contracts. In addition, Claims and benefits includes commissions and expenses, as well as premium paid to reinsurers. Claims and benefits fluctuates mainly as a result of changes in technical provisions resulting from fair value changes on for account of policyholder financial assets included in Results from financial transactions (note 10).

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The change in valuation of liabilities for insurance and investment contracts include gains of EUR 105 million (2011: loss of EUR 388 million, 2010: gains of EUR 283 million) regarding fair value movements of guarantees and EUR 39 million of gains (2011: gains of EUR 41 million, 2010: gains of EUR 60 million) related to policyholder tax and other charges that are classified for segment reporting purposes as non underlying earnings.

In 2012, Aegon decided to bring forward the measures, as Aegon committed to the best of class principles of the Dutch Ministry of Finance, to reduce future costs for its customers with unit-linked insurance policies in the Netherlands. This decision has lead to an increase in the technical provisions (which is included in the Change in valuation of liabilities for insurance and investment contracts line in the table above) by EUR 265 million. Refer to note 49 Commitments and contingencies for more details.

13 Profit sharing and rebates

	2012	2011	2010
Surplus interest bonuses	6	7	9
Profit appropriated to policyholders	28	48	27
Total	**34**	**55**	**36**

14 Commissions and expenses

	2012	2011	2010
Commissions	2,787	2,666	2,802
Employee expenses	2,092	2,069	2,151
Administration expenses	1,096	1,315	1,182
Deferred expenses	(1,587)	(1,458)	(1,611)
Amortization of deferred expenses	1,179	1,361	1,306
Amortization of VOBA and future servicing rights	169	211	204
Total	**5,736**	**6,164**	**6,034**

Included in administration expenses above is depreciation amounting to EUR 90 million (2011: EUR 77 million; 2010: EUR 88 million) that relates to equipment, software and real estate held for own use. The direct operating expenses relating to investments in real estate that generated rental income was EUR 92 million (2011: EUR 92 million; 2010: EUR 83 million). Minimum lease payments recognized as expense amounted to EUR 15 million (2011: EUR 7 million; 2010: EUR 7 million). Included in employee expenses is EUR 31 million (2011: EUR 27 million; 2010: EUR 29 million) regarding defined contribution expenses.

A charge of EUR 126 million (2011: EUR 263 million, 2010: EUR 24 million), included in amortization of deferred expenses, is classified as non underlying earnings for segment reporting purposes and is offset against realized gains and losses and impairments on financial investments.

Out of the EUR 169 million of VOBA and future servicing rights amortization, EUR 13 million (2011: EUR 25 million, 2010: EUR 3 million) is classified as non underlying earnings for segment reporting purposes. Included in employee and administration expenses is EUR 27 million of restructuring charges (2011: EUR 206 million; 2010: EUR 74 million) that are classified as non underlying earnings for segment reporting purposes.

Employee expenses	2012	2011	2010
Salaries	1,296	1,283	1,368
Post-employment benefit costs	331	237	258
Social security charges	137	135	134
Other personnel costs	296	396	390
Shares, share appreciation rights, share options and LTIP	32	18	1
Total	**2,092**	**2,069**	**2,151**

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Long Term Incentive Plans

In 2010, Aegon implemented a Long Term Incentive Plan which replaced the option plan, share appreciation plans, share plans or similar plans relating to Aegon shares. Members of the Executive Board and the Management Board, as well as other senior managers within Aegon, were granted the right to receive Aegon shares if certain performance indicators are met and depending on continued employment of the individual employee to whom the rights have been granted. The shares were granted in May 2010 at the average share price on the NYSE Euronext stock exchange in Amsterdam during the period between December 15 preceding a plan year and January 15 of a plan year. The performance indicators apply over a vesting period of three years (2010 - 2012) and consist of financial and non-financial targets set by the Supervisory Board or the local remuneration committees. After the vesting period, the shares are transferred to the individual employees. Members of the Executive Board and the Management Board are not entitled to execute any transactions regarding the shares for a period of two years following vesting.

As per 2011 the structure of Long Term Incentives scheme changed. Senior managers within Aegon, not classified as Identified Staff , have been granted the conditional right to receive Aegon shares if certain performance indicators are met and depending on continued employment of the individual employee to whom the rights have been granted. The shares were granted at the beginning of the year at the average share price on the NYSE Euronext stock exchange in Amsterdam during the period between December 15 preceding a plan year and January 15 of a plan year. The performance indicators apply over a performance period of one year and consist of financial and non-financial targets set by the Supervisory Board or the local remuneration committees. Following the performance year shares are allocated based on actual performance. A vesting period of two years applies after which the shares are transferred to the individual employees. Ex post assessment is not applicable to this group of employees.

Variable Compensation Identified Staff

Members of the Executive Board and the Management Board as well as other selected Senior Managers have been defined as Identified Staff in accordance with new rules, guidelines and interpretations. Of these, the Capital Requirements Directive III (CRD III) remuneration principles, the 2010 Guidelines on Remuneration Policies and Practices by the Committee of European Banking Supervisors (CEBS) and the 2011 Decree on Sound Remuneration Policy by De Nederlandsche Bank (Regeling beheerst beloningsbeleid WFt 2011 - Rbb) are prominent examples. The rules have been adopted in Aegon s Global Remuneration Framework for Identified Staff. After the performance period, and based on the framework, variable compensation is partially made available and partly deferred. Variable compensation is paid in cash and in Aegon N.V. shares. The shares were conditionally granted at the beginning of the year at the average share price on the NYSE Euronext stock exchange in Amsterdam during the period between December 15 preceding a plan year and January 15 of the plan year. The performance indicators apply over a performance period of one year and consist of financial and non-financial targets set by the Supervisory Board or the local remuneration committees. For Members of the Executive Board and the Management Board all variable compensation has vested after three years following the performance period. After the vesting period, the variable compensation is transferred to the individual employees. Additional holding periods may apply for vested shares. Members of the Executive Board and the members of the Management Board who are based in the Netherlands are not entitled to execute any transactions regarding the shares for a period of three years following vesting (with the exception of shares sold to meet income tax obligations).

In compliance with regulations under Dutch law, no transactions regarding the shares can be exercised in blackout periods.

In 2010, 4,266,107 shares were conditionally granted to participants in the 2010 Long Term Incentive Plan. The shares were granted using the share price of EUR 4.851. At December 31, 2012, 3,596,239 granted shares were outstanding. Actual allocation of the shares takes place in 2013 on the basis of realized performance, after which the shares will be unconditional. Holding periods of up to two years may apply.

Following the 2011 performance year 5,652,488 shares are outstanding to participants in the 2011 Long Term Incentive Plan and the 2011 Variable Compensation Plan for Identified Staff. The shares have been granted using the share price of EUR 4.727.

In 2012, 9,195,284 shares were conditionally granted (at target performance level) to participants in the 2012 Long Term Incentive Plan and the 2012 Variable Compensation Plan for Identified Staff. The shares have been granted using the share price of EUR 3.126.

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Share appreciation rights and share options

Senior executives of Aegon companies, as well as other Aegon employees, have been offered both share appreciation rights and share options. These share appreciation rights and share options have been granted at an exercise price equal to the market price of the shares at the date of the grant. The rights and options granted in 2004 - 2008 vest after three years and can only be exercised during the four years after the vesting date. The rights and options granted vest after two years and can only be exercised during the five years after the vesting date. Vesting and exercisability depend on continuing employment of the individual employee to whom the rights and options have been granted. Option plans are settled in equity, whilst stock appreciation rights are settled in cash or provide the employee with the choice of settlement.

After 2008 no share option or share appreciation rights have been granted.

In compliance with regulations under Dutch law, share appreciation rights and share options cannot be exercised in blackout periods.

Share appreciation rights

The following tables present the movements in number of share appreciation rights outstanding (SARs), as well as the breakdown by the year in which they were granted.

	Number of SARs	Weighted average exercise price in EUR	Weighted average remaining contractual term in years	Aggregate intrinsic in EUR million
Outstanding at January 1, 2011	7,896,140	10.77	0.79	-
Forfeited	(874,765)	10.77		
Expired	(4,184,926)	10.56		
Outstanding at January 1, 2012	**2,836,449**	**11.09**	**0.6**	**-**
Forfeited	(228,800)	11.21		
Expired	(2,171,649)	10.86		
Outstanding at December 31, 2012	**436,000**	**12.19**	**1.31**	**-**
Exercisable at December 31, 2012	**436,000**	**12.19**	**1.31**	**-**

During 2011 and 2012 no share appreciation rights were exercised.

SARs	Original number granted	**Outstanding January 1, 2012**	**Outstanding December 31, 2012**	Exercise price in EUR	Exercise period
2004	11,574,850	-	-	10.56	until March 17, 2011
2005	4,575,600	2,307,849	-	10.86	until March 8, 2012
2006	244,300	166,200	135,200	14	until March 14, 2013

2007	309,500	138,300	121,500	14.98	until March 13, 2014
2008	300,300	224,100	179,300	8.93	until March 11, 2015
Total	**17,004,550**	**2,836,449**	**436,000**		

Refer to note 3 for a further description of the method used to estimate the fair value and a description of the significant assumptions. The volatility is derived from quotations from external market sources and the expected dividend yield is derived from quotations from external market sources and the binomial option pricing model.

The liability related to share appreciation rights is valued at fair value at each balance sheet date. There were no costs related to the share appreciation rights in 2012 (2011: nil; 2010: EUR 4 million). In prior years these costs were recognized in the income statement as part of Commissions and expenses .

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Share options

The following tables present the movements in number of share options, as well as the breakdown by the year in which they were granted.

	Number of share options	Weighted average exercise price in EUR	Weighted average remaining contractual term in years	Aggregate intrinsic in EUR million
Outstanding at January 1, 2011	21,844,693	11.91	2.97	-
Forfeited/Cancelled	(3,066,332)	11.91		
Outstanding at January 1, 2012	**18,778,361**	**11.91**	**1.98**	**-**
Forfeited/Cancelled	(4,855,384)	11.44		
Expired	-	-		
Outstanding at December 31, 2012	**13,922,977**	**12.09**	**1.31**	**-**
Exercisable at December 31, 2012	**13,922,977**	**12.09**	**1.31**	**-**

In 2011 and 2012 no share options were exercised.

Share options	Original number granted	Outstanding January 1, 2012	Outstanding December 31, 2012	Exercise price in EUR	Exercise period
2005	5,586,160	2,916,860	-	10.86	until March 8, 2012
2006	9,149,500	5,167,821	4,520,403	14	until March 14, 2013
2007	9,522,200	3,981,510	3,478,732	14.98	until March 13, 2014
2008	10,269,900	6,712,170	5,923,842	8.93	until March 11, 2015
Total	**34,527,760**	**18,778,361**	**13,922,977**		

The costs related to the share options amount to EUR (2) million (2011: EUR (1) million and 2010: EUR (7) million) and are recognized in the income statement as part of Commissions and expenses .

Share appreciation rights and share options

No SARs and share options were granted after 2008. With regard to the SARs and options granted before 2009, no share options were exercised and no SARs were paid during 2010, 2011 and 2012. Similarly, no cash is received from exercise of share options during 2010, 2011 and 2012.

The exposure from the issued SARs and share options is economically hedged by part of the position in treasury shares. There have been no modifications to the plans during the financial year.

Refer to note 53 for detailed information on conditional shares and share options granted to the Executive Board.

15 Impairment charges / (reversals)

Impairment charges / (reversals) comprise:	**2012**	2011	2010
Impairment charges on financial assets, excluding receivables [1)]	250	461	615
Impairment reversals on financial assets, excluding receivables [1)]	(70)	(55)	(90)
Impairment charges on non-financial assets and receivables [2)]	26	77	176
Total	**206**	**483**	**701**

1 Impairment charges/(reversals) on financial assets, excluding receivables, are excluded from underlying earnings before tax for segment reporting (refer to note 5).
2 Of impairment charges on non-financial assets and receivables EUR 0 million is excluded from underlying earnings before tax for segment reporting (refer to note 5) (2011: EUR 75 million and 2010: EUR 169 million)

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Impairment charges on financial assets, excluding receivables, from:	2012	2011	2010
Shares	15	10	7
Debt securities and money market instruments	153	345	475
Loans	80	99	114
Other	1	6	19
Investments in associates	1	1	-
Total	**250**	**461**	**615**

Impairment reversals on financial assets, excluding receivables, from:	2012	2011	2010
Debt securities and money market instruments	(54)	(48)	(73)
Loans	(16)	(7)	(17)
Total	**(70)**	**(55)**	**(90)**

For more details on impairments on financial assets, excluding receivables, refer to note 4 Financial and insurance risks.

16 Interest charges and related fees

	2012	2011	2010
Trust pass-through securities	8	8	8
Subordinated loans	4	1	-
Borrowings	371	362	324
Other	84	120	94
Total	**467**	**491**	**426**

The interest charges accrued on financial assets and liabilities that are not carried at fair value through profit or loss amounted to EUR 339 million (2011: EUR 284 million; 2010: EUR 303 million).

There are no interest charges and related fees that are classified for segment reporting purposes as non underlying earnings (2011: nil; 2010: EUR 27 million).

17 Other charges

	2012	2011	2010
Other charges	**53**	**69**	**122**

Other charges in 2012 mainly include a charge of EUR 26 million related to a settlement in Q4 following the termination of a Bank-Owned Life Insurance contract in the United States and a charge of EUR 16 million related to the annual bank tax by the Hungarian Government (2011: EUR 17 million; 2010: EUR 19 million).

Other charges in 2011 mainly include EUR 37 million related to increased reserves in connection with the company s use of the Social Security administration s death master file in the United States and a loss of EUR 7 million on the sale of the Guardian life and pension business in the United Kingdom.

In 2010, other charges included a provision of EUR 95 million for the settlement of a dispute related to a Bank-Owned Life Insurance (BOLI) policy in the United States.

Other charges is fully excluded from underlying earnings for segment reporting purposes (refer to note 2.5).

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18 Income tax

	Note	2012	2011	2010
Current tax				
Current year		236	(158)	227
Adjustments to prior year		79	(22)	40
		315	**(180)**	**267**
Deferred tax	**43**			
Origination / (reversal) of temporary differences		125	232	108
Changes in tax rates / bases		(70)	(51)	(11)
Changes in deferred tax assets as a result of recognition / write off of previously not recognized / recognized tax losses, tax credits and deductible temporary differences		(3)	(31)	(218)
Non-recognition of deferred tax assets		56	78	49
Adjustments to prior year		(103)	(4)	(41)
		5	**224**	**(113)**
Income tax for the period (income) / charge		**320**	**44**	**154**

The prior year adjustments include shifts between current and deferred tax.

Reconciliation between standard and effective income tax:	2012	2011	2010
Income before tax	1,852	916	1,914
Income tax calculated using weighted average applicable statutory rates	578	279	566
Difference due to the effects of:			
Non-taxable income	(93)	(66)	(71)
Non-tax deductible expenses	15	46	57
Changes in tax rate/base	(70)	(51)	(11)
Different tax rates on overseas earnings	(38)	(39)	(180)
Tax credits	(69)	(67)	(70)
Other taxes	18	(3)	15
Adjustments to prior years	(24)	(26)	(1)
Origination and change in contingencies	1	(62)	22
Changes in deferred tax assets as a result of recognition/write off of previously not recognized/recognized tax losses, tax credits and deductible temporary differences	(3)	(31)	(218)
Non-recognition of deferred tax assets	56	78	49
Tax effect of (profit) / losses from associates	-	-	1
Other	(51)	(14)	(5)
	(258)	**(235)**	**(412)**
Income tax for the period (income) / charge	**320**	**44**	**154**

The weighted average applicable tax rate for 2012 is 31.2% (2011: 30.5%; 2010: 29.6%). The marginal increase of the weighted average applicable tax rate compared to prior years is caused by the increased contribution to the overall profit of the higher taxed countries (mainly the US).

The beneficial impact in respect of the changes in tax rate/base is primarily the result of the decreased corporate income tax rate in the UK. The corporate income tax rate decreased from 26% in 2011 to 24% as from April 1, 2012. The rate will further decrease to 23% as from April 1, 2013.

Different tax rates on overseas earnings in the reconciliation between standard and effective income tax consists of results on intercompany reinsurance transactions between Ireland and the US. Losses in the US are deductible at 35% and gains in Ireland are taxed at 12.5%.

In 2012, Other consists of a benefit related to the run-off of the company s institutional spread-based activities in Ireland.

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19 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the net income attributable to equity holders, after deduction of preferred dividends declared, coupons on perpetual securities, coupons and premium on convertible core capital securities and potential coupon on convertible core capital securities by the weighted average number of common shares, excluding common shares purchased by the company and held as treasury shares (refer to note 30.1 and 30.3 respectively).

	2012	2011	2010
Net income / (loss) attributable to equity holders	1,531	869	1,759
Dividends on preferred shares	(59)	(59)	(90)
Coupons on perpetual securities	(172)	(177)	(187)
Coupons and premium on convertible core capital securities		(750)	(63)
Potential coupon on convertible core capital securities		-	(127)
Coupons on non-cumulative subordinated notes	(23)	-	-
Net income / (loss) attributable to common shareholders for basic earnings per share calculation	**1,277**	**(117)**	**1,292**
Weighted average number of common shares, excluding treasury shares (millions)	**1,907**	**1,852**	**1,707**
(EUR per share)			
Basic earnings per share	**0.67**	**(0.06)**	**0.76**

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the average number of shares outstanding for share options. For the purpose of calculating diluted earnings per share, Aegon assumed that all dilutive share options have been exercised at the exercise price, or adjusted exercise price if necessary. The proceeds are regarded as having been received from the issue of common shares at the average market price of the Aegon N.V. share during the year. The difference between the number of dilutive options issued and the number of common shares that would have been issued at the average market price has been treated as an issue of common shares for no consideration.

The number of share options that has not been included in the weighted average number of common shares used in the calculation of diluted earnings per share amounted to 13.922.977 (2011: 18,778,361; 2010: 21,844,693). In 2012, 2011 and 2010 the average share price did not exceed the exercise price. At December 31, 2012, the exercise prices of these share options range from EUR 8.93 to EUR 14.98.

Net book value	2012	2011	2010
Net income / (loss) attributable to equity holders	1,531	869	1,759
Dividends on preferred shares	(59)	(59)	(90)
Coupons on perpetual securities	(172)	(177)	(187)
Coupons and premium on convertible core capital securities	-	(750)	-
Coupons on non-cumulative subordinated notes	(23)	-	-
Net income / (loss) attributable to common shareholders for diluted earnings per share calculation	**1,277**	**(117)**	**1,482**
Weighted average number of common shares (millions)	1,907	1,852	1,707
Adjustments for:			
- Convertible core capital securities (millions)		-	458
Weighted average number of common shares for diluted earnings per share calculation (millions)	**1,907**	**1,852**	**2,165**
Diluted earnings per share (EUR per share)	**0.67**	**(0.06)**	**0.68**

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20 Dividend per common share

It will be proposed to the annual General Meeting of Shareholders on May 15, 2013, absent unforeseen circumstances, to pay a dividend for the year 2012 of EUR 0.21 per common share after taking into account the interim dividend 2012 of EUR 0.10 per common share, resulting in a final dividend of EUR 0.11 per common share. The interim dividend 2012 was paid in cash or stock at the election of the shareholder. The interim dividend was payable as of September 14, 2012.

In the second quarter of 2012, a final dividend of EUR 0.10 per common share was paid relating to the second half year of 2011.The dividend per common share paid in 2011 (final dividend 2010 and interim dividend 2011) and 2010 (final dividend 2009 and interim dividend 2010) was nil in both years. As part of the European Commission s approval granted in August 2010 regarding the state support received in December 2008, Aegon committed itself not to pay any dividend to the common shareholder until the convertible core capital securities had been fully repurchased. The repurchase of the convertible core capital securities was completed in 2011, refer to note 31 for additional information on this repurchase.

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21 Intangible assets

Net book value	Goodwill	VOBA	Future servicing rights	Software	Other	Total
At January 1, 2011	652	3,221	444	32	10	4,359
At December 31, 2011	753	2,086	397	36	13	3,285
At December 31, 2012	**638**	**1,860**	**383**	**58**	**9**	**2,948**
Cost						
At January 1, 2012	882	7,249	616	249	80	9,076
Additions	-	-	-	33	1	34
Acquisitions through business combinations	81	22	-	-	-	103
Capitalized subsequent expenditure	-	-	-	4	-	4
Disposals	-	-	-	(8)	-	(8)
Disposal of a business	(158)	(18)	-	-	-	(176)
Net exchange differences	4	(60)	5	6	(1)	(46)
Other movements	(44)	(9)	-	(1)	-	(54)
At December 31, 2012	**765**	**7,184**	**621**	**283**	**80**	**8,933**
Accumulated amortization, depreciation and impairment losses						
At January 1, 2012	129	5,163	219	213	67	5,791
Amortization / depreciation through income statement	-	148	20	13	4	185
Shadow accounting adjustments	-	85	-	-	-	85
Disposals	-	-	-	(7)	-	(7)
Disposal of a business	-	(4)	-	-	-	(4)
Net exchange differences	(2)	(59)	(1)	7	-	(55)
Other movements	-	(9)	-	(1)	-	(10)
At December 31, 2012	**127**	**5,324**	**238**	**225**	**71**	**5,985**
Cost						
At January 1, 2011	744	7,482	703	238	73	9,240
Additions	-	-	1	14	1	16
Acquisitions through business combinations	147	39	-	-	-	186
Capitalized subsequent expenditure	-	-	-	3	-	3
Disposals	-	-	-	(1)	-	(1)
Disposal of a business	-	(444)	(63)	-	-	(507)
Net exchange differences	(6)	172	(3)	1	2	166
Other movements	(3)	-	(22)	(6)	4	(27)
At December 31, 2011	**882**	**7,249**	**616**	**249**	**80**	**9,076**
Accumulated amortization, depreciation and impairment losses						
At January 1, 2011	92	4,261	259	206	63	4,881
Amortization / depreciation through income statement	-	183	26	8	3	220
Shadow accounting adjustments	-	109	-	-	-	109
Disposals	-	-	-	(1)	-	(1)
Disposal of a business	-	413	(48)	-	-	365
Impairment losses	34	41	-	-	-	75
Net exchange differences	3	156	3	2	1	165
Other	-	-	(21)	(2)	-	(23)
At December 31, 2011	**129**	**5,163**	**219**	**213**	**67**	**5,791**

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Amortization and depreciation through income statement is included in Commissions and expenses . None of the intangible assets have titles that are restricted or have been pledged as security for liabilities.

The decrease in goodwill reflects the disposal of a business following the ending of a partnership with Banca Civica and a decrease of an earn out provision resulting in a write off of goodwill relating to Caja Cantabria reported in Other movements. This is partly offset by an increase following an acquisition of Liberbank Vida. According to Aegon s accounting policies, any changes in the estimated value of an earn out provision related to a business combination that dates prior to July 1, 2008, are recognized in goodwill.

The addition of goodwill in 2011 was attributable to the extension of Aegon s life and health insurance and pension partnership with Unnim, effective July 1, 2011, which included the acquisition of Caixa Sabadell Vida. Refer to note 51 for further information on business combinations.

Acquisitions through business combinations in value of business acquired (VOBA) mainly consists of the VOBA related to the Liberbank acquisition. Whereas disposal of business relates to the ending of the partnership with Banca Civica.

Accumulated amortization of VOBA in 2011 included the impact of the disposal of the Guardian life and pensions business in the United Kingdom (EUR 125 million), offset by the impact of the divested life reinsurance business in the Americas (EUR 538 million).

Impairment losses recorded in 2011 on goodwill and VOBA related to the distribution business in the Netherlands.

With the exception of goodwill, all intangible assets have a finite useful life and are amortized accordingly. VOBA and future servicing rights are amortized over the term of the related insurance contracts, which can vary significantly depending on the maturity of the acquired portfolio. VOBA currently recognized is amortized over an average period of 24 years, with an average remaining amortization period of 12 years (2011: 12 years). Future servicing rights are amortized over an average period up to 30 years, of which 14 remains at December 31, 2012 (2011: 14 years). Software is generally depreciated over an average period of 5 years. At December 31, 2012, the remaining depreciation period was 3 years (2011: 3 years).

Goodwill

The goodwill balance has been allocated across the cash-generating units which are expected to benefit from the synergies inherent in the goodwill. Goodwill is tested for impairment both annually and when there are specific indicators of a potential impairment. The recoverable amount is the higher of the value in use and fair value less costs to sell for a cash-generating unit. The operating assumptions used in all the calculations are best estimate assumptions and based on historical data where available.

The economic assumptions used in all the calculations are based on observable market data and projections of future trends. All the cash-generating units tested showed that the recoverable amounts were higher than their carrying values, including goodwill. A reasonably possible change in any key assumption is not expected to cause the carrying value of the cash-generating units to exceed its recoverable amount.

A geographical summary of the cash-generating units to which the goodwill is allocated is as follows:

	2012	2011
Americas		
- USA	112	113
New Markets		
- Spain	365	487
- Central & Eastern Europe	101	93
Other	60	60
At December 31	**638**	**753**

Goodwill in Aegon USA is allocated to its divisions. Value in use calculations of Aegon USA have been actuarially determined based on business plans covering a period of typically five years and pre-tax risk adjusted discount rates. The value in use test in the USA for the Individual Savings & Retirement cash generating unit (EUR 111 million; 2011: EUR 112 million) assumes business plans covering a period of five years further extrapolated to ten years where the new business levels for years 6-10 assumed a 5% growth rate (2011: 5%) and pre-tax risk adjusted discount rate of 17% (2011: 17%).

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Where Aegon Spain has agreed to exit businesses at balance sheet date, the recoverable amount is based on the exit price. The exit price includes estimations based on the appraisal value of the cash-generating unit using embedded value principles. Appraisal value represents available net asset value plus a multiple of the value of new business plus the value of in force business. Key assumptions used for the calculation were pre-tax risk adjusted discount rates of 11%-13.5%, future premiums, commissions, inflation, persistency, mortality, morbidity and future investment returns.

For the other businesses in Spain, value in use calculations have been used. Value in use calculations of Aegon Spain have been determined taking into account an appraisal value based on a business plan covering a period of typically five years, pre-tax risk adjusted discount rate of 11%-13.5% (2011: 11%-13.5%) and assumptions for future premiums, commissions, inflation, persistency, mortality, morbidity and future investment returns in line with Aegon´s European embedded value assumptions (market consistent methodology for 2012 operations). The mentioned Appraisal Value represents available net asset value plus the value of in force business plus future new business assuming business plans covering a period of 5 years. Future new business is estimated as a multiple of the last year s value of new business. This multiple is based on the value of new business growth in the last 4 years.

To determine the recoverable amounts of the cash generating units of Aegon CEE, value in use was calculated, and compared to the carrying amounts. Value in use has been determined based on a business plan covering a period of typically three years further extrapolated to twenty years where the new business levels for years 4-20 assumed a growth rate based on the business plan of the third year, prudentially decreased by 10%-20%. Other key assumptions used for the calculation were pre-tax risk adjusted discount rate of 10.9% -16.4% (2011: 9.8% -15.8%), new business contribution, renewals, asset fees, investment return, persistency and expenses. Operating assumptions are best estimate assumptions and based on historical data where available. Economic assumptions are based on observable market data and projections of future trends.

VOBA

The movement in VOBA over 2012 can be summarized and compared to 2011 as follows:

	2012	2011
At January 1	2,086	3,221
Additions	22	39
Disposal of a business	(14)	(857)
Amortization / depreciation through income statement	(148)	(183)
Shadow accounting adjustments	(85)	(109)
Impairment losses	-	(41)
Net exchange differences	(1)	16
At December 31	**1,860**	**2,086**

A geographical summary of the lines of business to which the VOBA is allocated is as follows:

	Americas	The Netherlands	United Kingdom	New Markets	Total
2012					
Life	1,128	1	-	94	1,223
Individual savings and retirement products	138	-	-	-	138
Pensions	27	41	393	-	461
Distribution	-	24	-	-	24
Run-off businesses	14	-	-	-	14
Total VOBA	**1,307**	**66**	**393**	**94**	**1,860**
2011					
Life	1,282	2	-	99	1,383
Individual savings and retirement products	177	-	-	-	177
Pensions	28	46	397	-	471
Distribution	-	25	-	-	25
Run-off businesses	30	-	-	-	30
Total VOBA	**1,517**	**73**	**397**	**99**	**2,086**

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22 Investments

Investments for general account comprise financial assets, excluding derivatives, as well as investments in real estate.

	Note	2012	2011
Available-for-sale (AFS)		107,102	105,860
Loans		30,580	29,736
Held-to-maturity (HTM)		189	168
Financial assets at fair value through profit or loss (FVTPL) [1)]		5,632	5,531
Total financial assets, excluding derivatives	**22.1**	**143,503**	**141,295**
Investments in real estate	**22.2**	2,679	2,784
Total investments for general account		**146,182**	**144,079**

[1] Refer to note 48 for a summary of all financial assets and financial liabilities at fair value through profit or loss.

22.1 Financial assets, excluding derivatives

	AFS	FVTPL	HTM	Loans	Total	Fair value
2012						
Shares	856	1,043	-	-	1,899	1,899
Debt securities	96,319	1,500	189	-	98,008	98,008
Money market and other short-term investments	8,713	1,084	-	-	9,797	9,797
Mortgage loans	-	-	-	27,077	27,077	31,761
Private loans	-	-	-	1,013	1,013	1,144
Deposits with financial institutions	-	-	-	217	217	217
Policy loans	-	-	-	2,110	2,110	2,110
Receivables out of share lease agreements	-	-	-	9	9	9
Other	1,214	2,005	-	154	3,373	3,373
At December 31, 2012	**107,102**	**5,632**	**189**	**30,580**	**143,503**	**148,318**
2011						
Shares	869	968	-	-	1,837	1,837
Debt securities	94,722	1,529	168	-	96,419	96,417
Money market and other short-term investments	9,382	1,090	-	-	10,472	10,472
Mortgage loans	-	-	-	26,012	26,012	27,720
Private loans	-	-	-	927	927	952
Deposits with financial institutions	-	-	-	452	452	452
Policy loans	-	-	-	2,180	2,180	2,180
Receivables out of share lease agreements	-	-	-	19	19	19
Other	887	1,944	-	146	2,977	2,978
At December 31, 2011	**105,860**	**5,531**	**168**	**29,736**	**141,295**	**143,027**

Of the debt securities, money market and other short-term investments, mortgage loans and private loans EUR 16,335 million is current (2011: EUR 17,164 million).

Measurement

Aegon owns EUR 126 million (2011: EUR 143 million) of shares in the Federal Home Loan Bank that are measured at par, which equals the amortized cost value. The bank has implicit financial support from the United States government. The redemption value of the shares is fixed at par and can only be redeemed by the bank.

Only other insignificant amounts of unquoted equity instruments are measured at cost.

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Refer to note 3 for information on fair value measurement.

Other

Movement on the loan allowance account during the year were as follows:

	2012	2011
At January 1	(198)	(187)
Addition charged to income statement	(79)	(99)
Reversal to income statement	15	7
Amounts written off	44	73
Net exchange differences	(5)	8
At December 31	**(223)**	**(198)**

Refer to note 50 for a discussion of collateral received and paid.

22.2 Investments in real estate

	2012	2011
At January 1	2,784	2,784
Additions	90	90
Subsequent expenditure capitalized	17	10
Transfers from other headings	87	88
Disposals	(294)	(162)
Fair value gains / (losses)	(53)	(49)
Other	60	-
Net exchange differences	(12)	23
At December 31	**2,679**	**2,784**

In 2012, 92% of the value of Aegon s properties, both for general account and for account of policyholders, were appraised (2011: 85%), of which 95% was performed by independent external appraisers (2011: 94%).

Aegon USA has entered into commercial property leases on its investment property portfolio, consisting of office, retail and industrial buildings. These non-cancellable leases have remaining lease terms up to 20 years. Most leases include a clause to enable upward revision of the rental charge on an annual basis according to either a fixed schedule or prevailing market conditions.

Aegon The Netherlands has entered into long-term residential property leases that can be terminated subject to a short-term notice. Under Dutch law, the maximum annual rent increase on residential property rented in the affordable housing segment is specified by the Dutch national government and equals the annual inflation rate plus a small margin.

Refer to note 49 for description of non-cancellable lease rights.

Rental income of EUR 86 million (2011: EUR 93 million; 2010: EUR 100 million) is reported as part of investment income in the income statement. EUR 10 million (2011: EUR 8 million; 2010: EUR 3 million) is attributable to rent on foreclosed real estate. Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period amounted to EUR 86 million (2011: EUR 78 million; 2010: EUR 72 million). EUR 6 million (2011: EUR 7 million; 2010: EUR 9 million) of direct operating expenses is related to investment property that did not generate rental income during the period.

Transfers from other headings mainly reflect the properties that were foreclosed during the year. The associated mortgage loans were previously reported as part of investments.

There are no restrictions on the realizability of investment property or the remittance of income and proceeds of disposal.

Refer to note 49 for a summary of contractual obligations to purchase investment property or for repairs, maintenance or enhancements.

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23 Investments for account of policyholders

Investments for account of policyholders comprise financial assets at fair value through profit or loss, excluding derivatives, and investments in real estate.

	Note	2012	2011
Shares		40,498	37,108
Debt securities		29,693	27,376
Money market and other short-term investments		1,905	2,283
Deposits with financial institutions		2,799	2,813
Separate accounts and unconsolidated investment funds		77,328	71,284
Other		439	533
Total investments for account of policyholders at fair value through profit or loss, excluding derivatives [1)]		**152,662**	**141,397**
Investments in real estate	23.1	1,008	1,132
Total investments for account of policyholders		**153,670**	**142,529**

[1] Refer to note 48 for a summary of all financial assets and financial liabilities at fair value through profit or loss.

23.1 Investments in real estate for account of policyholders

	2012	2011
At January 1	1,132	1,134
Additions	14	26
Subsequent expenditure capitalized	26	22
Disposals	(152)	(91)
Disposal of a business	-	(12)
Fair value gains/(losses)	(46)	20
Net exchange differences	34	33
At December 31	**1,008**	**1,132**

The investment property is fully leased out under operating leases.

Rental income of EUR 65 million (2011: EUR 73 million; 2010: EUR 73 million) is reported as part of investment income in the income statement. There are no restrictions on the realizability of investment property or the remittance of income and proceeds of disposal.

Refer to note 49 for a summary of contractual obligations to purchase investment property or for repairs, maintenance or enhancements.

24 Derivatives

	Derivative asset		Derivative liability	
	2012	2011	2012	2011
Derivatives for general account				
Derivatives not designated in a hedge	19,058	12,744	16,897	11,623
Derivatives designated as fair value hedges	422	496	310	521
Derivatives designated as cash flow hedges	1,164	1,479	379	432
Net foreign investment hedges	200	72	197	93

	20,844	**14,791**	**17,783**	**12,669**
Derivatives for account of policyholders				
Derivatives not designated in a hedge	310	713	65	59
	310	**713**	**65**	**59**
Total derivatives [1)]	**21,154**	**15,504**	**17,848**	**12,728**

[1] Refer to note 48 for a summary of all financial assets and financial liabilities at fair value through profit or loss.

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Of these derivatives EUR 820 million net asset is current (2011: EUR 1,033 million net asset).

In 2012, Aegon The Netherlands entered into a derivative to partially hedge its longevity risk. The derivative, with a notional amount of EUR 12 billion, becomes in the money if - in 2032 - realized mortality rates are more than 7.5% lower than pre-defined mortality tables. The derivative is measured at fair value through profit or loss in accordance with IAS 39. The value of the longevity derivative is calculated using an internal model as there is no active market for this type of derivatives. For more details refer to the paragraph on underwriting risk included in note 4.

The fair value of derivatives on both the asset and liability side of the consolidated statement of financial position increased during 2012. This increase is mainly caused by decreases in market interest rates in combination with the practice of Aegon The Netherlands to buy swaps and swaptions to offset certain derivative positions rather than unwinding the positions as a whole. Although these new swaps create a full economic offset with existing swaps, the derivatives with a positive or negative fair value do not meet the IFRS criteria to be netted in the statement of financial position and hence increased both the asset and liability side.

See note 3 for details on measurement of derivatives.

Use of derivatives

Derivatives not designated in a hedge

	Derivative asset		Derivative liability	
Derivatives not designated in a hedge - general account	**2012**	2011	**2012**	2011
Derivatives held as an economic hedge	18,912	12,622	14,495	9,298
Bifurcated embedded derivatives	13	10	2,304	2,307
Other	133	112	98	18
Total	**19,058**	**12,744**	**16,897**	**11,623**

Aegon utilizes derivative instruments as a part of its asset liability risk management practices. The derivatives held for risk management purposes are classified as economic hedges to the extent that they do not qualify for hedge accounting, or that Aegon has elected not to apply hedge accounting. The economic hedges of certain exposures relate to an existing asset, liability or future reinvestment risk. In all cases, these are in accordance with internal risk guidelines and are closely monitored for continuing compliance.

Embedded derivatives that are not closely related to the host contracts have been bifurcated and recorded at fair value in the statement of financial position. These bifurcated embedded derivatives are embedded in various institutional products, modified coinsurance and unit-linked insurance contracts in the form of guarantees for minimum benefits. Please refer to note 46 for more disclosures about these guarantees.

Certain derivatives are used to add risk by selling protection in the form of single name and index based credit default swaps and tranches of synthetic collateralized debt obligations. Another strategy used is to synthetically replicate corporate and sovereign credit exposures with credit derivatives. Refer to note 4 for details about these credit derivatives. This involves the purchase of high quality low risk assets and the sale of credit derivatives.

Derivatives designated as fair value hedges

Aegon s fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates. Gains and losses on derivatives designated under fair value hedge accounting are recognized in the income statement. The effective portion of the fair value change on the hedged item is also recognized in the income statement. As a result, only the net accounting ineffectiveness has an impact on the net result.

Aegon has entered into interest rate swap agreements that effectively convert certain fixed-rate assets and liabilities to a floating-rate basis (generally to six months or less LIBOR). These hedges are used for portfolio management to better match assets to liabilities or to protect the value of the hedged item from interest rate movements. These agreements involve the payment or receipt of fixed-rate interest amounts in exchange for floating-rate interest amounts over the life of the agreement without the exchange of the underlying principal amounts. Some of the arrangements use forward starting swaps to better match the duration of assets and liabilities.

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Aegon has entered into cross-currency interest rate swap agreements that effectively convert certain foreign currency fixed-rate and floating-rate assets and liabilities to US dollar floating-rate assets and liabilities. These agreements involve the exchange of the underlying principal amounts.

For the years ended December 31, 2012, 2011 and 2010, Aegon recognized gains and (losses) related to the ineffective portion of designated fair value hedges of EUR 15 million, EUR 12 million and EUR (6) million respectively. No portion of derivatives was excluded when assessing hedge effectiveness.

Derivatives designated as cash flow hedges

Aegon has entered primarily into interest rate swap agreements that effectively convert certain variable-rate assets and liabilities to a fixed-rate basis in order to match the cash flows of the assets and liabilities within Aegon s portfolio more closely. These agreements involve the payment or receipt of variable-rate interest amounts in exchange for fixed-rate interest amounts over the life of the agreement without the exchange of the underlying principal amounts. Aegon is hedging its exposure to the variability of future cash flows from the interest rate movements for terms up to 30 years for hedges converting existing floating-rate assets and liabilities to fixed-rate assets.

Aegon uses forward starting interest rate swap agreements to hedge the variability in future cash flows associated with the forecasted purchase of fixed-income assets. These agreements reduce the impact of future interest rate changes on the forecasted transaction. Fair value adjustments for these interest rate swaps are deferred and recorded in equity until the occurrence of the forecasted transaction at which time the interest rate swaps will be terminated. The accumulated gain or loss in equity will be amortized into investment income as the acquired asset affects income. Aegon is hedging its exposure to the variability of future cash flows from interest rate movements for terms up to 20 years. The cash flows from these hedging instruments are expected to affect the profit and loss for approximately the next 39 years. For the year ended December 31, 2012, the contracts for which cash flow hedge accounting was terminated resulted in deferred gains of EUR 225 million (2011: EUR 131 million) that are recognized directly in equity to be reclassified into net income during the period when the cash flows occur of the underlying hedged items. For the same year, none of Aegon s cash flow hedges were discontinued, as it was probable that the original forecasted transactions would occur by the end of the originally specified time period documented at the inception of the hedging relationship.

In addition, Aegon also makes use of cross currency swaps to convert variable or fixed foreign currency cash flows into fixed cash flows in local currencies. The cash flows from these hedging instruments are expected to occur over the next 29 years. These agreements involve the exchange of the underlying principal amounts.

For the year ended December 31, 2012, Aegon recognized a loss of EUR (10) million of hedge ineffectiveness on cash flow hedges. In 2011 and 2010, gains of EUR 1 million and EUR 5 million respectively of hedge ineffectiveness were recorded in the income statement. In 2012, EUR (62) million was released from equity into investment income (2011: EUR (18) million, 2010: EUR (8) million). The amount of deferred gains or losses to be reclassified from equity into net income during the next 12 months is expected to be EUR 21 million.

The periods when the cash flows are expected to occur are as follows:

	< 1 year	1 - 5 years	5 - 10 years	> 10 years	2012 Total
Cash inflows	521	2,088	1,599	1,582	5,790
Cash outflows	3	9	1	4	17
Net cash flows	**518**	**2,079**	**1,598**	**1,578**	**5,773**

	< 1 year	1 - 5 years	5 - 10 years	> 10 years	2011 Total
Cash inflows	501	2,046	1,822	1,967	6,336
Cash outflows	3	10	1	5	19
Net cash flows	**498**	**2,036**	**1,821**	**1,962**	**6,317**

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Net foreign investment hedges

Aegon funds its investments in insurance subsidiaries with a mixture of debt and equity. Aegon aims to denominate debt funding in the same currency as the functional currency of the investment. Investments outside the eurozone, the United States, the United Kingdom and Canada are funded in euros. When the debt funding of investments is not in the functional currency of the investment, Aegon uses derivatives to swap the currency exposure of the debt instrument to the appropriate functional currency. This policy will ensure that total capital will reflect currency movements without distorting debt to shareholders equity ratios. Aegon utilizes various financial instruments as designated hedging instruments of its foreign investments. These instruments include long-term and short-term borrowings, short-term debts to credit institutions, cross currency swap contracts and forward foreign exchange contracts.

25 Investments in associates

	2012	2011
At January 1	742	733
Additions	36	19
Disposals	(2)	(6)
Share in net income	26	29
Share in changes in associate s equity (note 30.5)	22	(18)
Impairment losses	(1)	(1)
Dividend	(2)	(3)
Net exchange difference	(7)	(8)
Other	15	(3)
At December 31	**829**	**742**

All associates are unlisted and are accounted for using the equity method and are considered to be non-current. The investments in associates include interest in insurance companies that are required to maintain a minimum solvency margin based on local directives. Such restrictions can affect the ability of these associates to transfer funds in the form of cash dividends, or repayment of loans or advances, and therefore, there can be no assurance that these restrictions will not become a limitation in the future. There are no unrecognized shares of losses in associates.

As at December 31, 2012, Aegon and Caja de Ahorros de Mediterráneo (CAM), Aegon s partner in Caja Mediterráneo Vida (MedVida) are still in an arbitration process to determine the occurrence of a change in control and the corresponding date, which determines the exit price. During the fourth quarter of 2012, the arbitration went into its final stages. A final verdict from the arbitrators is expected to be released in the first half of 2013.

Aegon is of the opinion that, in 2010, a change of control occurred in CAM. Subsequently, Aegon decided to exercise its put option pursuant to the shareholder s agreement between CAM and Aegon, to exit the partnership. At December 31, 2012, MedVida is recorded for an amount of EUR 327 million in the statement of financial position, including a negative revaluation reserve of EUR 44 million. Upon sale of the associate, any revaluation reserve needs to be recycled through the income statement. Considering possible alternative outcomes of the arbitration process, Aegon expects that it will recover at least the book value as at December 31, 2012.

On October 1, 2012, Aegon closed the sale of its interest in Prisma Capital Partners LP (Prisma). Prisma, which is accounted for as an associate, served as an investment manager for certain of Aegon s hedge fund investments as well as for other third parties. The final proceeds are subject to certain contingent arrangements which may lead to further payments in 2014 and 2017. The book gain amounted to EUR 100 million. The carrying value of Prisma at the transaction date was EUR 2 million. Aegon s share in Prisma earnings from January 1, 2012 till October 1, 2012 amounted to EUR 10 million (full year 2011: EUR 13 million).

Summarized financial information of associates	2012	2011
Assets	13,729	13,374
Liabilities	13,159	12,888
Revenue	2,025	1,920
Net income	26	29

The summarized financial information is based on the Group s relative holding and excludes any goodwill included in the measurement of the investment in associates. Refer to note 52 for a listing of the principal investments in associates and the Group s percentage holding.

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26 Reinsurance assets

Assets arising from reinsurance contracts related to:	2012	2011
Life insurance general account	10,263	9,848
Life insurance for account of policyholders	96	78
Non-life insurance	1,160	1,116
Investment contracts	468	475
At December 31	**11,987**	**11,517**

Amounts due from reinsurers in respect of claims already paid by the Group on the contracts that are reinsured are included in other assets and receivables (refer to note 28).

EUR 13 million of the reinsurance assets are current (2011: EUR 18 million).

Movements during the year in reinsurance assets relating to life insurance:	Life insurance general account	Life insurance for account of policy-holders	Total life insurance
At January 1, 2012	9,848	78	9,926
Gross premium and deposits - existing and new business	2,772	66	2,838
Unwind of discount / interest credited	520	5	525
Insurance liabilities released	(3,869)	(49)	(3,918)
Fund charges released	(4)	-	(4)
Changes to valuation of expected future benefits	(25)	-	(25)
Policy transfers	-	(6)	(6)
Quota share reinsurance transactions	1,175	-	1,175
Net exchange differences	(123)	2	(121)
Other movements	(31)	-	(31)
At December 31, 2012	**10,263**	**96**	**10,359**
At January 1, 2011	4,530	91	4,621
Portfolio transfers and acquisitions	1	-	1
Disposal of a business	(110)	(8)	(118)
Gross premium and deposits - existing and new business	2,279	63	2,342
Unwind of discount / interest credited	260	5	265
Insurance liabilities released	(605)	(72)	(677)
Fund charges released	(4)	-	(4)
Changes to valuation of expected future benefits	22	-	22
Quota share reinsurance transactions	2,899	-	2,899
Net exchange differences	457	2	459
Other movements	119	(3)	116
At December 31, 2011	**9,848**	**78**	**9,926**

On August 9, 2011, Aegon completed the divestment of its life reinsurance business, Transamerica Reinsurance (TARe), to SCOR. The divestment of TARe consists of a series of reinsurance agreements between various statutory insurance entities and SCOR for the US domestic business.

Structuring the transaction as a reinsurance arrangement leaves Aegon exposed to a counter-party risk of SCOR not performing on the reinsurance contracts as the business matures. For such an event, certain levels of collateral related to the reinsured contracts have been placed in trust for Aegon s benefit. SCOR is rated A1/A+ by Moody s and Standard & Poor s, both with stable outlooks.

The transaction has been accounted for primarily as a reinsurance transaction between Aegon and SCOR. Certain fixed assets and certain investment assets have been transferred with any related gain (loss) being recognized. As a result, the divestment did not have significant impact on shareholders equity. Earnings on the business retained as well as amortization of the deferred cost of reinsurance asset have been reflected in the run-off businesses line in Aegon s segment reporting. A deferred cost of reinsurance was established and is disclosed in note 27.

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The reinsurance business being retained by Aegon, which is comprised primarily of the variable annuity guarantee business, is substantially hedged for financial market risks and produces normalized results which are negligible. In addition, various administration, service and asset management contracts are part of the transaction. The combined result, consisting primarily of the amortization of the deferred cost of reinsurance, is approximately EUR 29 million (USD 40 million) before tax per annum initially. These costs will vary with the volume of ultimate novations.

Aegon USA reinsured approximately EUR 4.1 billion of fixed annuities on a quota share basis in three separate transactions during 2011 and 2012. A total of EUR 2.3 billion was ceded to Commonwealth Annuity and Life Insurance Company which includes EUR 1.1 billion ceded in 2011 and an additional EUR 1.2 billion in 2012. Also in 2011, EUR 1.8 billion was ceded to Liberty Life Insurance Company.

The reinsured policies consist of fixed annuity contracts issued by Transamerica Life Insurance Company in the U.S. between 2004 and early 2009 that were previously reinsured to Transamerica International Reinsurance Ireland (TIRI) on a 90% quota share basis. Over half of the business was sold in 2008 and primarily included products with 3 and 5 year surrender charge periods. Most of the business have an initial credited rate guarantee matching the surrender charge period followed by annual renewals after the initial period.

Investment assets and cash were transferred as part of these transactions with any related gain/(loss) being recognized. In order to secure the obligations of the reinsurer, Aegon has required the establishment of trust accounts to hold collateral supporting ceded policy reserves. A deferred cost of reinsurance was established and is amortized based on gross profits of the underlying contracts. The deferred cost of reinsurance is disclosed in note 27.

Also, in 2011 EUR 431 million of medium term notes (MTN) backing funding agreements issued by Monumental Life insurance company in 2006 and 2007 were reinsured to Liberty Life Insurance Company. This transaction is treated as a financing arrangement since the MTN contracts do not qualify as insurance contracts. The financing cost of approximately EUR 6 million will be amortized over the expected life of the contracts.

Movements during the year in reinsurance assets relating to non-life insurance:	**2012**	2011
At January 1	1,116	947
Gross premium and deposits - existing and new business	259	227
Loss recognized as a result of liability adequacy	127	-
Unwind of discount / interest credited	50	40
Insurance liabilities released	(140)	(82)
Changes to valuation of expected future benefits	5	(9)
Changes in unearned premiums	(148)	(135)
Changes in unexpired risks	(3)	(3)
Incurred related to current year	73	53
Incurred related to prior years	42	31
Release for claims settled current year	(14)	(13)
Release for claims settled prior years	(91)	(94)
Change in IBNR	(6)	11
Shadow accounting adjustment	(93)	108
Net exchange differences	(17)	35
At December 31	**1,160**	**1,116**

27 Deferred expenses

	2012	2011
DPAC for insurance contracts and investment contracts with discretionary participation features	11,282	11,027
Deferred transaction costs for investment management services	405	405
At December 31	**11,687**	**11,432**
Current	1,450	1,211
Non-current	10,237	10,221

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	DPAC	Deferred transaction costs
At January 1, 2012	11,027	405
Costs deferred during the year	1,543	44
Amortization through income statement	(1,135)	(44)
Shadow accounting adjustments	(181)	-
Impairments	-	(4)
Net exchange differences	22	4
Other	6	-
At December 31, 2012	**11,282**	**405**

	DPAC	Deferred transaction costs
At January 1, 2011	11,340	380
Costs deferred during the year	1,398	60
Disposal of group assets	(404)	-
Amortization through income statement	(1,318)	(42)
Shadow accounting adjustments	(236)	-
Net exchange differences	252	7
Other	(5)	-
At December 31, 2011	**11,027**	**405**

DPAC balances at December 31, 2012 include deferred cost of reinsurance for an amount of EUR 558 million (2011: EUR 579 million). The amortization in 2012 amounts to EUR 68 million (2011: EUR 38 million).

Below a breakdown is provided of DPAC balances, including deferred cost of reinsurance by line of business and reporting segment:

	Americas	The Netherlands	United Kingdom	New Markets	Total
2012					
Life	4,836	141	155	548	5,680
Individual savings and retirement products	1,256	-	-	36	1,292
Pensions	124	37	3,365	-	3,526
Run-off business	784	-	-	-	784
At December 31	**7,000**	**178**	**3,520**	**584**	**11,282**
2011					
Life	4,760	197	158	511	5,626
Individual savings and retirement products	1,109	-	-	30	1,139
Pensions	115	42	3,254	-	3,411
Run-off business	851	-	-	-	851
At December 31	**6,835**	**239**	**3,412**	**541**	**11,027**

28 Other assets and receivables

	Note	2012	2011
Real estate held for own use and equipment	28.1	526	561
Receivables	28.2	5,551	4,734
Accrued income	28.3	1,645	2,497
At December 31		**7,722**	**7,792**

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28.1 Real estate held for own use and equipment

Net book value	General account real estate held for own use	Equipment	Total
At January 1, 2011	333	241	574
At December 31, 2011	319	242	561
At December 31, 2012	**307**	**219**	**526**
Cost			
At January 1, 2012	387	500	887
Additions	2	61	63
Capitalized subsequent expenditure	2	-	2
Disposals	(4)	(72)	(76)
Unrealized gains/(losses) through equity	(5)	-	(5)
Net exchange differences	(2)	-	(2)
At December 31, 2012	**380**	**489**	**869**
Accumulated depreciation and impairment losses			
At January 1, 2012	68	258	326
Depreciation through income statement	8	68	76
Disposals	(2)	(64)	(66)
Impairment losses	-	6	6
Net exchange differences	(1)	2	1
At December 31, 2012	**73**	**270**	**343**
Cost			
At January 1, 2011	397	552	949
Additions	1	71	72
Disposals	(13)	(116)	(129)
Disposal of a business	-	(8)	(8)
Realized gains/(losses) through income statement	(3)	-	(3)
Unrealized gains/(losses) through equity	2	-	2
Net exchange differences	4	3	7
Other	(1)	(2)	(3)
At December 31, 2011	**387**	**500**	**887**
Accumulated depreciation and impairment losses			
At January 1, 2011	64	311	375
Depreciation through income statement	8	63	71
Disposals	(4)	(107)	(111)
Disposal of a business	-	(8)	(8)
Net exchange differences	1	-	1
Other	(1)	(1)	(2)
At December 31, 2011	**68**	**258**	**326**

General account real estate held for own use are mainly held by Aegon USA and Aegon The Netherlands, with relatively smaller holdings in Hungary and Spain and are carried at revalued amounts taking into account amortization and impairments. The carrying value under a historical cost model amounts to EUR 321 million (2011: EUR 331 million).

44% of the value of the general account real estate held for own use was last revalued in 2012 (2011: 22%), based on market value appraisals by qualified internal and external appraisers. 97% of the appraisals in 2012 were performed by independent external appraisers (2011: 96%).

General account real estate held for own use has not been pledged as security for liabilities, nor are there any restrictions on title. Depreciation expenses are charged in Commissions and expenses in the income statement. The useful lives of buildings range between 40 and 50 years.

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None of the equipment is held for lease (2011: EUR 0 million). Equipment has not been pledged as security for liabilities, nor are there any restrictions on title. Depreciation expenses have been charged in Commissions and expenses in the income statement. Equipment is generally depreciated over a period of three to five years.

28.2 Receivables

	2012	2011
Loans to associates	28	38
Finance lease assets	8	21
Receivables from policyholders	1,340	1,337
Receivables from brokers and agents	155	154
Receivables from reinsurers	295	302
Cash outstanding from assets sold	45	27
Trade receivables	512	261
Cash collateral	1,267	1,200
Reverse repurchase agreements	1,186	511
Income tax receivable	38	219
Other	809	802
Provision for doubtful debts	(132)	(138)
At December 31	**5,551**	**4,734**
Current	5,283	4,443
Non-current	268	291

The movements in the provision for doubtful debts during the year were as follows:

	2012	2011
At January 1	(138)	(145)
Additions charged to earnings	(16)	(4)
Unused amounts reversed through the income statement	1	3
Used during the year	21	9
Net exchange differences	-	(1)
At December 31	**(132)**	**(138)**

28.3 Accrued income

	2012	2011
Accrued interest	1,633	2,486
Other	12	11
At December 31	**1,645**	**2,497**

EUR 1,636 million of accrued income is current (2011: EUR 2,489 million).

29 Cash and cash equivalents

	2012	2011
Cash at bank and in hand	1,034	1,215
Short-term deposits	5,453	5,058
Money market investments	2,908	1,423

Short-term collateral	258	408
At December 31	**9,653**	**8,104**

The carrying amounts disclosed reasonably approximate the fair values as at the year end.

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EUR 12.3 billion (2011: EUR 13.2 billion) of cash collateral is received of which EUR 258 million (2011: EUR 408 million) is included in cash and cash equivalents. This collateral relates to security lending and repurchase agreements and margins on derivatives transactions. A corresponding liability to repay the cash is recognized in other liabilities (note 44). Refer to note 50 for details on collateral received and paid. Investment of cash collateral received is restricted through limitations on credit worthiness, duration, approved investment categories and borrower limits. Aegon earns a share of the spread between the collateral earnings and the rebate paid to the borrower of the securities. Income from security lending programs was approximately EUR 11 million (2011: EUR 12 million; 2010: EUR 10 million).

The weighted effective interest rate on short-term deposits was 0.07% (2011: 0.51%) and these deposits have an average maturity of 13.07 days (2011: 7.55 days).

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	Note	2012	2011
Cash and cash equivalents		9,653	8,104
Bank overdrafts	39	(93)	(278)
Net cash and cash equivalents		**9,560**	**7,826**

The majority of cash is not subject to any restrictions. However, the Dutch Central Bank requires Aegon The Netherlands to hold 1% (2011: 2%) of its assets relating to banking activities in an account with the Dutch Central Bank. This amount on deposit is reassessed on a monthly basis and carries interest at approximately 0.75% (2011: 1.0%) . The average balance for 2012 was EUR 44 million (2011: EUR 103 million).

Summary IFRS cash flow statement	**2012**	2011	2010
Net cash flows from operating activities	(966)	2,266	1,263
Net cash flows from investing activities	71	653	(278)
Net cash flows from financing activities	2,602	(374)	119
Net increase in cash and cash equivalents	**1,707**	**2,545**	**1,104**

Net cash and cash equivalents at December 31, 2012 are positively impacted by effects of changes in exchange rates of EUR 27 million (2011: EUR 107 million; 2010: EUR 57 million).

Analysis of IFRS cash flows

2012 compared to 2011

Net cash flows from operating activities

Total net cash flows from operating activities decreased by EUR 3,232 million to a EUR 966 million outflow (2011: EUR 2,266 million inflow). The change from inflow in 2011 to outflow in 2012 is driven by lower net general account investments, lower disposals of derivatives and lower net change in cash collateral. These reductions are partly offset by higher net investments for account of policyholders and income before tax.

Net cash flows from investing activities

Net cash flows from investing activities reduced by EUR 582 million to a EUR 71 million inflow (2011: EUR 653 million inflow). The inflow in 2012 is mainly a result of the proceeds of EUR 102 million on the sale of Aegon s interest in Prisma and the proceeds of EUR 190 mln received from the exit from the partnership with Banca Civica, partly ofset by the aquisition of Liberbank and purchases of software. In 2011, the inflow was a result of cash received from the divestment of Transamerica Reinsurance and the sale of Guardian life in the United Kingdom.

Net cash flows from financing activities

Net cash flows from financing activities improved by EUR 2,976 million to EUR 2,602 million inflow (2011: EUR 374 million outflow). The improvement is mainly a result of additional borrowings and the issuance of 8.00% non-cumulative subordinated borrowings which provided USD 525 million.

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2011 compared to 2010

Net cash flows from operating activities

Total net cash flows from operating activities increased by EUR 1,003 million to EUR 2,266 million inflow (2010: EUR 1,263 million inflow). This increase is predominantly driven by higher net disposals of investments, partly offset by a lower net change in cash collateral. The net change in cash collateral in 2011 is mainly due to derivatives transactions while the net change in cash collateral in 2010 was mainly related to securities lending transactions.

Net cash flows from investing activities

Net cash flows from investing activities improved by EUR 931 million to a EUR 653 million inflow (2010: EUR 278 million outflow). The improvement is a result of cash received from the divestment of Transamerica Reinsurance and the sale of Guardian life in the United Kingdom.

Net cash flows from financing activities

Net cash flows from financing activities decreased by EUR 493 million to a EUR 374 million outflow (2010: EUR 119 million inflow). The decrease is mainly the result of the payment to the Dutch State amounting to EUR 2,250 million of which EUR 1,500 million related to the repurchase of 375 million convertible core capital securities and EUR 750 million related to the premium attached to this repurchase. A share issuance in early 2011 provided EUR 913 million of cash and additional borrowings provided EUR 1,259 million, partly offset by coupon payments on perpetual capital securities and dividends on the preferred shares.

30 Shareholders equity

Issued share capital and reserves attributable to shareholders of Aegon N.V.

	Note	2012	2011	2010
Share capital - par value	30.1	319	310	278
Share premium	30.2	8,780	8,787	7,906
Total share capital		**9,099**	**9,097**	**8,184**
Retained earnings		10,747	9,655	9,781
Treasury shares	30.3	(243)	(252)	(252)
Total retained earnings		**10,504**	**9,403**	**9,529**
Revaluation reserves	30.4	6,082	3,464	958
Other reserves	30.5	(1,055)	(964)	(1,343)
Total shareholders equity		**24,630**	**21,000**	**17,328**

In 2012, Aegon issued 33,203,150 and 29,172,394 new common share with a par value of EUR 0.12 in respect of the final dividend for 2011 which was paid in May 2012 and the interim dividend paid in September 2012, respectively.

On March 1, 2011, Aegon completed the issue of 173,604,912 new common shares of Aegon N.V. with a par 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 the convertible core capital securities described in note 31.

The new shares have been listed on NYSE Euronext Amsterdam, the principal market for Aegon s common shares.

In 2012, Vereniging Aegon exercised its option rights to purchase in aggregate 8,021,000 class B preferred shares at par value to correct the dilution caused by the issuance of shares as a result of distribution of dividend in the form of stock.

On March 15, 2011, Vereniging Aegon exercised its option rights to purchase 41,042,000 class B preferred shares at par value of EUR 0.25 (total proceeds of EUR 10 million) in order to avoid dilution of its voting rights following the issuance of 10% new common shares completed on March 1, 2011.

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30.1 Share capital - par value

	2012	2011	2010
Common shares	236	229	208
Preferred shares A	53	53	53
Preferred shares B	30	28	17
At December 31	**319**	**310**	**278**

	2012	2011	2010
Authorized share capital	360	360	360
Number of authorized shares (in million)	3,000	3,000	3,000
Par value in cents per share	12	12	12

	Number of shares (thousands)	Total amount
At January 1, 2010	**1,736,049**	**208**
Share issuance	-	-
At December 31, 2010	**1,736,049**	**208**
Share issuance	173,605	21
At December 31, 2011	**1,909,654**	**229**
Share issuance	-	-
Dividend	62,376	7
At December 31, 2012	**1,972,030**	**236**

	Weighted average number of common shares (thousands)
2010	**1,736,049**
2011	**1,881,116**
2012	**1,936,315**

Preferred shares

	2012	2011	2010
Authorized share capital	250	250	250
Par value in cents per share	25	25	25

	Preferred shares A		Preferred shares B	
	Number of shares (thousands)	Total amount	Number of shares (thousands)	Total amount
At January 1, 2010	**211,680**	**53**	**69,030**	**17**
Share issued	-	-	-	-
At December 31, 2010	**211,680**	**53**	**69,030**	**17**
Share issued	-	-	41,042	11
At December 31, 2011	**211,680**	**53**	**110,072**	**28**

Share issued	-	-	8,021	2
At December 31, 2012	**211,680**	**53**	**118,093**	**30**

All issued common and preferred shares are fully paid. Repayment of capital can only be initiated by the Executive Board, is subject to approval of the Supervisory Board and must be resolved by the General Meeting of Shareholders. Moreover, repayment on preferred shares needs approval of the related shareholders. Refer to Other information for further information on dividend rights.

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There are restrictions on the amount of funds that companies within the Group may transfer in the form of cash dividends or otherwise to the parent company. These restrictions stem from solvency and legal requirements. Refer to note 47 for a description of these requirements.

Vereniging Aegon, based in The Hague, holds all of the issued preferred shares.

Vereniging Aegon, in case of an issuance of shares by Aegon N.V., may purchase as many class B preferred shares as would enable Vereniging Aegon to prevent or correct dilution to below its actual percentage of voting shares, unless Vereniging Aegon as a result of exercising these option rights would increase its voting power to more than 33 percent. Class B preferred shares will then be issued at par value (EUR 0.25), unless a higher issue price is agreed. In the years 2003 through 2009, 69,030,000 class B preferred shares were issued under these option rights. In 2010, no option rights were exercised. In March 2011 Vereniging Aegon exercised its option rights to purchase in aggregate 41,042,000 class B preferred shares at par value to correct dilution caused by Aegon s issuance of shares conducted under Aegon s US Shelf Registration through the sale of 173,604,912 common shares of Aegon N.V. at a price of EUR 5.20 per share in March 2011. In 2012 Vereniging Aegon exercised its option rights to purchase in aggregate 8,021,000 class B preferred shares at par value to correct the dilution caused by the issuance of shares as a result of distribution of dividend in the form of stock.

Aegon N.V. and Vereniging Aegon have entered into a preferred shares voting rights agreement, pursuant to which Vereniging Aegon has voluntarily waived its right to cast 25/12 vote per class A or class B preferred share. Instead, Vereniging Aegon has agreed to exercise one vote only per preferred share, except in the event of a special cause , such as the acquisition of a 15% interest in Aegon N.V., a tender offer for Aegon N.V. shares or a proposed business combination by any person or group of persons, whether individually or as a group, other than in a transaction approved by the Executive Board and Supervisory Board. If, in its sole discretion, Vereniging Aegon determines that a special cause has occurred, Vereniging Aegon will notify the General Meeting of Shareholders and retain its right to exercise the full voting power of 25/12 vote per preferred share for a limited period of six months.

With regard to granted share appreciation rights and option rights and their valuation refer to note 14.

30.2 Share premium

	2012	2011	2010
At January 1	8,787	7,906	7,906
Additions	-	881	-
Share dividend	(7)	-	-
At December 31	**8,780**	**8,787**	**7,906**
Share premium relating to:			
- Common shares	6,728	6,735	5,854
- Preferred shares	2,052	2,052	2,052
Total share premium	**8,780**	**8,787**	**7,906**

The share premium account reflects the balance of paid-in amounts above par value at issuance of new shares less the amounts charged for share dividends.

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30.3 Treasury shares

On the balance sheet date Aegon N.V. and its subsidiaries held 28,713,730 of its own common shares with a par value of EUR 0.12 each.

Movements in the number of treasury shares were as follows:

	2012 Number of shares (thousands)	2011 Number of shares (thousands)	2010 Number of shares (thousands)
At January 1	27,503	27,520	27,572
Transactions in 2012:			
Sale: 1 transaction, price EUR 3.52	(9)		
Sale: 1 transaction, price EUR 3.36	(513)		
Transactions in 2011:			
Sale: 1 transaction, price EUR 5.39		(17)	
Transactions in 2010:			
Sale: 1 transaction, price EUR 4.75			(52)
At December 31	**26,981**	**27,503**	**27,520**

As part of their insurance and investment operations, subsidiaries within the Group also hold Aegon N.V. common shares, both for their own account and for account of policyholders. These shares have been treated as treasury shares and are (de)recognized at the consideration paid or received.

	2012 Number of shares (thousands)	2012 Total amount	2011 Number of shares (thousands)	2011 Total amount	2010 Number of shares (thousands)	2010 Total amount
Held by Aegon N.V.	26,981	228	27,503	235	27,520	235
Held by subsidiaries	1,733	15	1,863	17	1,726	17
At December 31	**28,714**	**243**	**29,366**	**252**	**29,246**	**252**

	Weighted average number of treasury shares, including treasury shares held by subsidiaries (thousands)
2010	**29,267**
2011	**29,303**
2012	**28,933**

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30.4 Revaluation reserves

	Available-for-sale investments	Real estate held for own use	Cash flow hedging reserve	Total
At January 1, 2012	2,299	43	1,122	3,464
Gross revaluation	4,247	(5)	-	4,242
Net (gains) / losses transferred to income statement	(465)	-	(62)	(527)
Foreign currency translation differences	(26)	-	(30)	(56)
Tax effect	(1,089)	1	28	(1,060)
Other	19	-	-	19
At December 31, 2012	**4,985**	**39**	**1,058**	**6,082**
At January 1, 2011	493	41	424	958
Gross revaluation	3,012	2	1,016	4,030
Net (gains) / losses transferred to income statement	(513)	-	(18)	(531)
Foreign currency translation differences	101	1	60	162
Tax effect	(794)	(1)	(360)	(1,155)
At December 31, 2011	**2,299**	**43**	**1,122**	**3,464**
At January 1, 2010	(1,928)	39	180	(1,709)
Disposal of a business	(22)	-	-	(22)
Gross revaluation	4,044	2	367	4,413
Net (gains) / losses transferred to income statement	(203)	-	(8)	(211)
Foreign currency translation differences	(171)	2	14	(155)
Tax effect	(1,227)	(2)	(129)	(1,358)
At December 31, 2010	**493**	**41**	**424**	**958**

The revaluation accounts for both available-for-sale investments and for real estate held for own use include unrealized gains and losses on these investments, net of tax. Upon sale, the amounts realized are recognized in the income statement (for available-for-sale investments) or transferred to retained earnings (for real estate held for own use). Upon impairment, unrealized losses are recognized in the income statement.

The closing balances of the revaluation reserve for available-for-sale investments relate to the following instruments:

	2012	2011	2010
Shares	193	125	246
Debt securities	4,754	2,183	242
Other	38	(9)	5
Revaluation reserve for available-for-sale investments	**4,985**	**2,299**	**493**

The cash flow hedging reserve includes (un)realized gains and losses on the effective portions of hedging instruments, net of tax. The amounts are recognized in the income statement at the moment of realization of the hedged position to offset the gain or loss from the hedged cash flow. No amounts have been released from equity to be included in the initial measurement of non-financial assets or liabilities.

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30.5 Other reserves

	Foreign currency translation reserve	Net foreign investment hedging reserve	Equity movements of associates	Total
At January 1, 2012	(667)	(243)	(54)	(964)
Movement in foreign currency translation and net foreign investment hedging reserves	(74)	(41)	(1)	(116)
Tax effect	(8)	10	1	3
Equity movements of associates	-	-	22	22
At December 31, 2012	**(749)**	**(274)**	**(32)**	**(1,055)**
At January 1, 2011	(1,030)	(277)	(36)	(1,343)
Movement in foreign currency translation and net foreign investment hedging reserves	364	45	-	409
Tax effect	(1)	(11)	-	(12)
Equity movements of associates	-	-	(18)	(18)
At December 31, 2011	**(667)**	**(243)**	**(54)**	**(964)**
At January 1, 2010	(2,211)	(82)	(11)	(2,304)
Movement in foreign currency translation and net foreign investment hedging reserves	1,299	(262)	-	1,037
Tax effect	(118)	67	-	(51)
Equity movements of associates	-	-	(25)	(25)
At December 31, 2010	**(1,030)**	**(277)**	**(36)**	**(1,343)**

The foreign currency translation reserve includes the currency results from investments in non-euro denominated subsidiaries. The amounts are released to the income statement upon the sale of the subsidiary.

The net foreign investment hedging reserve is made up of gains and losses on the effective portions of hedging instruments, net of tax. The amounts are recognized in the income statement at the moment of realization of the hedged position to offset the gain or loss from the net foreign investment.

The equity movements of associates reflect Aegon s share of changes recognized directly in the associate s equity.

31 Convertible core capital securities

	2012	2011	2010
At January 1	-	1,500	2,000
Repurchases	-	(1,500)	(500)
At December 31	**-**	**-**	**1,500**

Aegon repurchased, 375 million convertible core capital securities, in two equal tranches on March 15, 2011 and June 15, 2011 respectively. The total payment to the Dutch State amounted to EUR 2,250 million of which EUR 1,500 million related to the repurchase of the convertible core capital securities and EUR 750 million related to the premium attached to this repurchase. With these transactions Aegon completed the repurchase of all EUR 3 billion convertible core capital securities issued to the Dutch State in 2008.

On August 30, 2010, Aegon repurchased 125 million of convertible core capital securities. The total payment to the Dutch government amounted to EUR 563 million and included a premium for repurchase amounting to EUR 52 million and accrued interest from May 25, 2010 of EUR 11 million.

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On November 30, 2009, Aegon repurchased 250 million of convertible core capital securities. The total payment to the Dutch government amounted to EUR 1.15 billion. Under the terms of Aegon s agreement with the Dutch government, the premium for repurchase amounted to EUR 108 million based on the volume weighted average share price of Aegon shares of EUR 4.8315 during the five trading days from November 23 until November 27. The amount repurchased includes accrued interest from May 22, 2009 of EUR 44 million.

32 Other equity instruments

	Junior perpetual capital securities	Perpetual cumulative subordinated bonds	Share options and incentive plans [1]	Non-cumulative subordinated notes	Total
At January 1, 2012	4,192	453	75	-	4,720
Issuance of non-cumulative subordinated notes	-	-	-	271	271
Share options cost incurred	-	-	32	-	32
Share options forfeited	-	-	(5)	-	(5)
At December 31, 2012	**4,192**	**453**	**102**	**271**	**5,018**
At January 1, 2011	4,192	453	59	-	4,704
Share options cost incurred	-	-	20	-	20
Share options forfeited	-	-	(4)	-	(4)
At December 31, 2011	**4,192**	**453**	**75**	**-**	**4,720**
At January 1, 2010	4,192	453	64	-	4,709
Share options cost incurred	-	-	7	-	7
Share options forfeited	-	-	(12)	-	(12)
At December 31, 2010	**4,192**	**453**	**59**	**-**	**4,704**

[1] Share options and incentive plans include the shares and options granted to personnel which are not yet vested

Junior perpetual capital securities	Coupon rate	Coupon date, as of	Year of next call	**2012**	2011	2010
USD 500 million	6.50%	Quarterly, December 15	2013	424	424	424
USD 250 million	floating LIBOR rate [1]	Quarterly, December 15	2013	212	212	212
USD 550 million	6.875%	Quarterly, September 15	2013	438	438	438
EUR 200 million	6.0%	Annually, July 21	2013	200	200	200
USD 1,050 million	7.25%	Quarterly, December 15	2013	745	745	745
EUR 950 million	floating DSL rate [2]	Quarterly, July 15	2014	950	950	950
USD 500 million	floating CMS rate [3]	Quarterly, July 15	2014	402	402	402
USD 1 billion	6.375%	Quarterly, June 15	2015	821	821	821
At December 31				**4,192**	**4,192**	**4,192**

[1] The coupon of the USD 250 million junior perpetual capital securities is reset each quarter based on the then prevailing three-month LIBOR yield plus a spread of 87.5 basis points, with a minimum of 4%.
[2] The coupon of the EUR 950 million junior perpetual capital securities is reset each quarter based on the then prevailing ten-year Dutch government bond yield plus a spread of ten basis points, with a maximum of 8%.
[3] The coupon of the USD 500 million junior perpetual capital securities is reset each quarter based on the then prevailing ten-year US dollar interest rate swap yield plus a spread of ten basis points, with a maximum of 8.5%.

The interest rate exposure on some of these securities has been swapped to a three-month LIBOR and/or EURIBOR based yield.

The securities have been issued at par. The securities have subordination provisions and rank junior to all other liabilities. The conditions of the securities contain certain provisions for optional and required coupon payment deferral and mandatory coupon payment events. Although the securities have no stated maturity, Aegon has the right to call the securities for redemption at par for the first time on the coupon date in the years as specified, or on any coupon payment date

thereafter.

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Perpetual cumulative subordinated bonds	Coupon rate	Coupon date	Year of next call	2012	2011	2010
EUR 114 million	4.156% [1], [4]	8-Jun	2015	114	114	114
EUR 136 million	5.185% [2], [4]	14-Oct	2018	136	136	136
EUR 203 million	4.260% [3], [4]	4-Mar	2021	203	203	203
At December 31				**453**	**453**	**453**

[1] The coupon of the EUR 114 million bonds was originally set at 8% until June 8, 2005. Subsequently, the coupon has been reset at 4.156% until 2015.
[2] The coupon of the EUR 136 million bonds was originally set at 7.25% until October 14, 2008. Subsequently, the coupon has been reset at 5.185% until October 14, 2018.
[3] The coupon of the EUR 203 million bonds was originally set at 7.125% until March 4, 2011. Subsequently, the coupon has been reset at 4.26% until March 4, 2021.
[4] If the bonds are not called on the respective call dates, the coupons will be reset at the then prevailing effective yield of ten-year Dutch government securities plus a spread of 85 basis points.

The bonds have the same subordination provisions as dated subordinated debt. In addition, the conditions of the bonds contain provisions for interest deferral and for the availability of principal amounts to meet losses.

Although the bonds have no stated maturity, Aegon has the right to call the bonds for redemption at par for the first time on the coupon date in the year of next call.

Non-cumulative subordinated notes	Coupon rate	Coupon date	Year of next call	2012	2011	2010
USD 525 million	8%	Quarterly, February 15	2017	271	-	-
At December 31				**271**	**-**	**-**

On February 7, 2012, Aegon issued USD 525 million in aggregate principal amount of 8.00% non-cumulative subordinated notes, due 2042, in an underwritten public offering in the United States registered with the U.S. Securities and Exchange Commission. The subordinated notes bear interest at a fixed rate of 8.00% and have been priced at 100% of their principal amount. Any cancelled interest payments will not be cumulative.

The securities are subordinated and rank senior to the junior perpetual capital securities, equally with the perpetual cumulative subordinated bonds and junior to all other liabilities. The conditions of the securities contain certain provisions for optional and required cancellation of interest payments. The securities have a stated maturity of 30 years, however Aegon has the right to call the securities for redemption at par for the first time on the first coupon date in 2017, or on any coupon payment date thereafter.

The interest cash flows on substantially all of these securities has been swapped to an EURIBOR based interest rate.

These notes are recognized as a compound instrument due to the nature of this financial instrument. Compound instruments are separated into an equity component and a liability component. At December 31, 2012 the equity component amount to EUR 271 million, subordinated borrowings amounts to EUR 42 million and a deferred tax liability amounting to EUR 89 million.

Refer to note 34 for details of the component classified as subordinated borrowings.

33 Trust pass-through securities

	Coupon rate	Coupon rate	Year of issue	Year of maturity	Year of next call	2012	2011

USD 18 million [1)]	Floating	Quarterly, July 23	2004	2034	2013	15	15
USD 225 million [2)]	7.65%	Semi-annually, December 1	1996	2026	n.a.	102	106
USD 190 million [2)]	7.625%	Semi-annually, November 15	1997	2037	n.a.	38	38
At December 31						**155**	**159**

[1] Issued by a subsidiary of Aegon N.V.
[2] Issued by a subsidiary of, and guaranteed by Aegon N.V.

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Trust pass-through securities are securities through which the holders participate in a trust. The assets of these trusts consist of junior subordinated deferrable interest debentures issued by Transamerica Corporation and Clark Consulting Inc. The trust pass-through securities carry provisions with regard to deferral of distributions for extension periods up to a maximum of ten consecutive semi-annual periods. The trust pass-through securities are subordinated to all other unsubordinated borrowings and liabilities.

There were no defaults or breaches of conditions during the period.

The fair value of these loans amounts to EUR 129 million (2011: EUR 114 million).

34 Subordinated borrowings

Subordinated borrowings are subordinated to all other unsubordinated borrowings and liabilities. There have been no defaults or breaches of conditions during the period. The fair value of these loans amounts to EUR 94 million at December 31, 2012 (2011: EUR 18 million).

Subordinated borrowings include a liability of EUR 42 million relating to the non-cumulative subordinated notes issued on February 7, 2012. The liability component of the non-cumulative subordinated notes is related to the redemption amount. For further information on the non-cumulative subordinated notes and its subordination refer to note 32.

35 Insurance contracts

	2012	2011
Life insurance	94,862	94,905
Non-life insurance		
- Unearned premiums and unexpired risks	4,095	3,687
- Outstanding claims	1,978	1,802
- Incurred but not reported claims	678	718
Incoming reinsurance	3,596	3,862
At December 31	**105,209**	**104,974**

	2012	2011
Non-life insurance:		
- Accident and health insurance	6,102	5,565
- General insurance	649	642
Total non-life insurance	**6,751**	**6,207**

Movements during the year in life insurance:	2012	2011
At January 1	94,905	91,229
Acquisitions though business combinations	20	492
Disposal of a business	(297)	(127)
Portfolio transfers and acquisitions	53	161
Gross premium and deposits - existing and new business	6,713	6,008
Unwind of discount / interest credited	4,019	3,654
Insurance liabilities released	(11,161)	(10,157)
Changes in valuation of expected future benefits	348	1,793
Loss recognized as a result of liability adequacy testing	1	2
Shadow accounting adjustments	402	420
Net exchange differences	(521)	1,915
Transfer to insurance contracts for account of policyholders	277	(569)
Other	103	84
At December 31	**94,862**	**94,905**

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Movements during the year in non-life insurance:	2012	2011
At January 1	6,207	5,674
Gross premiums - existing and new business	2,348	2,198
Unwind of discount / interest credited	251	217
Insurance liabilities released	(1,144)	(1,042)
Changes in valuation of expected future claims	24	(7)
Change in unearned premiums	(1,229)	(1,129)
Change in unexpired risks	(5)	(4)
Incurred related to current year	730	652
Incurred related to prior years	338	265
Release for claims settled current year	(296)	(292)
Release for claims settled prior years	(658)	(640)
Shadow accounting adjustments	135	170
Loss recognized as a result of liability adequacy testing	170	-
Change in IBNR	(41)	7
Net exchange differences	(79)	138
At December 31	**6,751**	**6,207**

Movements during the year in incoming reinsurance:	2012	2011
At January 1	3,862	3,375
Gross premium and deposits - existing and new business	1,816	1,702
Disposal of a business	-	(1,120)
Unwind of discount / interest credited	272	229
Insurance liabilities released	(2,229)	(549)
Changes in valuation of expected future benefits	(28)	45
Net exchange differences	(54)	125
Other	(43)	55
At December 31	**3,596**	**3,862**

36 Insurance contracts for account of policyholders

Insurance contracts for account of policyholders	2012	2011
At January 1	73,425	77,650
Acquisitions through business combinations	29	72
Disposal of a business	(403)	(6,144)
Portfolio transfers and acquisitions	(67)	(114)
Gross premium and deposits - existing and new business	6,901	6,882
Unwind of discount / interest credited	7,295	575
Insurance liabilities released	(8,642)	(5,967)
Fund charges released	(916)	(1,186)
Changes in valuation of expected future benefits	53	(31)
Transfer to/from insurance contracts	(277)	569
Net exchange differences	(535)	1,109
Other	9	10
At December 31	**76,872**	**73,425**

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37 Investment contracts

	2012	2011
Investment contracts	17,768	20,847

	Without discretionary participation features	With discretionary participation features	Total
At January 1, 2012	20,128	719	20,847
Portfolio transfers and acquisitions	(17)	-	(17)
Deposits	2,299	-	2,299
Withdrawals	(5,619)	-	(5,619)
Investment contracts liabilities released	-	(68)	(68)
Interest credited	443	-	443
Fund charges released	(9)	-	(9)
Movements related to fair value hedges	(72)	-	(72)
Net exchange differences	(165)	21	(144)
Other	108	-	108
At December 31, 2012	**17,096**	**672**	**17,768**
At January 1, 2011	22,558	679	23,237
Portfolio transfers and acquisitions	39	-	39
Deposits	2,749	-	2,749
Withdrawals	(6,239)	-	(6,239)
Investment contracts liabilities released	-	18	18
Interest credited	517	-	517
Fund charges released	(8)	-	(8)
Movements related to fair value hedges	49	-	49
Net exchange differences	308	22	330
Other	155	-	155
At December 31, 2011	**20,128**	**719**	**20,847**

	2012	2011
Fair value of investment contracts without discretionary participation features	**17,465**	**20,494**

Investment contracts consist of the following:	2012	2011
Institutional guaranteed products	6,073	8,103
Fixed annuities	5,979	6,044
Savings accounts	4,386	5,255
Investment contracts with discretionary participation features	672	719
Other	658	726
At December 31	**17,768**	**20,847**

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38 Investment contracts for account of policyholders

	2012	2011
Investment contracts for account of policyholders [1)]	78,418	71,433

[1] Refer to note 48 for a summary of all financial assets and financial liabilities at fair value through profit or loss.

	Without discretionary participation features	With discretionary participation features	Total
At January 1, 2012	26,687	44,746	71,433
Gross premium and deposits - existing and new business	5,541	5,307	10,848
Withdrawals	(5,300)	-	(5,300)
Interest credited	2,613	3,627	6,240
Investment contracts liabilities released	-	(5,782)	(5,782)
Fund charges released	(169)	-	(169)
Net exchange differences	(99)	1,332	1,233
Other	(85)	-	(85)
At December 31, 2012	**29,188**	**49,230**	**78,418**
At January 1, 2011	25,603	43,924	69,527
Gross premium and deposits - existing and new business	7,076	5,750	12,826
Withdrawals	(6,239)	-	(6,239)
Disposal of a business	-	(573)	(573)
Interest credited	(316)	(639)	(955)
Investment contracts liabilities released	-	(5,039)	(5,039)
Fund charges released	(148)	-	(148)
Net exchange differences	865	1,323	2,188
Other	(154)	-	(154)
At December 31, 2011	**26,687**	**44,746**	**71,433**

39 Borrowings

	2012	2011
Debentures and other loans	12,235	9,199
Commercial paper	413	646
Bank overdrafts	93	278
Short-term deposits	17	18
At December 31	**12,758**	**10,141**
Current	1,398	2,343
Non-current	11,360	7,798
Total fair value of borrowings	13,528	10,250

During 2012, residential mortgage backed securities (RMBSs) were issued under the Dutch SAECURE program for a total amount of EUR 2,050 million. Also, EUR 1,500 million was borrowed from the European Central Bank (ECB), under its Long Term Refinancing Operation (LTRO) program. The net proceeds of these borrowings were used to finance a part of the Dutch mortgage portfolio of Aegon The Netherlands.

Bank overdrafts are largely part of cash pool agreements with banks and matched by cash balances. IFRS does not permit net presentation of these cash balances and bank overdrafts under the current agreements with these banks.

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A detailed composition of the debentures and other loans is included in the following table:

Debentures and other loans

	Coupon rate	Coupon date	Issue / Maturity	2012	2011
USD 200 million Zero Coupon Bonds [1]	-	-	1982 / 12	-	142
EUR 1.0 billion Senior Notes	7.00%	April 29	2009 / 12	-	999
USD 750 million Senior Notes	4.75%	Semi-annually	2003 / 13	569	578
Revolving Loan Facility Warehouse Mortgage Loans [2]	Floating	Monthly	2011 / 13	249	35
EUR 500 million Medium-Term Notes [11]	4.125%	December 8	2004 / 14	532	516
USD 500 million Senior Unsecured Notes	4.625%	Semi-annually	2009 / 15	378	384
EUR 1,018 million SAECURE 7 RMBS Note [3], [4]	Floating	Quarterly	2010 / 15	914	951
GBP 35 million Note issue agreement [2], [5], [6]	Floating	Quarterly	2010 / 15	25	33
EUR 80 million Mortgage loan [3]	Floating	Quarterly	2010 / 15	80	80
EUR 212 / USD 600 SAECURE 11 RMBS Note [3], [8]	Floating	Quarterly	2012 / 15	649	-
EUR 1,500 million ECB LTRO [2]	Floating	At Maturity	2012 / 15	1,500	-
EUR 1,500 million SAECURE 10 RMBS Note [3], [7]	Floating	Quarterly	2011 / 16	1,378	1,448
EUR 842 million SAECURE 9 RMBS Note [3], [9]	Floating	Quarterly	2010 / 16	735	778
EUR 1,365 million SAECURE 12 RMBS Note [3], [10]	Floating	Quarterly	2012 / 17	1,365	-
EUR 160 million Mortgage loan [3]	Floating	Quarterly	2011 / 17	159	154
EUR 500 million Unsecured Notes	3%	July 18	2012 / 17	498	-
EUR 75 million Medium-Term Notes [1], [11]	4.625%	December 9	2004 / 19	82	75
USD 500 million Senior Notes [1], [11]	5.75%	Semi-annually	2005 / 20	436	419
USD 305 million Note issue agreement [2]	5.54% / 8.88%	Quarterly	2002 / 22	78	94
GBP 250 million Note issue agreement [2], [5], [6]	Floating	April 21	2008 / 23	92	156
USD 292 million Senior Secured Note [2]	Floating	Quarterly	2012 / 23	216	-
GBP 250 million Medium-Term Notes	6.125%	December 15	1999 / 31	305	296
USD 1.54 billion Variable Funding Surplus Note [1], [5]	Floating	Quarterly	2006 / 36	1,091	1,034
USD 1.5 billion Variable Funding Surplus Note [1], [5]	Floating	Quarterly	2007 / 37	-	126
USD 550 million Floating Rate Guaranteed Note [2], [5]	Floating	Quarterly	2007 / 37	360	366
GBP 400 million Senior Unsecured Notes	6.625%	Semi-annually	2009 / 39	486	471
Other				58	64
At December 31				**12,235**	**9,199**

1 Issued by subsidiaries of, and guaranteed by Aegon N.V.
2 Issued by a subsidiary of Aegon N.V.
3 Issued by a joint venture of Aegon Nederland N.V.
4 The first optional redemption date is August 2015; the legal maturity date is August 2093. Notes are fully collateralized by mortgage loans which are part of Aegon s general account investment.
5 Outstanding amounts can vary up to the maximum stated nominal amount.
6 Private Value-in-Force (ViF) securitization by Aegon UK to monetize a portion of future profits associated with an existing book of unit-linked business.
7 The first optional redemption date is February 2016; the legal maturity date is February 2094. Notes are fully collateralized by mortgage loans which are part of Aegon s general account investment.
8 The first optional redemption date is July 2015; the legal maturity date is July 2092. Notes are fully collateralized by mortgage loans which are part of Aegon s general account investment.
9 The first optional redemption date is March 2016; the legal maturity date is September 2092. Notes are fully collateralized by mortgage loans which are part of Aegon s general account investment.
10 The first optional redemption date is October 2017; the legal maturity date is July 2092. Notes are fully collateralized by mortgage loans which are part of Aegon s general account investment.
11 Measured at fair value.

Included in debentures and other loans is EUR 1,050 million (2011: EUR 1,010 million) relating to borrowings measured at fair value. For the year 2012, Aegon s credit spread had a negative impact of EUR 48 million on income before tax (2011: positive impact of EUR 30 million) and a negative impact of EUR 34 million on shareholders equity (2011: positive impact of EUR 21 million). The cumulative positive impact of Aegon s credit spread, based on observable market data, on income before tax amounted to EUR 24 million (2011: EUR 72 million).

The difference between the contractually required payment at maturity date and the carrying amount of the borrowings amount to EUR 67 million (2011: EUR 16 million).

Of the debentures and other loans EUR 531 million is pledged as collateral (2011: EUR 556 million).

Undrawn committed borrowing facilities:	2012	2011
Floating-rate		
- Expiring within one year	1,248	2,638
- Expiring beyond one year	2,020	985
At December 31	**3,268**	**3,623**

There were no defaults or breaches of conditions during the period.

40 Provisions

	2012	2011
At January 1	444	357
Additional provisions	98	280
Unused amounts reversed through the income statement	(60)	(41)
Unwinding of discount and change in discount rate	7	8
Used during the year	(116)	(158)
Net exchange differences	2	(2)
Other	(44)	-
At December 31	**331**	**444**
Current	130	203
Non-current	201	241

The provisions mainly consist of provisions for contingent consideration relating to business combinations (earn out) of EUR 187 million (2011: EUR 196 million), restructuring provision of EUR 56 million (2011: EUR 135 million), provision for unearned commission of EUR 33 million (2011: EUR 38 million) and litigation provisions of EUR 10 million (2011: EUR 19 million).

In 2012, Other reflects the release of earn out provisions which were directly deducted from goodwill.

Main uncertainties relate to the contingent consideration relating to business combinations. These earn out payments will be payable if specific targets, as set out in the purchase agreements, are met in the future. The expected timing of resulting outflows vary between 2014 and 2017.

41 Defined benefit plans

	2012	2011
Retirement benefit plans	1,798	1,634
Other post-employment benefit plans	223	247
Total defined benefit plans	**2,021**	**1,881**
Retirement benefit plans in deficit	201	303
Retirement benefit plans in surplus	-	-
Total defined benefit assets	**201**	**303**
Retirement benefit plans in deficit	1,999	1,937
Other post-employment benefit plans in deficit	223	247
Total defined benefit liabilities	**2,222**	**2,184**

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	2012			2011		
	Retirement benefit plans	Other post-employment benefit plans	Total	Retirement benefit plans	Other post-employment benefit plans	Total
At January 1	1,634	247	1,881	1,566	234	1,800
Defined benefit expenses	300	(7)	293	174	21	195
Contributions paid	(37)	-	(37)	(33)	-	(33)
Benefits paid	(99)	(16)	(115)	(91)	(16)	(107)
Net exchange differences	2	(2)	-	(1)	6	5
Other	(2)	1	(1)	19	2	21
At December 31	**1,798**	**223**	**2,021**	**1,634**	**247**	**1,881**

The amounts recognized in the statement of financial position are determined as follows:

Retirement benefit plans	**2012**	2011	2010	2009	2008
Present value of wholly or partly funded obligations	3,617	3,309	2,925	2,545	2,144
Fair value of plan assets	(2,747)	(2,543)	(2,507)	(2,092)	(1,786)
	870	**766**	**418**	**453**	**358**
Present value of wholly unfunded obligations[1)]	2,412	2,272	1,952	1,831	1,644
Unrecognized actuarial gains / (losses)	(1,484)	(1,404)	(804)	(751)	(586)
Unrecognized past service cost	-	-	-	-	-
At December 31	**1,798**	**1,634**	**1,566**	**1,533**	**1,416**

Other post-employment benefit plans	**2012**	2011	2010	2009	2008
Present value of wholly or partly funded obligations	-	3	3	3	4
Fair value of plan assets	-	-	-	-	-
	-	**3**	**3**	**3**	**4**
Present value of wholly unfunded obligations	248	271	256	224	231
Unrecognized actuarial gains / (losses)	(31)	(27)	(25)	(12)	(19)
Unrecognized past service cost	6	-	-	-	-
At December 31	**223**	**247**	**234**	**215**	**216**

Defined benefit plans	**2012**	2011	2010	2009	2008
Present value of wholly or partly funded obligations	3,617	3,312	2,928	2,548	2,148
Fair value of plan assets	(2,747)	(2,543)	(2,507)	(2,092)	(1,786)
	870	**769**	**421**	**456**	**362**
Present value of wholly unfunded obligations [1)]	2,660	2,543	2,208	2,055	1,875
Unrecognized actuarial gains / (losses)	(1,515)	(1,431)	(829)	(763)	(605)
Unrecognized past service cost	6	-	-	-	-
At December 31	**2,021**	**1,881**	**1,800**	**1,748**	**1,632**

[1] Assets held by Aegon The Netherlands backing retirement benefits of EUR 2,280 million (2011: EUR 2,039 million) do not meet the definition of plan assets and as such were not deducted in calculating this amount. Instead, these assets are recognized as general account assets. Consequently, the return on these assets also does not form part of the calculation of defined benefit expenses.

The fair value of Aegon s own financial instruments included in plan assets and the fair value of other assets used by Aegon included in planned assets was nil in both 2012 and 2011.

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The amounts recognized in the income statement are as follows:

	2012			2011		
Defined benefit expenses	Retirement benefit plans	Other post-employment benefit plans	**Total**	Retirement benefit plans	Other post-employment benefit plans	Total
Current year service costs	91	9	100	87	8	95
Interest cost	258	11	269	253	12	265
Expected return on plan assets	(159)	-	(159)	(160)	-	(160)
Actuarial (gains) / losses recognized	106	-	106	47	-	47
(Gains) / losses on curtailment	-	-	-	(56)	-	(56)
Past service cost	4	(26)	(22)	3	1	4
Other	-	-	-	-	-	-
Total defined benefit expenses	**300**	**(6)**	**294**	**174**	**21**	**195**

	2010		
	Retirement benefit plans	Other post-employment benefit plans	Total
Current year service costs	93	6	99
Interest cost	259	13	272
Expected return on plan assets	(162)	-	(162)
Actuarial (gains) / losses recognized	51	-	51
(Gains) / losses on curtailment	(29)	-	(29)
Past service cost	1	2	3
Other	(3)	-	(3)
Total defined benefit expenses	**210**	**21**	**231**

Defined benefit expenses are included in Commissions and expenses in the income statement.

	2012			2011		
	Retirement benefit plans	Other post-employment benefit plans	**Total**	Retirement benefit plans	Other post-employment benefit plans	Total
Actual return on plan assets and reimbursement rights	**305**	**-**	**305**	**50**	**-**	**50**

Movements during the year of the present value of the defined benefit obligations	**2012**	2011
At January 1	5,855	5,136
Current year service costs	100	95
Interest cost	269	265
Contributions by plan participants	11	12
Actuarial (gains)/losses	338	511
Benefits paid	(260)	(235)
Settlements and curtailments	-	(69)
Past service cost	(22)	4

Net exchange differences	(14)	119
Other	-	17
At December 31	**6,277**	**5,855**

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Movements during the year in plan assets for retirement benefit plans	2012	2011
At January 1	2,543	2,507
Expected return on plan assets	159	160
Actuarial gains/(losses)	146	(110)
Contributions by employer	48	44
Benefits paid	(145)	(128)
Net exchange differences	(4)	70
At December 31	**2,747**	**2,543**

Breakdown of plan assets for retirement benefit plans	2012	2011
Equity instruments	1,433	1,335
Debt instruments	1,085	1,004
Other	229	204
At December 31	**2,747**	**2,543**

All other post-employment benefit plans are unfunded.

Sensitivity of assumed medical cost trend rates

Assumed medical cost trend rates have an effect on the amounts reported for the health care plans. A one-percentage change in assumed medical cost trend rates would have the following effects:

	2012		2011	
	1%	(1%)	1%	(1%)
Aggregate of current service cost and interest cost components of net periodic post-employment medical costs	2	(1)	2	(1)
Accumulated post-employment benefit obligation for medical cost	16	(15)	18	(17)

Experience adjustments arising on	2012	2011	2010	2009	2008
Plan liabilities	8	14	59	(11)	(3)
Plan assets	146	(110)	175	241	(882)

An experience adjustment on plan liabilities is the difference between the actuarial assumptions underlying the scheme and the actual experience during the period. This excludes the effect of changes in the actuarial assumptions that would also qualify as actuarial gains and losses. Experience adjustments on plan assets are the difference between expected and actual return on assets.

Best estimate of contributions expected for the next annual period	90

Estimated future benefits	Pension benefits	Other benefits	Total
2013	264	15	279
2014	269	17	286
2015	273	17	290
2016	279	17	296
2017	284	18	302
2018-2022	1,487	100	1,587

Defined benefit plans are mainly operated by Aegon USA, Aegon The Netherlands and Aegon UK. The following sections contain a general description of the plans in each of these subsidiaries, a summary of the principal actuarial assumptions applied in determining the value of defined benefit plans and a description of the basis used to determine the overall expected rate of return on plan assets.

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Aegon USA

Aegon USA has defined benefit plans covering substantially all its employees that are qualified under the Internal Revenue Service Code. The benefits are based on years of service and the employee s eligible annual compensation. The defined benefit plans were unfunded by EUR 611million at December 31, 2012 (2011: EUR 524 million unfunded).

Aegon USA also sponsors supplemental retirement plans to provide senior management with benefits in excess of normal pension benefits. These plans are unfunded and non-qualified under the Internal Revenue Service Code. The unfunded amount related to these plans, for which a liability has been recorded, is EUR 208 million (2011: EUR 208 million).

	2012	2011
Assumptions used to determine benefit obligations at year-end		
Discount rate	4.00%	4.50%
Rate of increase in compensation levels	3.91%	3.91%
Assumptions used to determine net periodic benefit cost for the year ended December 31		
Discount rate	4.50%	5.25%
Rates of increase in compensation levels	3.91%	4.59%
Expected long-term rate of return on assets	7.05%	7.05%

The expected return on plan assets is set at the long-term rate expected to be earned based on the long-term investment strategy and the various classes of the invested funds. For each asset class, a long-term asset return assumption is developed taking into account the long-term level of risk of the asset and historical returns of the asset class. A weighted average expected long-term rate was developed based on long-term returns for each asset class and the target asset allocation of the plan.

Aegon USA provides health care benefits to retired employees, which are predominantly unfunded. The post-retirement health benefit liability amounts to EUR 175 million (2011: EUR 197 million).

The principal actuarial assumptions that apply for the year ended December 31 are as follows:

	2012	2011
Assumed health care trend rates		
Health care cost trend rate assumed for next year	7.25%	7.25%
Rate that the cost trend rate gradually declines to	5.00%	5.00%
Year that the rate reaches the rate that it is assumed to remain at	2020	2020
Target allocation of plan assets for retirement benefit plans for the next annual period is		
Equity instruments	53 - 73%	53 - 73%
Debt instruments	15 - 35%	15 - 35%
Other	0 - 15%	0 - 15%

The overall goal of the plans is to maximize total investment returns to provide sufficient funding for the present and anticipated future benefit obligations within the constraints of a prudent level of portfolio risk and diversification. Aegon believes that the asset allocation is an important factor in determining the long-term performance of the plans. From time to time the actual asset allocation may deviate from the desired asset allocation ranges due to different market performance among the various asset categories. If it is determined that rebalancing is required, future additions and withdrawals will be used to bring the allocation to the desired level.

Pension plan contributions were not required for Aegon USA in 2012 or 2011.

Aegon The Netherlands

Aegon The Netherlands has a number of defined benefit plans and a small defined contribution plan. The contributions to the retirement benefit plan of Aegon The Netherlands are paid by both the employees and the employer, with the employer contribution being variable. The benefits covered are retirement benefits, disability, death and survivor pension and are based on an average salary system. Employees earning more than EUR 45,978 per year (as at January 1, 2012) have an option to contribute to a defined contribution plan for the excess salary. However, the cost for the company remains the same. The defined benefit plans were unfunded by EUR 2,191 million at December 31, 2012 (2011: EUR 2,050 million). Assets held by Aegon The Netherlands for retirement

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benefits do not meet the definition of plan assets and as such were not deducted in calculating this amount. Instead, these assets are recognized as general account assets. Consequently, the return on these assets do not form part of the calculation of defined benefit expenses.

Aegon The Netherlands also has a post-retirement medical plan that contributes to the health care coverage of employees and beneficiaries after retirement. The liability related to this plan amounted to EUR 44 million at December 31, 2012 (2011: EUR 46 million).

	2012	2011
Assumptions used to determine benefit obligations at year-end		
Discount rate	3.60%	4.60%
Salary increase rate	2.25%	2.50%
Social security increase rate	2.25%	2.00%
Pension increase rate	0.88%	2.00%

	2012	2011
Assumptions used to determine net periodic benefit cost for the year ended December 31		
Discount rate	4.60%	5.25%
Salary increase rate	2.50%	2.50%
Social security increase rate	2.00%	2.50%
Pension increase rate	2.00%	2.00%
Health care cost trend rate assumed for next year	2.00%	2.00%
Rate that the cost trend rate gradually declines to	2.00%	2.00%
Year that the rate reaches the rate it is assumed to remain at	N.A.	N.A.

Aegon UK

Aegon UK operates a defined benefit pension scheme providing benefits for staff based on final pensionable salary. The assets of the scheme are held under trust separately from those of the Group. The assets of the scheme are held in policies affected with Scottish Equitable plc. In 2011, the scheme was closed to future accrual with effect from March 31, 2013. This resulted in a curtailment gain of EUR 56 million. The remaining unrecognized actuarial losses amount to EUR 200 million (2011: EUR 177 million). Under IAS 19, the defined benefit plan has a deficit of EUR 256 million at December 31, 2012 (2011: EUR 242 million).

For each asset class, a long-term return assumption is derived taking into account market conditions, historical returns (both absolute returns and returns relative to other asset classes) and general forecasts for future returns. Government bonds are taken as providing the return with the least risk. The expected long-term rate of return is calculated as a weighted average of these assumed rates, taking account of the long-term strategic allocation of funds across the different classes adopted by the trustees of the scheme.

	2012	2011
Assumptions used to determine benefit obligations at year-end		
Discount rate	4.60%	4.70%
Salary increase rate	2.00%	2.00-4.00%
Pension increase rate	2.20-3.00%	2.20-3.00%
Price inflation	3.00%	2.20-3.00%
Expected long-term return on assets	4.90%	4.75%

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	2012	2011
Assumptions used to determine net periodic benefit cost for the year ended December 31		
Discount rate	4.70%	5.40%
Salary increase rate	2.00%	4.40%
Pension increase rate	2.20-3.00%	2.60-3.30%
Price inflation	3.00%	3.40%
Expected long-term return on assets	4.75%	6.00%
Target allocation of plan assets for retirement benefit plans for the next annual period is		
Equity instruments	40%	40%
Debt instruments	60%	60%

New Markets

New Markets mostly operate defined contribution plans.

42 Deferred revenue liabilities

	2012	2011
At January 1	104	82
Income deferred	10	13
Disposal of a business	-	(2)
Release to income statement	(11)	(11)
Net exchange differences	1	1
Other	2	21
At December 31	**106**	**104**

43 Deferred tax

	2012	2011
Deferred tax assets	33	89
Deferred tax liabilities	3,609	2,499
Total net deferred tax liability / (asset)	**3,576**	**2,410**

Deferred tax assets comprise temporary differences on:	2012	2011
Financial assets	(26)	81
Deferred expenses, VOBA and other intangible assets	1	-
Losses	7	8
Other	51	-
At December 31	**33**	**89**

Other, in 2012, includes the tax asset in respect of the winding up of some entities.

Deferred tax liabilities comprise temporary differences on:	2012	2011
Real estate	385	449
Financial assets	3,621	2,120
Insurance and investment contracts	(2,706)	(2,347)
Deferred expenses, VOBA and other intangible assets	3,355	3,318

Defined benefit plans	(148)	(155)
Losses	(573)	(610)
Other	(325)	(276)
At December 31	**3,609**	**2,499**

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	Real estate	Financial assets	Insurance contracts	Deferred expenses, VOBA and other intangible assets	Defined Benefit plans	Losses	Other	Total
At January 1, 2012	449	2,039	(2,347)	3,318	(155)	(618)	(276)	2,410
Acquisitions through business combinations	-	-	-	5	-	-	-	5
Disposal of a business	-	(2)	-	(4)	-	-	-	(6)
Charged to income statement	(22)	499	(408)	42	(48)	28	(86)	5
Charged to equity	(1)	936	-	-	(5)	4	23	957
Net exchange differences	(1)	(52)	22	(1)	-	4	-	(28)
Other	(40)	227	27	(6)	60	2	(37)	233
At December 31, 2012	**385**	**3,647**	**(2,706)**	**3,354**	**(148)**	**(580)**	**(376)**	**3,576**
At January 1, 2011	465	637	(2,136)	3,259	(107)	(653)	(394)	1,071
Acquisitions through business combinations	-	-	-	12	-	-	-	12
Disposal of a business	-	-	(1)	(85)	-	-	-	(86)
Charged to income statement	(15)	610	(127)	(149)	2	32	(129)	224
Charged to equity	1	890	-	-	-	2	91	984
Net exchange differences	2	76	(25)	89	(5)	(19)	(13)	105
Other	(4)	(174)	(58)	192	(45)	20	169	100
At December 31, 2011	**449**	**2,039**	**(2,347)**	**3,318**	**(155)**	**(618)**	**(276)**	**2,410**

The increase of deferred tax liabilities primarily relates to unrealized profits in 2012 in respect of financial assets due to a decrease in market interest rates.

Deferred corporate income tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. For an amount of gross EUR 71 million; tax EUR 11 million (2011: gross EUR 128 million; tax EUR 29 million) the realization of the deferred tax asset is dependent on the projection of future taxable profits from existing business in excess of the profits arising from the reversal of existing taxable temporary differences.

For the following amounts, arranged by loss carry forward periods, the deferred corporate income tax asset is not recognized:

	Gross amounts		Not recognized deferred tax assets	
	2012	2011	**2012**	2011
< 5 years	174	190	45	45
³ 5 - 10 years	72	66	20	21
³ 10 - 15 years	-	4	-	2
³ 15 - 20 years	17	51	5	13
Indefinitely	920	768	209	182
At December 31	**1,183**	**1,079**	**279**	**263**

Deferred corporate income tax assets in respect of deductible temporary differences are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. For the following amounts relating to available-for-sale financial assets the recognition of the deferred corporate income tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences:

	Gross amounts		Deferred tax assets	
	2012	2011	**2012**	2011
Deferred corporate income tax asset dependent on retaining bonds and similar investments until the earlier of market recovery or maturity	890	1,900	311	656
Deferred corporate income tax asset dependent on the realization of capital profits	683	1,201	239	420
At December 31	**1,573**	**3,101**	**550**	**1,076**

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Aegon did not recognize deferred corporate income tax assets in respect of deductible temporary differences relating to insurance contracts and other items for the amount of gross EUR 64 million; tax EUR 15 million (2011: gross EUR 56 million; tax EUR 14 million).

Deferred corporate income tax liabilities have not been recognized for withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries, branches, associates and joint ventures. The unremitted earnings totaled gross EUR 1,754 million; tax EUR 438 million (2011: gross EUR 1,749 million; tax EUR 437 million).

All deferred taxes are non-current by nature.

44 Other liabilities

	2012	2011
Payables due to policyholders	1,707	843
Payables due to brokers and agents	1,060	1,077
Payables out of reinsurance	1,629	1,529
Social security and taxes payable	69	62
Income tax payable	122	33
Investment creditors	1,352	626
Cash collateral	10,106	10,245
Repurchase agreements	2,224	2,928
Other creditors	2,447	2,158
At December 31	**20,716**	**19,501**
Current	17,688	17,497
Non-current	3,028	2,004

The carrying amounts disclosed reasonably approximate the fair values at year end, given the predominantly current nature of the other liabilities.

Refer to note 14 for a description of share appreciation rights and related expenses.

45 Accruals

	2012	2011
Accrued interest	182	981
Accrued expenses	151	204
At December 31	**333**	**1,185**

The carrying amounts disclosed reasonably approximate the fair values as at the year end.

46 Guarantees in insurance contracts

For financial reporting purposes Aegon distinguishes between the following types of minimum guarantees:

- ¿ Financial guarantees: these life contingent guarantees are treated as bifurcated embedded derivatives, valued at fair value and presented as derivatives (refer to note 2.10 and note 3);
- ¿ Total return annuities: these guarantees are not bifurcated from their host contracts because they are valued at fair value and presented as part of insurance contracts (refer to note 2.19);
- ¿ Life contingent guarantees in the United States: these guarantees are not bifurcated from their host contracts, valued in accordance with insurance accounting (ASC 944, Financial Services - Insurance) and presented together with insurance liabilities (refer to note 2.19 and note 3); and
- ¿ Life contingent guarantees in the Netherlands: these guarantees are not bifurcated from their host contracts, valued at fair value and presented together with the underlying insurance contracts (refer to note 2.19 and note 3).

In addition to the guarantees mentioned above, Aegon has traditional life insurance contracts that include minimum guarantees that are not valued explicitly; however, the adequacy of all insurance liabilities, net of VOBA and DPAC, are assessed periodically (refer to note 2.19).

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a. Financial guarantees

In the United States and the United Kingdom, a guaranteed minimum withdrawal benefit (GMWB) is offered directly on some variable annuity products Aegon issues and is also assumed from a ceding company. Variable annuities allow a customer to provide for the future on a tax-deferred basis and to participate in equity or bond market performance. Variable annuities allow a customer to select payout options designed to help meet the customer s need for income upon maturity, including lump sum payment or income for life or for a period of time. This benefit guarantees that a policyholder can withdraw a certain percentage of the account value, starting at a certain age or duration, for either a fixed period or during the life of the policyholder.

In Canada, variable products sold are known as Segregated Funds . Segregated funds are similar to variable annuities, except that they include a capital protection guarantee for mortality and maturity benefits (guaranteed minimum accumulation benefits). The initial guarantee period is ten years. The ten-year period may be reset at the contractholder s option for certain products to lock-in market gains. The reset feature cannot be exercised in the final decade of the contract and for many products can only be exercised a limited number of times per year. The management expense ratio charged to the funds is not guaranteed and can be increased by management decision. In addition, Aegon Canada sells a contract with a minimum guaranteed withdrawal benefit. The contract provides capital protection for longevity risk in the form of a guaranteed minimum annuity payment.

In The Netherlands, individual variable unit-linked products have a minimum benefit guarantee if premiums are invested in certain funds. The sum insured at maturity or upon the death of the beneficiary has a minimum guaranteed return (in the range of 3% to 4%) if the premium has been paid for a consecutive period of at least ten years and is invested in a mixed fund and/or fixed-income funds. No guarantees are given for equity investments only. The management expense ratio charged to the funds is not guaranteed and can be increased at management s discretion, with a maximum cost ratio of 1.25% for normal unit-linked policies and 1.90% for policies with a guaranteed return due to the product improvements (Generieke Verbetermaatregelen).

The following table provides information on the liabilities for financial guarantees for minimum benefits:

	2012					2011				
	United States [1]	Canada	The Netherlands [2]	New Markets	Total [3]	United States [1]	Canada	The Netherlands [2]	New Markets	Total [3]
At January 1	645	89	1,306	47	2,087	60	45	831	5	941
Incurred guarantee benefits	58	(22)	18	(6)	48	544	62	475	42	1,123
Paid guarantee benefits	-	(5)	-	(13)	(18)	-	(20)	-	-	(20)
Net exchange differences	(11)	1	-	-	(10)	41	2	-	-	43
At December 31	**692**	**63**	**1,324**	**28**	**2,107**	**645**	**89**	**1,306**	**47**	**2,087**
Account value	14,608	1,678	8,187	686	25,159	11,410	1,847	7,587	423	21,267
Net amount at risk [4]	412	49	1,405	36	1,902	636	46	1,490	56	2,228

[1] Guaranteed minimum accumulation and withdrawal benefits.
[2] Fund plan and unit-linked guarantees.
[3] Balances are included in the derivatives liabilities on the face of the statement of financial position; refer to note 24.
[4] The net amount at risk represents the difference between the maximum amount payable under the guarantees and the account value.

In addition, Aegon Americas reinsures the elective guaranteed minimum withdrawal benefit rider issued with a ceding company s variable annuity contracts. The rider is essentially a return of premium guarantee, which is payable over a period of at least fourteen years from the date that the policyholder elects to start withdrawals. At contract inception, the guaranteed remaining balance is equal to the premium payment. The periodic withdrawal is paid by the ceding company until the account value is insufficient to cover additional withdrawals. Once the account value is exhausted, Aegon pays the periodic withdrawals until the guaranteed remaining balance is exhausted. At December 31, 2012, the reinsured account value was EUR 3.0 billion (2011: EUR 3.3 billion) and the guaranteed remaining balance was EUR 2.4 billion (2011: EUR 2.9 billion).

The reinsurance contract is accounted for as a derivative and is carried in Aegon s statement of financial position at fair value. At December 31, 2012, the contract had a value of EUR 90 million (2011: EUR 145 million). Aegon entered into a derivative program to mitigate the overall exposure to equity market and interest rate risks associated with the reinsurance contract. This program involves

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selling equity futures contracts (S&P 500, Nasdaq, FTSE100 and NKY225 in accordance with Aegon s exposure) to mitigate the effect of equity market movement on the reinsurance contract and the purchase of over-the-counter interest rate swaps to mitigate the effect of movements in interest rates on the reinsurance contracts.

b. Total return annuities

Total Return Annuity (TRA) is an annuity product in the United States which provides customers with a pass-through of the total return on an underlying portfolio of investment securities (typically a mix of corporate and convertible bonds) subject to a cumulative minimum guarantee. Both the assets and liabilities are carried at fair value, however, due to the minimum guarantee not all of the changes in the market value of the asset will be offset in the valuation of the liability. This product exists in both the fixed annuity and life reinsurance lines of business and in both cases represents closed blocks. The reinsurance contract is in the form of modified coinsurance, so only the liability for the minimum guarantee is recorded on Aegon s books.

Product balances as of December 31, 2012 were EUR 432 million in fixed annuities (2011: EUR 495 million) and EUR 112 million in life reinsurance (2011: EUR 122 million).

c. Life contingent guarantees in the United States

Certain variable insurance contracts in the United States also provide guaranteed minimum death benefits (GMDB) and guaranteed minimum income benefits (GMIB). Under a GMDB, the beneficiaries receive the greater of the account balance or the guaranteed amount upon the death of the insured. The net amount at risk for GMDB contracts is defined as the current GMBD in excess of the capital account balance at the balance sheet date.

The GMIB feature provides for minimum payments if the contractholder elects to convert to an immediate pay-out annuity. The guaranteed amount is calculated using the total deposits made by the contractholder, less any withdrawals and sometimes includes a roll-up or step-up feature that increases the value of the guarantee with interest or with increases in the account value.

The additional liability for guaranteed minimum benefits that are not bifurcated are determined (based on ASC 944) each period by estimating the expected value of benefits in excess of the projected account balance and recognizing the excess over the accumulation period based on total expected assessments. The estimates are reviewed regularly and any resulting adjustment to the additional liability is recognized in the income statement. The benefits used in calculating the liabilities are based on the average benefits payable over a range of stochastic scenarios. Where applicable, the calculation of the liability incorporates a percentage of the potential annuitizations that may be elected by the contract holder.

The following table provides information on the liabilities for guarantees that are included in the valuation of the host contracts.

	2012			2011		
	GMDB [1]	GMIB [2]	Total [4]	GMDB [1]	GMIB [2]	Total [4]
At January 1	376	872	1,248	292	543	835
Incurred guarantee benefits	90	(75)	15	144	309	453
Paid guarantee benefits	(74)	(86)	(160)	(73)	(17)	(90)
Net exchange differences	(6)	(9)	(15)	13	37	50
At December 31	**386**	**702**	**1,088**	**376**	**872**	**1,248**

	GMDB [1),3)]	GMIB [2),3)]		GMDB [1),3)]	GMIB [2),3)]
Account value	32,882	5,987		29,923	6,200
Net amount at risk [5]	2,667	636		3,775	783
Average attained age of contractholders	67	67		67	66

1 Guaranteed minimum death benefit in the United States.
2 Guaranteed minimum income benefit in the United States.
3 Note that the variable annuity contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive.
4 Balances are included in the insurance liabilities on the face of the statement of financial position; refer to note 35.
5

The net amount at risk is defined as the present value of the minimum guaranteed annuity payments available to the contract holder determined in accordance with the terms of the contract in excess of the current account balance.

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d. Life contingent guarantees in the Netherlands

The group pension contracts offered by Aegon in the Netherlands include large group contracts that have an individually determined asset investment strategy underlying the pension contract. The guarantee given is that the profit sharing is the minimum of 0% or the realized return (on an amortized cost basis), both adjusted for technical interest rates ranging from 3% to 4%. If there is a negative profit sharing, the 0% minimum is effective, but the loss in any given year is carried forward to be offset against any future surpluses within the contract period. In general, a guarantee is given for the life of the underlying employees so that their pension benefit is guaranteed. Large group contracts also share technical results (mortality risk and disability risk). The contract period is typically five years and the premiums are fixed over this period. Separate account guaranteed group contracts provide a guarantee on the benefits paid.

The traditional life and pension products offered by Aegon in the Netherlands include various products that accumulate a cash value. Premiums are paid by customers at inception or over the term of the contract. The accumulation products pay benefits on the policy maturity date, subject to survival of the insured. In addition, most policies also pay death benefits if the insured dies during the term of the contract. The death benefits may be stipulated in the policy or depend on the gross premiums paid to date. Premiums and amounts insured are established at inception of the contract. The amount insured can be increased as a result of profit sharing, if provided for under the terms and conditions of the product. Minimum interest guarantees exist for all generations of accumulation products written, except for universal life type products for which premiums are invested solely in equity funds. Older generations contain a 4% guarantee; in recent years the guarantee has decreased to 3%.

These guarantees are valued at fair value and are included as part of insurance liabilities with the underlying host insurance contracts in note 35.

The following table provides information on the liabilities for guarantees that are included in the valuation of the host contracts.

	2012 GMB [1,2]	2011 GMB [1,2]
At January 1	3,254	1,656
Incurred guarantee benefits	430	1,598
At December 31	**3,684**	**3,254**
Account value	15,702	14,420
Net amount at risk [3]	3,841	3,462

1 Guaranteed minimum benefit in the Netherlands.
2 Balances are included in the insurance liabilities on the face of the statement of financial position; refer to note 35.
3 The net amount at risk represents the difference between the maximum amount payable under the guarantees and the account value.

Fair value measurement of guarantees in insurance contracts

The fair values of guarantees mentioned above (with the exception of life contingent guarantees in the United States) are calculated as the present value of future expected payments to policyholders less the present value of assessed rider fees attributable to the guarantees. Given the long-term nature of these guarantees, their fair values are determined by using valuation techniques. Because of the dynamic and complex nature of these cash flows, Aegon uses stochastic techniques under a variety of market return scenarios. A variety of factors are considered, including expected market rates of return, equity and interest rate volatility, credit risk, correlations of market returns, discount rates and actuarial assumptions.

Since the price of these guarantees is not quoted in any market, the fair value of these guarantees is computed using valuation models which use observable market data supplemented with the Group s assumptions on developments in future interest rates, volatility in equity prices and other risks inherent in financial markets. All the assumptions used as part of this valuation model are calibrated against actual historical developments. Since many of the assumptions are unobservable and are considered to be significant inputs to the liability valuation, the liability has been reflected within Level III of the fair value hierarchy. Refer to note 3 for more details on Aegon s fair value hierarchy.

The expected returns are based on risk-free rates. Aegon added a premium to reflect the credit spread as required. The credit spread is set by using the credit default swap (CDS) spreads of a reference portfolio of life insurance companies (including Aegon), adjusted to reflect the subordination of senior debt holders at the holding company level to the position of policyholders at the operating company level (who have priority in payments to other creditors). Aegon s assumptions are set by region to reflect differences in the valuation of the guarantee embedded in the insurance contracts. If the credit spreads were 20 basis points higher or

lower respectively, and holding

all other variables constant in the valuation model, 2012 income before tax would have been EUR 284 million and EUR 299 million higher or lower respectively (2011: EUR 268 million and EUR 289 million higher or lower).

For equity volatility, Aegon uses a term structure assumption with market-based implied volatility inputs for the first five years and a long-term forward rate assumption of 25% thereafter. The volume of observable option trading from which volatilities are derived generally declines as the contracts term increases, therefore, the volatility curve grades from implied volatilities for five years to the ultimate rate. The resulting volatility assumption in year 20 for the S&P 500 index (expressed as a spot rate) was 24.4% at December 31, 2012 and 25.7% at December 31, 2011. Correlations of market returns across underlying indices are based on historical market returns and their inter-relationships over a number of years preceding the valuation date. Assumptions regarding policyholder behavior, such as lapses, included in the models are derived in the same way as the assumptions used to measure insurance liabilities.

Had Aegon used a long-term equity implied volatility assumption that was five volatility points higher or lower, the impact on income before tax would have been a decrease of EUR 118 million or an increase of EUR 104 million, respectively, in 2012 IFRS income before tax (2011: EUR 97 million decrease and EUR 86 million increase).

These assumptions are reviewed at each valuation date, and updated based on historical experience and observable market data, including market transactions such as acquisitions and reinsurance transactions.

Aegon utilizes different risk management strategies to mitigate the financial impact of the valuation of these guarantees on the results including asset and liability management and derivative hedging strategies to hedge certain aspects of the market risks embedded in these guarantees. Guarantees valued at fair value contributed a net gain before tax of EUR 289 million (2011: gain of EUR 152 million) to earnings. The main drivers of increase in net gain before tax are EUR (714) million related to decreases in risk free rates (2011: EUR 3,081 million loss), EUR 491 million related to an increase in equity markets (2011: EUR 160 loss), EUR 124 million related to decreases in equity volatilities (2011: EUR 75 million loss) offset by EUR (465) million related to movements in the spread of credit risk (2011: EUR 592 million gain). Hedges related to these guarantee reserves contributed fair value gains of EUR 407 million to income before tax (2011: EUR 2,805 million gains) and DAC offset and other contributed a gain of EUR 446 million (2011: EUR 71 million gain).

Guarantee reserves increased EUR 381 million in 2012 (2011: increase of EUR 2,838 million).

47 Capital and solvency

Aegon s capital base reflects the capital employed in insurance activities and consists of shareholders equity, perpetual capital securities and dated subordinated debt and senior debt. Aegon targets its capital base to comprise at least 70% core capital (excluding the revaluation reserve), and targets 25% perpetual capital securities (consisting of junior perpetual capital securities and perpetual cumulative subordinated bonds) and 5% dated subordinated and senior debt related to insurance activities.

Additionally, Aegon manages capital adequacy at the level of its country units and their operating companies. The goal is to ensure that Aegon companies maintain their financial strength. Aegon maintains its companies capital adequacy levels at whichever is the higher of local regulatory requirements and the relevant local Standard & Poor s requirements for very strong capitalization, and any additionally self-imposed economic requirements.

Core capital, which consists of shareholders equity, excluding revaluation reserve, was EUR 18,548 million at December 31, 2012 compared to EUR 17,536 million at December 31, 2011.

Shareholders equity increased by EUR 3,630 million due to the change in the revaluation reserve of EUR 2,618 million and net income for the year of EUR 1,532 million. There were a number of other effects, including dividends of EUR 148 million paid to common shareholders and preferred dividend paid of EUR 59 million.

Group equity consists of core capital plus Other equity instruments (see note 32) such as the junior perpetual capital securities, the perpetual cumulative subordinated bonds, the non-cumulative subordinated notes as well as other equity reserves. Group equity was EUR 29,661 million at December 31, 2012, compared to EUR 25,734 million at December 31, 2011.

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The following table reconciles total shareholders equity to the total capital base:

	2012	2011
Total shareholders equity	24,630	21,000
Junior perpetual capital securities	4,192	4,192
Perpetual cumulative subordinated bonds	453	453
Non-Cumulative Subordinate Note	271	-
Share options not yet exercised	102	75
Non-controlling interests	13	14
Trust pass-through securities	155	159
Subordinated borrowings	61	18
Borrowings	12,758	10,141
Borrowings not related to capital funding of insurance activities	(12,237)	(8,670)
Total capital base	**30,398**	**27,382**
Currency revaluation Other equity instruments [1)]	(123)	(76)
Reverse Revaluation reserve	(6,082)	(3,464)
Total capital base excluding revaluation reserve	**24,193**	**23,842**

[1] Other equity instruments that are denominated in foreign currencies are, for purpose of calculating the capital base, revalued to the period-end exchange rate

Borrowings not related to capital funding of insurance activities consists of operational funding including funding for the Dutch mortgage business and US regulation XXX and guideline AXXX redundant reserves. In the ordinary course of business, Aegon N.V. may at times have borrowings, which are offset by cash and cash equivalents available for future capital management activities, such as funding capital contributions in its subsidiaries, redemption of borrowings or payment of dividends to its shareholders.

The total capital base includes separate presentation of borrowings based on the deployment of the proceeds and is provided to senior management to manage capital.

Aegon N.V. is subject to certain financial covenants in some of its financial agreements (such as issued debentures, credit facilities and ISDA agreements). Under these financial covenants, an event of default may occur if and when any financial indebtedness of any member of the Group is not paid when due, or not paid within any applicable grace period. The financial agreements may also include a cross default provision which may be triggered if and when any financial indebtedness of any member of the Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default.

All financial agreements are closely monitored periodically to assess the likelihood of a breach of any financial covenant and the likelihood thereof in the near future. On the basis of this assessment, a breach of any such covenant has not occurred.

Insurance, reinsurance, investment management and banking companies are required to maintain a minimum solvency margin based on applicable local regulations. For managing Aegon s capital, the life insurance and life reinsurance regulations in the EU and the United States are of main importance. Aegon s Insurance Group Directive ratio (IGD ratio) was 228% at the end of 2012 (2011: 195%). The calculation of the IGD ratio is based on Solvency I capital requirements for entities within the EU (Pillar 1 for Aegon UK), and local regulatory solvency measurements for non-EU entities. Specifically, required capital for the life insurance companies in the US is calculated as two times the upper end of the Company Action Level range (200%) as applied by the National Association of Insurance Commissioners in the US. The calculation of the IGD ratio excludes the available and required capital of the UK With-Profit funds. In the UK solvency surplus calculation the local regulator only allows the available capital number of the With-Profit funds included in overall local available capital to be equal to the amount of With-Profit funds required capital.

In the United States, regulation of the insurance business is principally at the state level. State insurance regulators and the National Association of Insurance Commissioners have adopted risk-based capital (RBC) requirements for insurance companies. RBC calculations measure the ratio of a company s statutory capital, which is measured on a prudent regulatory accounting basis, to a minimum capital amount determined by the RBC formula. The RBC formula measures exposures to investment risk, insurance risk, market risk, and general business risk. Life reinsurance is treated as life insurance. The most pertinent RBC measure is the company action level (CAL) RBC. This is the highest regulatory intervention level and is the level at which a company has to submit a plan to its state regulators. The CAL is 200% of the authorized control level (ACL), the level at which regulators are permitted to seize control of the company. At

the end of 2012 the combined risk based capital ratio of Aegon s life insurance subsidiaries in the United States was approximately 495% of the CAL RBC.

For the insurance and reinsurance undertakings of Aegon in the EU, the European Solvency I directives are applicable, as implemented in the relevant member states. Solvency I allows member states to require solvency standards, exceeding the minimum requirements set by the Solvency I directives. For life insurance companies the Solvency I capital requirement is by and large the sum of 4% of insurance and investment liabilities for general account and 1% of insurance and investment liabilities for account policyholders if no guaranteed investment returns are given. At the end of 2012, Aegon The Netherlands consolidated solvency capital ratio based on IFRS was approximately 251%.

The Financial Services Authority (FSA) regulates insurance companies in the United Kingdom under the Financial Services and Markets Act 2000 and sets minimum solvency standards. Companies must manage their solvency positions according to the most stringent of the published Solvency I measure (Pillar 1) and a privately submitted economic capital measure (Pillar 2). For Aegon UK, the published measure continues to be the most stringent requirement. At the end of 2012 Aegon UK s aggregate Pillar 1 capital ratio was approximately 126% (excluding With-Profit funds). In the local solvency surplus calculation for regulatory filings the local regulator (FSA) only allows the available capital number of the With-Profits Funds included in overall available capital to be equal to the amount of With-Profits funds required capital.

Aegon N.V. is subject to legal restrictions on the amount of dividends it can pay to its shareholders. Under Dutch law the amount that is available to pay dividends consists of total shareholders equity less the issued and outstanding capital and less the reserves required by law. The revaluation account and legal reserves, foreign currency translation reserve and other, cannot be freely distributed. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts. Total distributable reserves under Dutch law amount to EUR 10,052 million at December 31, 2012 (2011: EUR 9,512 million).

In addition Aegon s subsidiaries, principally insurance companies, are subject to restrictions on the amounts of funds they may transfer in the form of cash dividends or otherwise to their parent companies. There can be no assurance that these restrictions will not limit or restrict Aegon in its ability to pay dividends in the future.

OPTAS N.V., an indirect subsidiary of Aegon N.V., holds statutory reserves of EUR 981 million (2011: EUR 936 million) which are restricted. Included in Aegon N.V. s legal reserves is an amount of EUR 441 million (2011: EUR 396 million) related to OPTAS N.V. which represents the increase in statutory reserves since the acquisition of OPTAS N.V. by Aegon.

48 Summary of total financial assets and financial liabilities at fair value through profit or loss

The table that follows summarizes the carrying amounts of financial assets and financial liabilities that are classified as at fair value through profit or loss, with appropriate distinction between those financial assets and financial liabilities held for trading and those that, upon initial recognition, were designated as at fair value through profit or loss.

	2012		2011	
	Trading	Designated	Trading	Designated
Investments for general account	754	4,878	740	4,791
Investments for account of policyholders	-	152,662	-	141,397
Derivatives with positive values not designated as hedges	19,370	-	13,457	-
Total financial assets at fair value through profit or loss	**20,124**	**157,540**	**14,197**	**146,188**
Investment contracts for account of policyholders	-	29,188	-	26,687
Derivatives with negative values not designated as hedges	16,971	-	11,697	-
Borrowings	-	1,050	-	1,010
Total financial liabilities at fair value through profit or loss	**16,971**	**30,238**	**11,697**	**27,697**

Investments for general account

The Group manages certain portfolios on a total return basis which have been designated at fair value through profit or loss. This includes portfolios of investments in limited partnerships and limited liability companies (primarily hedge funds) for which the performance is assessed internally on a total return basis. In addition, some investments that include an embedded derivative that

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would otherwise have required bifurcation, such as convertible instruments, preferred shares and credit linked notes, have been designated at fair value through profit or loss.

Investments for general account backing insurance and investment liabilities, that are carried at fair value with changes in the fair value recognized in the income statement, are designated at fair value through profit or loss. The Group elected to designate these investments for account of policyholders at fair value through profit or loss, as a classification of financial assets as available-for-sale would result in accumulation of unrealized gains and losses in a revaluation reserve within equity whilst changes to the liability would be reflected in net income (accounting mismatch).

Investments for account of policyholders

Investments held for account of policyholders comprise assets that are linked to various insurance and investment contracts for which the financial risks are borne by the customer. Under the Group s accounting policies these insurance and investment liabilities are measured at the fair value of the linked assets with changes in the fair value recognized in the income statement. To avoid an accounting mismatch the linked assets have been designated as at fair value through profit or loss.

In addition, the investment for account of policyholders include with profit assets, where an insurer manages these assets together with related liabilities on a fair value basis in accordance with a documented policy of asset and liability management. In accordance with Group s accounting policies, these assets have been designated as at fair value through profit or loss.

Investment contracts for account of policyholders

With the exception of the financial liabilities with discretionary participating features that are not subject to the classification and measurement requirements for financial instruments, all investment contracts for account of policyholders that are carried at fair value or at the fair value of the linked assets are included in the table above.

Derivatives

With the exception of derivatives designated as a hedging instrument, all derivatives held for general account and held for account of policyholders are included in the table above.

Borrowings

Borrowings designated as at fair value through profit or loss includes financial instruments that are managed on a fair value basis together with related financial assets and financial derivatives.

Gains and losses recognized in the income statement on financial assets and financial liabilities classified as at fair value through profit or loss can be summarized as follows:

	2012		2011	
	Trading	Designated	Trading	Designated
Net gains and (losses)	6,806	5,768	2,288	(3,249)

No loans and receivables were designated at fair value through profit or loss.

Changes in the fair value of investment contracts for account of policyholders designated at fair value through profit or loss were not attributable to changes in Aegon s credit spread. There are also no differences between the carrying amounts of these financial liabilities and the contractual amounts payable at maturity (net of surrender penalties).

Refer to note 39 Borrowings for the impact of Aegon s credit spread on the fair value of the borrowings designated at fair value through profit or loss.

49 Commitments and contingencies

Investments contracted

In the normal course of business, the Group has committed itself through purchase and sale transactions of investments, mostly to be executed in the course of 2013. The amounts represent the future outflow and inflow, respectively, of cash related to these investment transactions that are not reflected in the consolidated statement of financial position.

	2012		2011	
	Purchase	Sale	Purchase	Sale
Real estate	-	23	-	1
Mortgage loans	312	-	153	35
Bonds	-	-	-	4
Private loans	25	-	-	-
Other	365	-	590	-

Mortgage loans commitments represent undrawn mortgage loan facility provided and outstanding proposals on mortgages. Other commitments include future purchases of interests in investment funds and limited partnerships.

Other commitments and contingencies

	2012	2011
Guarantees	660	631
Standby letters of credit	41	58
Share of contingent liabilities incurred in relation to interests in joint ventures	102	51
Other guarantees	3	3
Other commitments and contingent liabilities	28	23

Guarantees include those given on account of asset management commitments and guarantees associated with the sale of investments in low-income housing tax credit partnerships in the United States. Standby letters of credit amounts reflected above are the liquidity commitment notional amounts. In addition to the guarantees shown in the table, guarantees have been given for fulfillment of contractual obligations such as investment mandates related to investment funds.

Contractual obligations

An Aegon N.V. indirect US life subsidiary has a net worth maintenance agreement with its subsidiary Transamerica Life (Bermuda) Ltd, pursuant to which Transamerica Life Insurance Company, a US life insurance subsidiary, will provide capital sufficient to maintain a S&P AA financial strength rating and capital sufficient to comply with the requirements of the countries in which its branches are located.

Aegon N.V. subsidiary company Aegon USA, LLC has a parental guarantee with its indirect subsidiary TLIC Riverwood Reinsurance, Inc, pursuant to which it will pay obligations to policy holders to the extent that assets held by Transamerica Life Insurance Company, a US life insurance subsidiary under a reinsurance are not sufficient to pay policyholder obligations.

Aegon N.V. has guaranteed and is severally liable for the following:

- Due and punctual payment of payables due under letter of credit agreements applied for by Aegon N.V. as co-applicant with its subsidiary companies Transamerica Corporation, Aegon USA, LLC and Commonwealth General Corporation. At December 31, 2012, the letter of credit arrangements amounted to EUR 3,606 million (2011: EUR 3,773 million); as at that date no amounts had been drawn, or were due under these facilities;
- Due and punctual payment of payables by the consolidated group companies Transamerica Corporation, Aegon Funding Company LLC and Commonwealth General Corporation with respect to bonds, capital trust pass-through securities and notes issued under commercial paper programs (EUR 507 million; 2011: EUR 656 million), as well as payables with respect to certain derivative transactions of Transamerica Corporation (nominal amount EUR 1,963 million; 2011: EUR 2,207 million);
- Due and punctual payment of any amounts owed to third parties by the consolidated group company Aegon Derivatives N.V. in connection with derivative transactions. Aegon Derivatives N.V. only enters into derivative transactions with counterparties with which ISDA master netting agreements including collateral support annex agreements have been agreed; net (credit) exposure on derivative transactions with these counterparties was therefore limited as at December 31, 2012.

Legal and arbitration proceedings, regulatory investigations and actions

Aegon is involved in litigation in the ordinary course of business, including litigation where compensatory or punitive damages and mass or class relief are sought. Current and former customers, both institutional as well as individual, and groups representing customers, initiate litigation. Also, certain groups encourage others to bring lawsuits in respect of products. Aegon has established litigation policies to deal with the claims, defending when the claim is without merit and seeking to settle in certain circumstances. There can be no assurances that Aegon will be able to resolve existing litigation in the manner it expects or that existing or future litigation will not result in unexpected liability.

In addition, the insurance industry has increasingly and routinely been the subject of litigation, investigations, regulatory activity and challenges by various governmental and enforcement authorities and policyholder advocate groups concerning certain practices. For example, unclaimed property administrators and state insurance regulators are performing unclaimed property examinations of the life insurance industry in the U.S., including certain of its subsidiaries. These are in some cases multi-state examinations that include the collective action of many of the states. Additionally, some states are conducting separate examinations or instituting separate enforcement actions in regard to unclaimed property laws and related claims settlement practices. As other insurers in the United States have recently done, Aegon Americas identified certain additional internal processes that it has implemented or is in the process of implementing. Aegon Americas increased certain reserves related to this matter by approximately EUR 37 million during the fourth quarter of 2011. No additional reserve increase was recorded in 2012. As the methodology to identify deceased policyholders becomes more refined, it is possible Aegon will add to this reserve. Also, various major insurers in the U.S. have entered into settlements with insurance regulators recently regarding claims settlement practices. Aegon expects that regulators will be trying to reach settlements with other US insurers. While Aegon believes that Aegon s processes to manage unclaimed property are generally adequate, with industry practices changing and regulatory interpretations evolving, it is uncertain what the further impact of any such inquiry could be for Aegon. Aegon estimates that the adverse financial impact may range from EUR 0 to EUR 150 million before tax.

Aegon subsidiaries have received inquiries from local authorities and policyholder advocate groups in various jurisdictions including the United States, the United Kingdom and the Netherlands. In the normal course of business, reviews of processes and procedures are undertaken to ensure that customers have been treated fairly, and to respond to matters raised by policyholders and their representatives. There is a risk that the Group is not able to resolve some or all such matters in the manner that it expects. In certain instances, Aegon subsidiaries modified business practices in response to such inquiries or the findings thereof. Aegon has also sought and intend to continue to seek to settle certain claims, including via policy modifications, in appropriate circumstances, such as the settlement Aegon reached in July 2009 with Stichting Verliespolis and Stichting Woekerpolis in The Netherlands, two major customer interest groups. In May 2012, Aegon announced that it would accelerate certain product improvements that reduce future costs and that increase policy value for its customers with unit-linked insurance policies consistent with the agreements Aegon announced in July 2009. With these measures, Aegon committed to the best of class principles of the Dutch Ministry of Finance for certain existing unit-linked products. These principles are the result of an industry-wide review by the Ministry of the various agreements reached between individual insurance companies and customer interest groups in relation to unit-linked insurance policies. The Ministry made a strong appeal to all industry participants to apply its principles. Aegon had previously made substantial product improvements to the unit-linked insurance policies which its Dutch business sold before January 1, 2008. Aegon s approach was to settle compensation with clients when the policy expires. However, to comply with the Ministry s principles, Aegon undertook to make direct additions to policy values before year-end 2012. As a result of this acceleration of these previously announced measures, in the second quarter of 2012 Aegon took a one-off charge of EUR 265 million before tax. In addition, Aegon will reduce future policy costs beginning in 2013 onward for the large majority of its unit-linked portfolio. This will decrease income before tax over the remaining duration of the policies by approximately EUR 125 million, based on the current present value. While parties such as the Ombudsman Financiële Dienstverlening (the Netherlands financial services industry ombudsman) support the arrangement, it is uncertain whether the public debate on the adequacy generally of the arrangements reached with customer interest groups, as well as the discussions in the Dutch Parliament, will not be continued in the future and lead to re-examination and adjustment of the settlements made. It is not yet possible to determine the direction or outcome of any further debate, including what actions, if any, Aegon may take in response thereto, or the impact that any such actions may have on Aegon s business, results of operations and financial position. In addition to the above, certain Aegon subsidiaries have been informed that the regulators may seek fines or other monetary penalties or changes in the way Aegon conducts its business.

Certain of the products we sell are complex and involve significant investment risks that may be assumed by Aegon s customers. Aegon has have received claims from certain current and former customers, and groups representing customers, in respect of certain products. Aegon has in the past agreed to make payments, in some cases substantial, or adjustments to policy terms to settle those claims or disputes if we believed it was appropriate to do so.

Proceedings in which Aegon is involved

Aegon and other US industry participants have been named in lawsuits alleging, among other things, that asset-based fees charged for investment products offered on 401(k) platforms were higher than those generally available in the market. Matters like these are being defended vigorously; however, at this time, due to its nature and the type of claims, it is not practicable for Aegon to quantify a range or maximum liability or the timing of the financial impact, if any.

On July 26, 2011, the Amsterdam Court of Appeal, an intermediate appeals court, ruled with respect to a specific Aegon unit-linked product, the Koersplan -product. The Amsterdam Court of Appeal accepted Aegon s position that Koersplan-products sold during the period 1989-1998 entailed an obligation on the part of customers to pay a premium for a death benefit. However, the Court ruled that Aegon should have more clearly informed its customers about the amount of premium which the company charged in relation to the embedded death benefit. Prior to the ruling Aegon had already taken steps to improve its communications with customers as well as adjusting the amounts charged to Koersplan-customers.

In its decision, the Court ruled that customers are required to pay a reasonable premium. However, the Court went on to define what it considers to be a reasonable premium at a level below that charged by Aegon. The Court based its decision on a single industry example, which Aegon believes is not representative. Aegon believes that, based on the arguments presented, the Court s ruling was wrongly decided and, in October 2011, appealed the decision taken by the Amsterdam Court of Appeal to the Supreme Court in the Netherlands.

As is customary in connection with appeals to the Supreme Court, the Attorney General (Procureur Generaal) issued advice to the Supreme Court in March 2013. The Attorney General advised the Supreme Court to annul the decision of the Amsterdam Court of Appeal and refer the case back to another Court of Appeal for reassessment. However, for reasons that are limited to this specific case, the Attorney General s advice to annul did not include the Amsterdam Court s decision to

apply a single industry example to define a reasonable premium.

The Supreme Court is not obliged to follow the advice of the Attorney General, although it will consider it. The Supreme Court could elect to follow the advice of the Attorney General or to refer the case back to another court for reassessment on different or additional grounds. If the Supreme Court were instead to confirm the decision taken by the Amsterdam Court of Appeal and the principles underlying such decision were applied to Aegon s entire KoersPlan-portfolio (instead of solely to the holders of KoersPlan-products who are plaintiffs in the pending litigation), Aegon estimates the financial effect to be approximately EUR 150 million, after tax. The actual amount may vary based on uncertainties related to the application of any decision to individual customers, equity market fluctuations as well as interest rates movements. Aegon expects the Supreme Court to issue a decision in 2013.

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Future lease payments

	2012			2011		
Future lease payments	Not later than 1 year	1-5 years	**Later than 5 years**	Not later than 1 year	1-5 years	Later than 5 years
Finance lease obligations	-	-	-	1	1	-
Operating lease obligations	83	204	300	90	232	316
Operating lease rights	65	160	56	62	151	85

The operating lease obligations relate mainly to office space leased from third parties. The total of future minimum sublease payments expected to be received on non-cancellable subleases is EUR 9 million (2011: EUR 9 million).

The operating lease rights relate to non-cancellable commercial property leases.

50 Transfers of financial assets

Transfers of financial assets occur when Aegon transfers contractual rights to receive cash flows of financial assets or when Aegon retains the contractual rights to receive the cash flows of the transferred financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in that arrangement.

In the normal course of business Aegon is involved in the following transactions:

- Transferred financial assets that are not derecognized in their entirety:
  - securities lending; whereby Aegon legally (but not economically) transfers assets and receives cash and non-cash collateral. The transferred assets are not derecognized. The obligation to repay the cash collateral is recognized as a liability. The non-cash collateral is not recognized on the balance sheet;
  - repurchase activities; whereby Aegon receives cash for the transferred assets. The financial assets are legally (but not economically) transferred, but are not derecognized. The obligation to repay the cash received is recognized as a liability.
- Transferred financial assets that are derecognized in their entirety and Aegon does not have a continuing involvement (normal sale).
- Transferred financial assets that are derecognized in their entirety, but where Aegon has a continuing involvement:
  - securitizations whereby mortgage loans are transferred to a securitization vehicle which is not part of the Group and where Aegon has a continuing involvement in the transferred assets.
- Collateral accepted in the case of securities lending, reverse repurchase agreement and derivative transactions.
- Collateral pledged in the case of (contingent) liabilities, repurchase agreements, securities borrowing and derivative transactions.

The following disclosures provide details for transferred financial assets that are not derecognized in their entirety, transferred financial asset that are derecognized in their entirety, but where Aegon has a continuing involvement and assets accepted and pledged as collateral.

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50.1 Transferred financial assets that have not been derecognized in their entirety

The following table reflects the carrying amount of financial assets that have been transferred to another party in such a way that part or all of the transferred financial assets do not qualify for derecognition. Furthermore, it reflects the carrying amounts of the associated liabilities.

	2012					
	Available-for-sale financial assets		Financial assets at fair value through profit or loss			Loans and receivables
	Shares	Debt securities	Shares	Debt securities	Investments for account of policy-holders	Mortgage loans
Carrying amount of transferred assets	272	8,038	-	26	795	-
Carrying amount of associated liabilities	297	8,075	-	27	814	-

Securities lending and repurchase activities

The table above includes financial assets that have been transferred to another party under securities lending and repurchase activities.

Aegon retains substantially all risks and rewards of those transferred assets, this includes credit risk, settlement risk, country risk and market risk. The assets are transferred in return for cash collateral or other financial assets. Non-cash collateral is not recognized in the statement of financial position. Cash collateral is recorded on the statement of financial position as an asset and an offsetting liability is established for the same amount as Aegon is obligated to return this amount upon termination of the lending arrangement. Cash collateral is usually invested in pre-designated high quality investments. The sum of cash and non-cash collateral is typically greater than the market value of the related securities loaned. Refer to 50.3 and 50.4 for an analysis of collateral accepted and pledged in relation to securities lending and repurchase agreements.

50.2 Transferred financial assets that are derecognized in their entirety, but where Aegon has continuing involvement

Aegon has derecognized certain financial assets that have been transferred in their entirety, but where Aegon has a continuing involvement.

As part of the Aegon Levensverzekering N.V. funding program the company regularly enters into securitization contracts for its mortgage loans. Currently, as at December 31, 2012, SAECURE 6, is held off-balance.

The related mortgage loan portfolio were sold and derecognized to SAECURE 6 BV in 2006. SAECURE 6 BV is not consolidated in the financial statements of Aegon. At the date of the transfer of the mortgage loan portfolio, Aegon recognized a gain of EUR 49 million, which equaled the difference between fair value and carrying amount of the mortgage loan portfolio transferred. The continuing involvement in SAECURE 6 and the maximum exposure to loss is represented by the interest rate swap, reported as a derivative. The fair value of the swap is EUR 202 million at December 31, 2012 (2011: EUR 155 million).

In 2013, the interest of the notes issued by the special purpose entity in respect of this transaction will step-up, together with a similar step-up in the fixed-to-floating swap agreement. At that same time, the special purpose entity has the right to call the notes and to sell the mortgage loan portfolio first back to Aegon. Aegon has a choice to either call back the mortgage loan portfolio, or not. The undiscounted cash outflows required to repurchase mortgage loans transferred to SAECURE 6 BV in 2006, will equal the fair value of the mortgage loan portfolio at repurchase date. The fair value of the mortgage loan portfolio is EUR 1.2 billion as at December 31, 2012 (2011: EUR 1.5 billion). The first opportunity for Aegon to buy the mortgage loan portfolio back is in the third quarter of 2013.

Total income recognized from Aegon s continuing involvement in 2012 for SAECURE 6 BV is EUR 47 million (2011: EUR 56 million) and the cumulative gain 2006-2012 is EUR 153 million, equaling the fair value movement of the swap.

In the third quarter of 2012, SAECURE 5, sold EUR 424 million of mortgage loans back to Aegon N.V. at fair value. This transaction did not generate a significant profit or loss for Aegon.

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50.3 Assets accepted

Aegon receives collateral related to securities lending and reverse repurchase activities. Non-cash collateral is not recognized in the statement of financial position. To the extent that cash is paid for reverse repurchase agreements, a receivable is recognized for the corresponding amount.

The following table analyses the fair value of the assets received in relation to securities lending and reverse repurchase activities:

Securities lending	**2012**	2011
Carrying amount of transferred financial assets	6,780	8,099
Fair value of cash collateral received	3,562	4,167
Fair value of non-cash collateral received	3,296	4,058
Net exposure	**(78)**	**(126)**
Non-cash collateral that can be sold or repledged in the absence of default	1,802	2,708
Non-cash collateral that has been sold or transferred	-	-

Reverse repurchase agreements	**2012**	2011
Cash paid for reverse repurchase agreements	4,411	2,743
Fair value of non-cash collateral received	4,428	2,771
Net exposure	**(17)**	**(28)**
Non-cash collateral that can be sold or repledged in the absence of default	3,710	1,425
Non-cash collateral that has been sold or transferred	-	-

The above items are conducted under terms that are usual and customary to standard securities lending activities, as well as requirements determined by exchanges where the bank acts as intermediary.

In addition, Aegon can receive collateral related to derivative transactions that it enters into. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by Aegon or its counterparty. Transactions requiring Aegon or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit swaps. Refer to the credit risk section in note 4 for details on collateral received for derivative transactions.

50.4 Assets pledged

Aegon pledges assets that are on its statement of financial position in securities borrowing transactions, in repurchase transactions, and against long-term borrowings. In addition, in order to trade derivatives on the various exchanges, Aegon posts margin as collateral.

These transactions are conducted under terms that are usual and customary to standard long-term borrowing, derivative and securities borrowing activities, as well as requirements determined by exchanges where the bank acts as intermediary.

Non-cash financial assets that are borrowed or purchased under agreement to resell are not recognized in the statement of financial position.

To the extent that cash collateral is paid, a receivable is recognized for the corresponding amount. If other non-cash financial assets are given as collateral, these are not derecognized.

The following tables analyze the carrying amount of collateral pledged and the corresponding amounts.

Assets pledged for general account and contingent liabilities	**2012**	2011
General account (contingent) liabilities	4,131	4,594

Collateral pledged	6,801	7,438
Net exposure	**(2,670)**	**(2,844)**
Non-cash collateral that can be sold or repledged by the counterparty	-	-

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Assets pledged for repurchase agreements	2012	2011
Cash received on repurchase agreements	2,224	2,928
Collateral pledged (transferred financial assets)	2,351	2,993
Net exposure	(127)	(65)

As part of Aegon s mortgage loan funding program in the Netherlands, EUR 2.9 billion (2011: EUR 3.2 billion) have been pledged as security for notes issued (refer to note 39). In addition, in order to trade derivatives on the various exchanges, Aegon posts margin as collateral. The amount of collateral pledged for derivative transactions is EUR 1,643 million (2011: EUR 1,743 million).

51 Business combinations

Acquisitions

2012

On December 20, 2012 Aegon entered into an exclusive 25-year strategic partnership with Banco Santander. Under the terms of the agreement, Aegon will acquire a 51% stake in both a life insurance company as well as in a non-life insurance company for a consideration of EUR 220 million. Depending on the performance of the partnership, Aegon may pay an additional amount after five years. Furthermore, Aegon Spain will provide the back-office services to the joint venture companies. The transaction is expected to close in the first half of 2013, subject to regulatory approval and will be financed from existing resources.

On December 5, 2012 Aegon announced the acquisition of 100% of Fidem Life, a life insurance company in Ukraine. The transaction was closed on February 8, 2013. Fidem Life will be rebranded Aegon Ukraine and will be integrated into the governance and management structure of Aegon CEE. Information related to the acquired assets and acquired liabilities will be disclosed in future periods, as the initial accounting is not yet finalized due to the fact that Aegon is currently performing the purchase price allocation.

2011

Effective July 1, 2011, Aegon entered into a Joint Venture contract with Unnim, the entity which was created by the merger of Caixa Terrassa, Caixa Sabadell and Caixa Manlleu. Aegon Spain is the sole insurance partner of Unnim to provide life and pension insurance products. Since the acquisition date, the company has attributed EUR 5 million to net income in 2011. If the acquisition had been as of January 1, 2011, contribution to net income and total revenues would amount to EUR 9 million and EUR 134 million respectively.

Effective October 31, 2011, Aegon entered into a Joint Venture contract with Banca Civica, an entity created by a Spanish institutional protection system (similar to a merger) of Caja Navarra, Cajasol, Caja Burgos and Caja Canarias. Aegon Spain is the sole insurance partner of Banca Civica to provide life, health and pension insurance products for products sold by the Caja Navarra and Caja Burgos network. Since the acquisition date, the company has attributed EUR 0 million to net income in 2011. If the acquisition had been as of January 1, 2011, contribution to net income and total revenues would amount to EUR 0 million and EUR 8 million respectively.

2010

There were no acquisitions during 2010.

Divestments / Disposals

2012

Following the announced merger between Banca Cívica and CaixaBank in Spain, Aegon reached an agreement, on August 3, 2012, with CaixaBank to end the life, health and pension partnership with Banca Cívica and sell its 50% interest in the joint ventures to CaixaBank for a total consideration of EUR 190 million. The transaction was closed on October 11, 2012 after obtaining regulatory approval. The sale resulted in a book gain of EUR 35 million before tax and was recorded in the fourth quarter of 2012. Aegon s share in underlying earnings before tax of the joint venture totaled EUR 13 million for 2012 (full year 2011: EUR 16 million).

2011

On November 24, 2011, Aegon completed the sale of its UK-based Guardian life and pension business for a total cash consideration of GBP 275 million to Cinven, a European private equity group. The sale of the Guardian life and pension business in the United Kingdom resulted in a loss of EUR 7 million, mainly

originated from the disentaglement costs associated with the sale.

Underlying earnings before tax for Guardian life and pension totaled GBP 23 million in 2010. Gross written premiums for 2010 was GBP 129 million and net income for 2010 was GBP 26 million.

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On August 9, 2011, Aegon completed the divestment of its life reinsurance business, Transamerica Reinsurance (TARe), to SCOR. The divestment resulted in a total after-tax consideration of USD 1.4 billion, consisting of cash proceeds of USD 0.9 billion and capital release of USD 0.5 billion. Aegon has retained certain blocks of business consisting primarily of variable annuity guarantee products with a book value of USD 0.4 billion. The divestment of TARe consists of a series of reinsurance agreements between various statutory insurance entities and SCOR for the US domestic business. In addition, SCOR has acquired Transamerica International Reinsurance Ireland (TIRI), a company that includes reinsurance contracts that are assumed by Aegon US domestic companies which have been retroceded to TIRI, and has taken over the operational assets and systems of TARe.

The business residing in Transamerica International Reinsurance, Bermuda (TIRe) has been retroceded to SCOR. TIRe will continue to provide reserve credit security for redundant reserves to Aegon USA s ceding companies. Aegon will maintain approximately half of the collateral requirements needed for reinsurance reserve financing. This obligation provides reserve credit security and will run off over approximately 15 years. Refer to note 26 and 27 for details on the reinsurance treatment of this divestment.

2010

On April 1, 2010, Aegon completed the sale of its funeral insurance business in the Netherlands to Dutch investment firm Egeria for EUR 212 million. The actual proceeds from the sale amounted to EUR 162 million, the remainder was upstreamed as a dividend prior to the sale. The value of the assets and liabilities sold amounted to EUR 1,084 million and EUR 933 million respectively. The assets included an amount of EUR 320 million of cash. Included in the gain are unrealized gains in an amount of EUR 22 million, reflecting revaluation reserves which were recycled through the income statement. In 2009, Aegon s funeral insurance business generated EUR 70 million in gross written premiums.

52 Group companies

Subsidiaries

The principal subsidiaries of the parent company Aegon N.V. are listed by geographical segment. All are wholly owned, directly or indirectly, unless stated otherwise, and are involved in insurance or reinsurance business, asset management or services related to these activities. The voting power in these subsidiaries held by Aegon is equal to the shareholdings.

Americas

- Aegon USA, LLC, Cedar Rapids, Iowa (United States)
- Transamerica Advisors Life Insurance Company, Little Rock, Arkansas (United States)
- Transamerica Advisors Life Insurance Company of New York, New York, New York (United States)
- Monumental Life Insurance Company, Cedar Rapids, Iowa (United States)
- Stonebridge Casualty Insurance Company, Columbus, Ohio (United States)
- Stonebridge Life Insurance Company, Rutland, Vermont (United States)
- Transamerica Financial Life Insurance Company, Inc., Albany, New York (United States)
- Transamerica Life Insurance Company, Cedar Rapids, Iowa (United States)
- Western Reserve Life Assurance Co. of Ohio, Columbus, Ohio (United States)
- Transamerica Life Canada, Toronto, Ontario (Canada)

The Netherlands

- Aegon Bank N.V., Utrecht
- Aegon Levensverzekering N.V., The Hague
- Aegon Schadeverzekering N.V., The Hague
- OPTAS Pensioenen N.V., Rotterdam
- Aegon Spaarkas N.V., The Hague
- Unirobe Meeùs Groep B.V., The Hague
- TKP Pensioen B.V., Groningen
- Aegon Hypotheken B.V., The Hague

United Kingdom

- Scottish Equitable plc, Edinburgh
- Origen Financial Services Ltd., London
- Positive Solutions (Financial Services) Ltd., Newcastle

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New Markets

- Aegon España S.A., Madrid (Spain) (99.98%)
- Aegon Magyarország Általános Biztosító Zártkörűen Működő Részvénytársaság, Budapest (Hungary)
- Aegon Towarzystwo Ubezpieczeń na Życie Spółka Akcyjna, Warsaw (Poland)

The legally required list of participations as set forth in articles 379 and 414 of Book 2 of the Dutch Civil Code has been registered with the Trade Register in The Hague. Aegon N.V. has issued a statement of liability as meant in article 403 of Book 2 of the Dutch Civil Code for its subsidiary company Aegon Derivatives N.V.

Joint ventures

The principal joint ventures are listed by geographical segment.

The Netherlands

- AMVEST Vastgoed B.V., Utrecht (50%), property management and development

New Markets

- Aegon-CNOOC Life Insurance Company Ltd, Shanghai (China), life insurance company (50%)
- Aegon Sony Life Insurance Cy, Tokyo (Japan), life insurance company (50%)
- Caja Badajoz Vida y Pensiones, SA de Seguros, Badajoz (Spain), life insurance and pension company (50%)
- Cantabria Vida y Pensiones, SA de Seguros y Reaseguros, Santander (Spain), life insurance and pension company (50%)
- Liberbank Vida y Pensiones, Seguros y Reaseguros, S.A., Oviedo (Spain) life insurance and pension company (50%)
- Unnim Vida, SA de Seguros y Reaseguros, Terrassa (Spain) life insurance and pension company (50%)
- Aegon Industrial Fund Management Co., Ltd, Shanghai (China), investment management company (49%)

Summarized financial information of joint ventures for 2012 accounted for using proportionate consolidation:

	Current assets	Long-term assets	Current liabilities	Long-term liabilities	Income	Expenses
AMVEST	60	1,111	48	272	38	60
Aegon-CNOOC	86	384	47	396	162	166
Aegon Sony Life Insurance	13	269	10	254	12	30
Caja Badajoz Vida y Pensiones	3	204	-	169	73	69
Cantabria Vida y Pensiones	3	99	2	72	33	30
Liberbank Vida y Pensiones	11	148	2	139	2	2
Unnim Vida	40	1,416	9	1,193	260	247
Aegon Industrial Fund Management	6	47	5	-	34	19
Total	**222**	**3,678**	**123**	**2,495**	**614**	**623**

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Summarized financial information of joint ventures for 2011 accounted for using proportionate consolidation:

	Current assets	Long-term assets	Current liabilities	Long-term liabilities	Income	Expenses
AMVEST	80	1,127	7	829	40	52
Aegon-CNOOC	74	324	27	340	97	101
Aegon Sony Life Insurance	8	151	7	113	5	20
Caja Badajoz Vida y Pensiones	4	176	1	147	71	68
Banca Civica joint venture partners	31	849	9	728	243	226
Cantabria Vida y Pensiones	7	127	2	106	30	27
Unnim Vida	55	1,394	15	1,200	239	225
Aegon Industrial Fund Management	15	40	9	-	35	19
Total	**274**	**4,188**	**77**	**3,463**	**760**	**738**

Investments in associates

The principal investments in associates are listed by geographical segment.

The Netherlands

- N.V. Levensverzekering-Maatschappij De Hoop , The Hague (33.3%)

United Kingdom

- Tenet Group Limited, Leeds (22%)

New Markets

- CAM Aegon Holding Financiero, Alicante (Spain) (49.99%)
- La Mondiale Participations S.A., Lille (France) (35%)
- Seguros Argos, S.A. de C.V., Mexico City (Mexico) (49%)
- Aegon Religare Life Insurance Company, Mumbai (India) (26%)
- Mongeral, S.A. Seguros e Previdencia, Rio de Janeiro (Brazil) (50%)

Refer to note 25 for further details on investments in associates.

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53 Related party transactions

Related party transactions include, among others, transactions between Aegon N.V. and Vereniging Aegon.

On February 15, 2013, Aegon N.V. and Vereniging Aegon reached an agreement to exchange, subject to approval by the Annual General Meeting of Shareholders on May 15, 2013, all of Aegon s preferred shares for cash and common shares (see also the section Major Shareholders for a description of the agreement reached).

On October 15, 2012 Vereniging Aegon exercised its option rights to purchase in aggregate 3,907,000 class B preferred shares at par value to correct dilution caused by Aegon s issuance of shares on September 15, 2012, being the interim-dividend 2012 in the form of stock-dividend.

On August 15, 2012 Vereniging Aegon exercised its option rights to purchase in aggregate 4,114,000 class B preferred shares at par value to correct dilution caused by Aegon s issuance of shares on June 15, 2012, being the final dividend 2011 in the form of stock-dividend.

On June 15, 2011, Aegon repurchased 187.5 million of the convertible core capital securities. The total payment to the Dutch government on June 15, 2011 amounted to EUR 1.125 billion and included a premium of EUR 375 million. Including this repurchase Aegon had repurchased the full EUR 3 billion convertible core capital securities from the Dutch State. 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 core capital securities, while an additional EUR 1.1 billion was paid in premium and interest.

On March 15, 2011 Vereniging Aegon exercised its option rights to purchase in aggregate 41,042,000 class B preferred shares at par value to correct dilution caused by Aegon s issuance of shares conducted under Aegon s US Shelf Registration through the sale of 173,604,912 common shares of Aegon N.V. at a price of EUR 5.20 per share in March 2011.

On March 15, 2011, Aegon repurchased 187.5 million of the convertible core capital securities. The total payment to the Dutch government on March 15, 2011 amounted to EUR 1.125 billion and included a premium of EUR 375 million.

On August 30, 2010, Aegon repurchased 125 million of the convertible core capital securities. The total payment to the Dutch government on August 30, 2010 amounted to EUR 563 million and included a premium for repurchase amounting to EUR 52 million and accrued interest from May 25, 2010 of EUR 11 million. This repurchase was in line with Aegon s agreement with Vereniging Aegon and Vereniging Aegon s agreement with the Dutch government as amended in August 2010.

In August 2010, the European Commission approved the capital support provided to Aegon by the Dutch State through Vereniging Aegon. The Commission gave its approval for the state support, but imposed a number of behavioral constraints on the company. These behavioral constraints expired with the full repurchase of the core capital securities and repayment of the Dutch State on June 15, 2011.

On November 30, 2009, Aegon redeemed EUR 1 billion in principal amount of those convertible core capital securities for EUR 1.15 billion and an amount of EUR 1 billion of the senior loan provided by the Dutch State through Vereniging Aegon was repaid.

On December 1, 2008, Aegon secured EUR 3 billion of convertible core capital securities from the Vereniging Aegon.

Aegon provides reinsurance, asset management and administrative services for employee benefit plans relating to pension and other post-employment benefits of Aegon employees. Certain post-employment insurance benefits are provided to employees in the form of insurance policies issued by affiliated insurance subsidiaries.

In the Netherlands, Aegon employees may make use of financing and insurance facilities for prices which are equivalent to the price available for agents. The benefit for Aegon employees is equivalent to the margin made by agents.

The Management Board, which assists the Executive Board in pursuing Aegon s strategic goals, is formed by members of the Executive Board, and the CEO s of Aegon USA, Aegon The Netherlands, Aegon UK and Aegon Central & Eastern Europe. The total remuneration for the members of the Management Board over 2012 was EUR 13.8 million (2011: EUR 9.7 million), consisting of EUR 4.1 million (2011: EUR 3.5 million) fixed compensation, EUR 6.2 million (2011: EUR 3.7 million) variable compensation, EUR 0.6 million (2011: EUR 0.8 million) other benefits, EUR 2.3 million (2011: EUR 1.3 million) pension premiums, EUR nil (2011: EUR 0.4 million)

other long-term benefits, and EUR 0.6 million (2011: nil) one time 16% crisis tax was accrued for Dutch members of the Management Board.

Additional information on the remuneration and share-based compensation of members of the Executive Board and the remuneration of the Supervisory Board is disclosed in the sections below (all amounts in EUR 000, except where indicated otherwise).

Remuneration of active members of the Executive Board

This presentation-format differs from that of previous years. The information below reflects the compensation and various related expenses, as incurred in 2012. Under the new remuneration structure introduced in 2011 rewards are awarded (paid out, or vesting in the case of shares) over a number of years after a performance year. The changes in the remuneration-structure have made it more relevant to present rewards earned in a certain performance year instead of what was received in a certain year. Additional factors have been introduced as well, i.e. the crisis tax levy introduced by the Dutch Government in 2012 that is required to be included in this section.

Fixed compensation payments

	2012	2011
Alexander R. Wynaendts	1,049	962
Jan J. Nooitgedagt	744	709

The Supervisory Board has adjusted the 2012 fixed compensation of the Executive Board members in order to reflect cost of living increases in line with that has been awarded to all staff in the Netherlands in previous years.

Conditional variable compensation awards

	2012	2011
Alexander R. Wynaendts	1,018	818[1)]
Jan J. Nooitgedagt	699	532[1)]

[1] The performance related cash remuneration granted over 2011, payable in 2012, was waived by Mr. Wynaendts and Mr. Nooitgedagt (respectively EUR 164 and EUR 106).

2012

Over the performance year 2012 Mr. Wynaendts was awarded EUR 1,018 in total conditional variable compensation. Mr. Nooitgedagt was awarded EUR 699.

Variable compensation is split 50/50 in a cash payment and an allocation of shares. Of the variable compensation related to performance year 2012 40% is payable in 2013. Accordingly, Mr. Wynaendts and Mr. Nooitgedagt will receive a cash payment of EUR 204 and EUR 140 respectively. The number of shares to be made available in 2013 related to performance year 2012 is 65,111 and 44,741 for Mr. Wynaendts and Mr. Nooitgedagt respectively, with the exception of shares sold to meet income tax obligations. To the vested shares a retention (holding) period is applicable for a further three years, before they are at the disposal of the Executive Board members.

The remaining part of variable compensation for the performance year 2012 (60%), for Mr. Wynaendts EUR 305 and 97,665 shares and for Mr. Nooitgedagt EUR 210 and 67,110 shares, is to be paid out in future years, subject to ex-post assessments, that may result in downward adjustments and may be subject to additional conditions being met. In each of the years 2014, 2015 and 2016, 20% of the total variable compensation over 2012 may be made available. Any payout will be split 50/50 in a cash payment and an allocation of shares vesting (with the exception of shares sold to meet income tax obligations). To the vested shares a retention (holding) period is applicable for a further three years, before they are at the disposal of the Executive Board members.

2011

Over the performance year 2011 Mr. Wynaendts was awarded EUR 818 in total conditional variable compensation. Mr. Nooitgedagt was awarded EUR 532.

Variable compensation was split 50/50 in a cash payment and an allocation of shares. Of the variable compensation related to performance year 2011 40% was payable in 2012. However, Mr. Wynaendts and Mr. Nooitgedagt both waived the cash payment of EUR 164 and EUR 106 respectively. The number of shares that was made available in 2012 related to performance year 2011 was 34,607 and 22,501 for Mr. Wynaendts and Mr. Nooitgedagt respectively, with the exception of shares sold to meet income tax obligations. To the vested shares a retention (holding) period is applicable for a further three years, before they are at the disposal of the Executive Board members.

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The remaining part of variable compensation for the performance year 2011 (60%), for Mr. Wynaendts EUR 245 and 51,912 shares and for Mr. Nooitgedagt EUR 160 and 33,750 shares, is to be paid out in 2013 and following years, subject to ex-post assessments, that may result in downward adjustments and may be subject to additional conditions being met. In each of the years 2013, 2014 and 2015, 20% of the total variable compensation over 2011 may be made available. Any payout will be split 50/50 in a cash payment and an allocation of shares vesting (with the exception of shares sold to meet income tax obligations). To the vested shares a retention (holding) period is applicable for a further three years, before they are at the disposal of the Executive Board members.

The table below illustrates all the conditionally awarded cash and shares of the active members of the Executive Board (on the left side), and the years in which each component will be paid out and/or vest, subject to the conditions as mentioned (on the right side):

	Reference period	Conditional granted performance related remuneration						Timing of vesting, subject to targets and conditions				
Shares		2007	2008	2009	2010	2011 [1]	**2012 [2]**	2012	2013	2014	2015	2016
Alexander R. Wynaendts	2007	18,506 [3]	-	-	-	-	-	9,253	-	-	-	9,253
	2009-2011	-	-	147,296 [4]	-	-	-	147,296	-	-	-	-
	2010-2012	-	-	-	112,040 [5]	-	-	-	112,040 [5]	-	-	-
	2011	-	-	-	-	86,519	-	34,607	17,304	17,304	17,304	-
	2012	-	-	-	-	-	162,776	-	65,111	32,555	32,555	32,555
Total number of shares		**18,506**	**-**	**147,296**	**112,040**	**86,519**	**162,776**	**191,156**	**194,455**	**49,859**	**49,859**	**41,808**
Jan. J. Nooitgedagt	2009-2011	-	-	96,663 [4]	-	-	-	96,663	-	-	-	-
	2010-2012	-	-	-	82,427 [5]	-	-	-	82,427 [5]	-	-	-
	2011	-	-	-	-	56,251	-	22,501	11,250	11,250	11,250	-
	2012	-	-	-	-	-	111,851	-	44,741	22,370	22,370	22,370
Total number of shares		**-**	**-**	**96,663**	**82,427**	**56,251**	**111,851**	**119,164**	**138,418**	**33,620**	**33,620**	**22,370**
Cash (in EUR)												
Alexander R. Wynaendts	2007-2011	301,000 [6]	-	-	0 [7]	245,385 [8]	-	0 [8]	81,795	81,795	81,795	-
	2012	-	-	-	-	-	508,840	-	203,536	101,768	101,768	101,768
Total cash		**301,000**	**-**	**-**	**-**	**245,385**	508,840	**-**	**285,331**	**183,563**	**183,563**	**101,768**
Jan J. Nooitgedagt	2007-2011	-	-	-	0 [7]	159,540 [9]	-	0 [9]	53,180	53,180	53,180	-
	2012	-	-	-	-	-	349,646	-	139,859	69,929	69,929	69,929
Total cash		**-**	**-**	**-**	**-**	**159,540**	349,646	**-**	**193,039**	**123,109**	**123,109**	**69,929**

1 The number of shares is based on the share price at grant of EUR 4.727.
2 The number of shares is based on the share price at grant of EUR 3.126.
3 During the vesting period, dividend payments on these shares are deposited in blocked savings accounts on behalf of the executive members. For active members of the Executive Board 50% of the shares will vest in 2012 and 50% will vest in 2016.
4 These shares vested in 2012 and are subject to an additional two year holding period.
5 These shares vested in 2013 on basis of actual realized performance and are subject to an additional two year holding period.

6 Vested and paid out in 2008.
7 All performance related cash remuneration granted over 2010 was waived by both Mr. Wynaendts (EUR 317,000) and Mr. Nooitgedagt (EUR 233,000).
8 The performance related cash remuneration granted over 2011, payable in 2012, of EUR 163,591 was waived by Mr. Wynaendts.
9 The performance related cash remuneration granted over 2011, payable in 2012, of EUR 106,359 was waived by Mr. Nooitgedagt.

Other benefits

	2012	2011
Alexander R. Wynaendts	111	110
Jan J. Nooitgedagt	78	83

Other benefits concern non-monetary benefits (e.g. company car), social security contributions by the employer, and tax expenses borne by the Group.

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Pension contributions

	2012	2011
Alexander R. Wynaendts	1,228	654
Jan J. Nooitgedagt	458	183

The 2012 contribution for Mr. Wynaendts to the Aegon pension fund reflects the increase to his fixed salary. These backservice costs are negatively enhanced by the current low interest rate. Amounts include tax expenses borne by the Group. For Mr. Nooitgedagt, the defined benefit contribution equals 37% of his base salary; 2012 include costs related to previous years.

Total

In 2012 the Dutch Government introduced a special tax-levy for employers: the crisis tax (16% payable on salary expenses above EUR 150). This caused an increase of Aegon s total remuneration expenses for Alexander R. Wynaendts (EUR 311) and Jan J. Nooitgedagt (EUR 173). The increased costs for pensions further contributed to a rise in overall costs. The resulting total amount of remuneration expenses for Alexander R. Wynaendts related to 2012 is EUR 3,717 (2011: EUR 2,544) and for Jan J. Nooitgedagt EUR 2,152 (2011: EUR 1,507).

Share options and interests in Aegon N.V. held by active members of the executive board

	Year	Number of rights/options per January 1, 2012	Number of rights/ options vested in 2012	Number of rights/ options exercised in 2012	Number of rights/ options expired/ forfeited in 2012	Number of rights/options per Dec. 31, 2012	Number of exercisable rights/options	Exercise price EUR
Alexander R. Wynaendts	2005	34,132	-	-	34,132	-	-	9,91
	2006 [1]	50,842	-	-	-	-	50,842	14,55

[1] These share options were exercisable till March 13, 2013.

Shares held in Aegon at December 31, 2012 by Alexander R. Wynaendts and Jan J. Nooitgedagt amount to respectively 56,582 and 135,175. For each of the members of the Executive Board, the shares held in Aegon mentioned above do not exceed 1% of total outstanding share capital at the balance sheet date.

At the balance sheet date, Mr. Wynaendts had mortgage loans with Aegon totalling to EUR 1,485,292 with interest rates of 4.1%, 4.3%, 4.4% and 5.4%.

Remuneration of active and retired members of the Supervisory Board

in EUR	2012	2011
Robert J. Routs	109,250	101,250
Irving W. Bailey. II	98,000	92,500
Antony Burgmans	87,000	75,000
Shemaya Levy	104,500	96,000
Karla M.H. Peijs	78,250	79,250
Kornelis J. Storm	83,000	74,500
Ben van der Veer	101,250	95,250
Dirk P.M. Verbeek	101,250	92,250

Leo M. van Wijk	86,250	78,250
Total for active members	**848,750**	**784,250**
Arthur W.H. Docters van Leeuwen (as of April 22, 2009 up to July 31, 2011)	-	40,000
Cecelia Kempler (up to February 15, 2011)	-	9,625
Total	**848,750**	**833,875**

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Aegon s Supervisory Board members are entitled to the following:

- A base fee for membership of the Supervisory Board itself. No attendance fees are paid to members for the attendance of the regular Supervisory Board meetings (2012: 7 meetings, 2011: 6 meetings, 2010: 7 meetings);
- An attendance fee of EUR 3,000 for each Supervisory Board meeting, attended in person or by video- or telephone conference, other than one of the regular Supervisory Board meetings;
- A committee fee for members on each of the Supervisory Board s Committees;
- An attendance fee for each Committee meeting attended in person or through video- and telephone conferencing facilities.

Not included in the table above is a premium for state health insurance paid on behalf of Dutch Supervisory Board members.

Common shares held by Supervisory Board members

Shares held in Aegon at December 31	2012	2011
Irving W. Bailey, II	29,759	29,759
Karla M.H. Peijs	1,400	1,400
Kornelis J. Storm	238,897	226,479
Ben van der Veer	1,450	1,407
Dirk P.M. Verbeek	1,011	982
Total	**272,517**	**260,027**

Shares held by Supervisory Board members are only disclosed for the period they have been part of the Supervisory Board.

54 Events after the balance sheet date

On March 8, 2013 the Attorney General (Procureur Generaal) issued advice to the Supreme Court regarding the KoersPlan case. For more details on this advice refer to Note 49 Commitments and contingencies.

On February 15, 2013, Aegon and Vereniging Aegon reached an agreement to exchange, subject to approval by the Annual General Meeting of Shareholders on May 15, 2013, all of Aegon s preferred shares for cash and common shares (see also the section Major Shareholders for a description of the agreement reached).

After the acquisition of Unnim Banc by BBVA on July, 27 2012, Aegon has reached an agreement, on February 1, 2013, with BBVA to end the life, health and pension partnership with Unnim Banc and sell its 50% interest in the joint ventures to BBVA for a total consideration of EUR 353 million. The transaction is expected to be closed in Q2 2013 after obtaining regulatory approval. The sale is expected to result in a book gain of approximately EUR 105 million before tax. Aegon s share in underlying earnings before tax of the joint venture totaled EUR 20 million in 2012.

On January 29, 2013 Aegon announced that it will take over Eureko s life insurance and pension business in Romania. The transaction is expected to close in the second half of 2013, pending regulatory approval. Eureko s Romanian life insurance portfolio and pension fund business will be integrated into the operations of Aegon Romania and into the governance and management structure of Aegon CEE.

The Hague, the Netherlands, March 20, 2013

Supervisory Board	Executive Board
Robert J. Routs	Alexander R. Wynaendts
Irving W. Bailey, II	Jan J. Nooitgedagt
Antony Burgmans	
Shemaya Levy	
Karla M.H. Peijs	
Kornelis J. Storm	
Ben van der Veer	
Dirk P.M. Verbeek	

Leo M. van Wijk

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I ncome statement of Aegon N.V.

For the year ended December 31

Amounts in EUR million	2012	2011
Net income / (loss) group companies	1,462	956
Other income / (loss)	69	(87)
Net income / (loss)	**1,531**	**869**

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Statement of financial position of Aegon N.V.

As at December 31

Before profit appropriation, amounts in EUR million	Note	2012	2011
Investments			
Shares in group companies	3	25,582	21,352
Loans to group companies	4	4,379	5,457
Other investments	5	240	281
		30,201	27,090
Receivables	6		
Receivables from group companies		2,634	2,875
Other receivables		72	4
		2,706	2,879
Other assets			
Cash and cash equivalents		1,583	1,300
Deferred tax asset		19	71
Other	7	333	162
		1,935	1,533
Prepayments and accrued income			
Accrued interest and rent		55	48
Total assets		34,897	31,550
Shareholders equity			
Share capital	8	319	310
Paid-in surplus	9	8,780	8,787
Revaluation account	9	6,445	3,634
Legal reserves - foreign currency translation reserve	9	(1,023)	(910)
Legal reserves in respect of group companies	9	4,453	3,285
Retained earnings, including treasury shares	9	4,125	5,025
Net income / (loss)	9	1,531	869
		24,630	21,000
Other equity instruments	10	5,018	4,720
Total equity		29,648	25,720
Subordinated borrowings	11	42	-
Long-term borrowings	12	2,850	3,319
Short-term borrowings	13	431	889
Other liabilities	14		
Loans from group companies		282	228
Payables to group companies		1,082	951
Other		483	325
		1,847	1,504
Accruals and deferred income		79	118
Total equity and liabilities		34,897	31,550

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Notes to the financial statements

1 General information

Aegon N.V., incorporated and domiciled in the Netherlands, is a public limited liability company organized under Dutch law and recorded in the Commercial Register of The Hague under its registered address at Aegonplein 50, 2591 TV, The Hague, the Netherlands. Aegon N.V. serves as the holding company for the Aegon Group and has listings of its common shares in Amsterdam and New York.

Aegon N.V. (or the company), its subsidiaries and its proportionally consolidated joint ventures (Aegon or the Group) have life insurance and pensions operations in over twenty countries in the Americas, Europe and Asia and are also active in savings and asset management operations, accident and health insurance, general insurance and to a limit extent banking operations. Headquarters are located in The Hague, the Netherlands. The Group employs approximately 24,500 people worldwide (2011: 25,000).

2 Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared in accordance with accounting principles in the Netherlands as embodied in Part 9 of Book 2 of the Netherlands Civil Code. Based on article 2:362.8 of the Netherlands Civil Code, the valuation principles applied are based on International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS), as used for the preparation of the consolidated financial statements of the Group.

With regard to the income statement of Aegon N.V., article 402, Part 9 of Book 2 of the Netherlands Civil Code has been applied, allowing a simplified format.

2.2 Foreign exchange translation

Aegon N.V. s financial statements are prepared in euros, which is also Aegon N.V. s functional currency. The euro is also the currency of the primary economic environment in which Aegon N.V. operates. Each company in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are translated to the functional currency using the exchange rates prevailing at the date of the transaction.

At the balance sheet date monetary assets, monetary liabilities and own equity instruments in foreign currencies are translated to the functional currency at the closing rate of exchange prevailing on that date. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined.

Exchange differences on monetary items are recognized in the income statement when they arise, except when they are deferred in equity as a result of a qualifying cash flow or net investment hedge. Exchange differences on non-monetary items carried at fair value are recognized in equity or the income statement, consistently with other gains and losses on these items.

2.3 Offsetting of assets and liabilities

Financial assets and liabilities are offset in the statement of financial position when Aegon N.V. has a legally enforceable right to offset and has the intention to settle the asset and liability on a net basis or simultaneously.

2.4 Investments

The group companies are stated at their net asset value, determined on the basis of IFRS as applied in the consolidated financial statements of the Group. For details on the accounting policies applied for the group companies refer to the consolidated financial statements.

Other investments are financial assets recognized on the trade date when the Group becomes a party to the contractual provisions of the instrument and are classified for accounting purposes depending on the characteristics of the instruments and the purpose for which they were purchased. They are initially recognized at fair value excluding interest accrued to date plus, in the case of a financial asset not at fair value through profit or loss, any directly attributable incremental transaction costs.

Available-for-sale assets are recorded at fair value with unrealized changes in fair value recognized in equity.

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The fair value of an asset is the amount for which it could be exchanged between knowledgeable, willing parties in an arm s length transaction. For quoted financial assets for which there is an active market, the fair value is the bid price at the balance sheet date. In the absence of an active market, fair value is estimated by using present value based or other valuation techniques. Where discounting techniques are applied, the discount rate is based on current market rates applicable to financial instruments with similar characteristics. The valuation techniques that include non-market observable inputs can result in a different outcome than the actual transaction price at which the asset was acquired. Such differences are not recognized in the income statement immediately but are deferred. They are released over time to the income statement in line with the change in factors (including time) that market participants would consider in setting a price for the asset. Interest accrued to date is not included in the fair value of the financial asset.

Financial assets that are lent to a third party or that are transferred subject to a repurchase agreement at a fixed price are not derecognized as the Group retains substantially all the risks and rewards of the asset. A liability is recognized for cash collateral received, on which interest is accrued.

A security that has been received under a borrowing or reverse repurchase agreement is not recognized as an asset. A receivable is recognized for any related cash collateral paid by Aegon. The difference between sale and repurchase price is treated as investment income. If the Group subsequently sells that security, a liability to repurchase the asset is recognized and initially measured at fair value.

With the exception of cash collateral, assets received as collateral are not separately recognized as an asset until the financial asset they secure is foreclosed. When cash collateral is recognized, a liability is recorded for the same amount.

2.5 Derivatives

All derivatives are recognized on the statement of financial position at fair value. All changes in fair value are recognized in the income statement, unless the derivative has been designated as a hedging instrument in a cash flow hedge or a hedge of a net foreign investment. Derivatives with positive fair values are reported as other assets and derivatives with negative values are reported as other liabilities.

2.6 Cash and cash equivalents

Cash comprises cash at banks and in-hand. Cash equivalents are short-term highly liquid investments with original maturities of three months or less that are readily convertible to known cash amounts, are subject to insignificant risks of changes in value and are held for the purpose of meeting short-term cash requirements. Money market investments that are held for investment purposes (backing insurance liabilities, investment liabilities or equity based on asset liability management considerations) are not included in cash and cash equivalents but are presented as investment or investment for account of policyholders.

2.7 Other assets and receivables

Other assets include fixed assets, derivatives with positive fair values, other receivables and prepaid expenses. Other receivables are recognized at fair value and are subsequently measured at amortized cost.

2.8 Impairment of assets

An asset is impaired if the carrying amount exceeds the amount that would be recovered through its use or sale. Tangible, intangible and financial assets, if not held at fair value through profit or loss, are tested for impairment when there are indications that the asset may be impaired. Irrespective of the indications, goodwill and other intangible assets that are not amortized are tested at least annually. For assets denominated in a foreign currency, a decline in the foreign exchange rates is considered an indication of impairment.

2.9 Equity

Financial instruments that are issued by the company are classified as equity if they represent a residual interest in the assets of the company after deducting all of its liabilities and the company has an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation. In addition to common shares and preferred shares, the company has issued perpetual securities. Perpetual securities have no final maturity date, repayment is at the discretion of Aegon and for junior perpetual capital securities Aegon has the option to defer coupon payments at its discretion. The perpetual capital securities are classified as equity rather than debt, are measured at par and those that are denominated in US dollars are translated into euro using historical exchange rates.

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Non-cumulative subordinated notes are identified as a compound instrument due to the nature of this financial instrument. For these non-cumulative subordinated notes, Aegon has an unconditional right to avoid delivering cash or another financial asset to settle the coupon payments. The repayment of the principal is however not at the discretion of Aegon and therefore Aegon has a contractual obligation to settle the repayment in cash or another financial asset or through the exchange of financial assets and liabilities at potentially unfavorable conditions for Aegon. Compound instruments are separated into liability components and equity components. The liability component for the non-cumulative subordinated notes is equal to the present value of the redemption amount and subsequently carried at amortized cost using the effective interest rate method. The liability component is derecognized when the Group s obligation under the contract expires, is discharged or is cancelled. The equity component is assigned the residual amount after deducting the liability component from the fair value of the instrument as a whole. The equity component in US dollars is translated into euro using historical exchange rates.

Incremental external costs that are directly attributable to the issuing or buying back of own equity instruments are recognized in equity, net of tax. For compound instruments incremental external costs that are directly attributable to the issuing or buying back of the compound instruments are recognized proportionate to the equity component and liability component, net of tax.

Dividends and other distributions to holders of equity instruments are recognized directly in equity, net of tax. A liability for non-cumulative dividends payable is not recognized until the dividends have been declared and approved.

Revaluation account includes unrealized gains and losses on available-for-sales assets and the positive changes in value that have been recognized in net income / (loss) relating to investments (including real estate) and which do not have a frequent market listing.

Legal reserves in respect of group companies include net increases in net asset value of subsidiaries and associates since their first inclusion, less any amounts that can be distributed without legal restrictions.

Treasury shares are own equity instruments reacquired by the Group. They are deducted from shareholders equity, regardless of the objective of the transaction. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the instruments. If sold, the difference between the carrying amount and the proceeds is reflected in retained earnings. The consideration paid or received is recognized directly in shareholders equity. All treasury shares are eliminated in the calculation of earnings per share and dividend per common share.

2.10 Borrowings

A financial instrument issued by the company is classified as a liability if the contractual obligation must be settled in cash or another financial asset or through the exchange of financial assets and liabilities at potentially unfavorable conditions for the company.

Borrowings are initially recognized at their fair value including directly attributable transaction costs and are subsequently carried at amortized cost using the effective interest rate method, with the exception of specific borrowings that are designated as at fair value through profit or loss to eliminate, or significantly reduce, an accounting mismatch, or specific borrowings which are carried as at fair value through the profit and loss as part of a fair value hedge relationship. The liability is derecognized when the company s obligation under the contract expires or is discharged or cancelled.

Borrowings include the liability component of non-cumulative subordinated notes. These notes are identified as a compound instrument due to the nature of this financial instrument. Compound instruments are separated into equity components and liability components. The liability component for the non-cumulative subordinated notes is related to the redemption amount. For further information on accounting policy of the non-cumulative subordinated notes refer to note 2.9.

2.11 Contingent assets and liabilities

Contingent assets are disclosed in the notes if the inflow of economic benefits is probable, but not virtually certain. When the inflow of economic benefits becomes virtually certain, the asset is no longer contingent and its recognition is appropriate.

A provision is recognized for present legal or constructive obligations arising from past events, when it is probable that it will result in an outflow of economic benefits and the amount can be reliably estimated. If the outflow of economic benefits is not probable, a contingent liability is disclosed, unless the possibility of an outflow of economic benefits is remote.

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2.12 Events after the balance sheet date

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the balance sheet date.

Events that are indicative of conditions that arose after the balance sheet date are disclosed, but do not result in an adjustment of the financial statements themselves.

3 Shares in group companies

	2012	2011
At January 1	21,352	16,894
Capital contributions and acquisitions	4,363	981
Divestments and capital repayments	(361)	-
Dividend received	(3,767)	(255)
Net income / (loss) for the financial year	1,462	956
Revaluations	2,533	2,776
At December 31	**25,582**	**21,352**

For a list of names and locations of the most important group companies, refer to note 52 of the consolidated financial statements of the Group. The legally required list of participations as set forth in article 379 of Book 2 of the Netherlands Civil Code has been registered with the Commercial Register of The Hague.

4 Loans to group companies

	2012	2011
Loans to group companies - long-term		
At January 1	4,110	5,159
Additions / (repayments)	(894)	(820)
Other changes	(10)	(229)
At December 31	**3,206**	**4,110**
Loans to group companies - short-term		
At January 1	1,347	1,692
Additions / (repayments)	(182)	(400)
Other changes	8	55
At December 31	**1,173**	**1,347**
Total	**4,379**	**5,457**

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5 Other investments

	Shares - AFS	Money market and other short-term investments FVTPL[1)]	Total
At January 1, 2012	11	270	281
Additions	7	140	147
Disposals	(16)	(170)	(186)
Revaluations	(2)	-	(2)
At December 31, 2012	**-**	**240**	**240**
At January 1, 2011	-	100	100
Additions	24	335	359
Disposals	(11)	(165)	(176)
Revaluations	(2)	-	(2)
At December 31, 2011	**11**	**270**	**281**

[1] Fair value through profit or loss.

The money market and other short-term investments fully consist of investments in money market funds.

6 Receivables

Receivables from group companies and other receivables have a maturity of less than one year. Other receivables include an income tax receivable of EUR 59 million (2011: payable of EUR 206 million).

Aegon N.V., together with certain of its subsidiaries, is part of a tax grouping for Dutch corporate income tax purposes. The members of the fiscal entity are jointly and severally liable for any taxes receivable or payable by the Dutch tax grouping.

7 Other assets

Other assets include derivatives with positive fair values of EUR 330 million (2011: EUR 158 million).

8 Share capital

Issued and outstanding	**2012**	2011
Common shares	236	229
Preferred shares A	53	53
Preferred shares B	30	28
Total share capital	**319**	**310**

Authorized	**2012**	2011
Common shares	360	360

Preferred shares A	125	125
Preferred shares B	125	125
At December 31	**610**	**610**

Par value in cents per share	**2012**	2011
Common shares	12	12
Preferred shares A	25	25
Preferred shares B	25	25

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All issued common and preferred shares are fully paid. Repayment of capital can only be initiated by the Executive Board, is subject to approval of the Supervisory Board and must be resolved by the General Meeting of Shareholders. Moreover, repayment on preferred shares needs approval of the related shareholders. There are restrictions on the amount of funds that companies within the Group may transfer in the form of cash dividends or otherwise to the parent company. These restrictions stem from solvency and legal requirements. Refer to note 47 to the consolidated financial statements of the Group for a description of these requirements.

Vereniging Aegon, based in The Hague, holds all of the issued preferred shares. Vereniging Aegon, in case of an issuance of shares by Aegon N.V., may purchase as many class B preferred shares as would enable Vereniging Aegon to prevent or correct dilution to below its actual percentage of voting shares, unless Vereniging Aegon as a result of exercising these option rights would increase its voting power to more than 33%. Class B preferred shares will then be issued at par value (EUR 0.25), unless a higher issue price is agreed.

Aegon N.V. and Vereniging Aegon have entered into a preferred shares voting rights agreement, pursuant to which Vereniging Aegon has voluntarily waived its right to cast 25/12 vote per class A or class B preferred share. Instead, Vereniging Aegon has agreed to exercise one vote only per preferred share, except in the event of a special cause , such as the acquisition of a 15% interest in Aegon N.V., a tender offer for Aegon N.V. shares or a proposed business combination by any person or group of persons, whether individually or as a group, other than in a transaction approved by the Executive Board and Supervisory Board. If, in its sole discretion, Vereniging Aegon determines that a special cause has occurred, Vereniging Aegon will notify the General Meeting of Shareholders and retain its right to exercise the full voting power of 25/12 vote per preferred share for a limited period of six months.

In 2012, Vereniging Aegon exercised its option rights to purchase in aggregate 8,021,000 class B preferred shares at par value to correct the dilution caused by the issuance of shares as a result of distribution of dividend in the form of stock.

The following table shows the movement during the year in the number of common shares:

Number of common shares	**2012**	2011
At January 1	1,909,654,051	1,736,049,139
Shares issued	-	173,604,912
Share dividend	62,375,544	-
At December 31	**1,972,029,595**	**1,909,654,051**

The weighted average number of EUR 0.12 common shares for 2012 was 1,907,382,542 (2011: 1,851,813,352).

The shares repurchased by Aegon, although included in the issued and outstanding number of shares, are excluded from the calculation of the weighted average number of shares. The number has been adjusted for share dividend.

Long term incentive plan, share appreciation rights and share options

For detailed information on the long term incentive plan, share appreciation rights and share options granted to senior executives and other Aegon employees, refer to note 14 to the consolidated financial statements of the Group.

Board remuneration

Detailed information on remuneration of active and retired members of the Executive Board including their share and share option rights, remuneration of active and retired members of the Supervisory Board along with information about shares held in Aegon by the members of the Boards is included in note 53 to the consolidated financial statements of the Group.

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9 Shareholders equity

	Share capital	Paid-in surplus	Revaluation account	Legal reserves FCTR	Legal reserves group companies	Retained earnings	Treasury shares	Net income/ (loss)	Total
At January 1, 2012	310	8,787	3,634	(910)	3,285	5,277	(252)	869	21,000
Net income 2011 retained	-	-	-	-	-	869	-	(869)	-
Net income 2012	-	-	-	-	-	-	-	1,531	1,531
Total net income / (loss)	-	-	-	-	-	869	-	662	1,531
Foreign currency translation differences and movement in foreign investment hedging reserves	-	-	-	(113)	-	-	-	-	(113)
Changes in revaluation subsidiaries	-	-	2,599	-	-	-	-	-	2,599
Transfer to legal reserve	-	-	193	-	1,168	(1,339)	-	-	22
Other	-	-	19	-	-	(24)	-	-	(5)
Other comprehensive income / (loss)	-	-	2,811	(113)	1,168	(1,363)	-	-	2,503
Shares issued	2	-	-	-	-	-	-	-	2
Dividend common shares	7	(7)	-	-	-	(148)	-	-	(148)
Dividend preferred shares	-	-	-	-	-	(59)	-	-	(59)
Treasury shares	-	-	-	-	-	(6)	9	-	3
Dividend withholding tax reduction	-	-	-	-	-	3	-	-	3
Coupons and premium on convertible core capital securities and coupon on perpetual securities, net of tax	-	-	-	-	-	(195)	-	-	(195)
Other	-	-	-	-	-	(10)	-	-	(10)
Changes in equity from relation with shareholders	9	(7)	-	-	-	(415)	9	-	(404)
At December 31, 2012	**319**	**8,780**	**6,445**	**(1,023)**	**4,453**	**4,368**	**(243)**	**1,531**	**24,630**

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	Share capital	Paid-in surplus	Revaluation account	Legal reserves FCTR	Legal reserves group companies	Retained earnings	Treasury shares	Net income/ (loss)	Total
At January 1, 2011	278	7,906	1,168	(1,307)	3,690	4,086	(252)	1,759	17,328
Net income 2010 retained	-	-	-	-	-	1,759	-	(1,759)	-
Net income 2011	-	-	-	-	-	-	-	869	869
Total net income / (loss)	**-**	**-**	**-**	**-**	**-**	**1,759**	**-**	**(890)**	**869**
Foreign currency translation differences and movement in foreign investment hedging reserves	-	-	-	397	-	-	-	-	397
Changes in revaluation subsidiaries	-	-	2,506	-	-	-	-	-	2,506
Transfer to legal reserve	-	-	(40)	-	(405)	427	-	-	(18)
Other	-	-	-	-	-	4	-	-	4
Other comprehensive income / (loss)	**-**	**-**	**2,466**	**397**	**(405)**	**431**	**-**	**-**	**2,889**
Shares issued	32	881	-	-	-	-	-	-	913
Dividend preferred shares	-	-	-	-	-	(59)	-	-	(59)
Coupons and premium on convertible core capital securities and coupon on perpetual securities, net of tax	-	-	-	-	-	(927)	-	-	(927)
Other	-	-	-	-	-	(13)	-	-	(13)
Changes in equity from relation with shareholders	**32**	**881**	**-**	**-**	**-**	**(999)**	**-**	**-**	**(86)**
At December 31, 2011	**310**	**8,787**	**3,634**	**(910)**	**3,285**	**5,277**	**(252)**	**869**	**21,000**

The balance of the revaluation account, which includes revaluation reserves for real estate and investments that do not have a frequent market listing, consists for EUR 9,844 million (2011: EUR 7,893 million) of items with positive revaluation and for EUR (960) million of items with negative revaluation (2011: EUR (1,699) million).

The revaluation account and legal reserves, foreign currency translation reserve and other, can not be freely distributed. In case of negative balances for individual reserves legally to be retained, no distributions can be made out of retained earnings to the level of these negative amounts.

Certain of Aegon s subsidiaries, principally insurance companies, are subject to restrictions on the amounts of funds they may transfer in the form of cash dividends or otherwise to their parent companies. There can be no assurance that these restrictions will not limit or restrict Aegon in its ability to pay dividends in the future.

OPTAS N.V., an indirect subsidiary of Aegon N.V., holds statutory reserves of EUR 981 million (2011: EUR 936 million) which are restricted. Included in Aegon N.V. s legal reserves is an amount of EUR 441 million related to OPTAS N.V. which represents the increase in statutory reserves since the acquisition of OPTAS N.V. by Aegon (2011: EUR 396 million). The statutory reserves of OPTAS N.V. are linked to the acquired negative goodwill related to OPTAS N.V. at acquisition date.

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On the balance sheet date Aegon N.V. and its subsidiaries held 28,713,730 of its own common shares with a face value of EUR 0.12 each. Most of the shares have been purchased to neutralize the dilution effect of issued share dividend and to hedge share based payment plans for executives and employees. Movements in the number of repurchased own shares held by Aegon N.V. were as follows:

	2012	2011
At January 1	27,503,300	27,520,071
Transactions in 2012:		
Sale: 1 transaction, price EUR 3.52	(9,533)	-
Sale: 1 transaction, price EUR 3.36	(512,613)	-
Transactions in 2011:		
Sale: 1 transaction, price EUR 5.39	-	(16,771)
At December 31	**26,981,154**	**27,503,300**

As part of their insurance and investment operations, subsidiaries within the Group also hold Aegon N.V. common shares, both for their own account and for account of policyholders. These shares have been treated as treasury shares and are included at their consideration paid or received.

	2012		2011	
	Number of shares	Consideration	Number of shares	Consideration
Held by Aegon N.V.	26,981,154	228	27,503,300	235
Held by subsidiaries	1,732,576	15	1,862,680	17
Total at December 31	**28,713,730**	**243**	**29,365,980**	**252**

The consideration for the related shares is deducted from or added to the retained earnings.

10 Other equity instruments

	Junior perpetual capital securities	Perpetual cumulative subordinated bonds	Share options and incentive plans [1]	Non-cumulative subordinated notes	Total
At January 1, 2012	4,192	453	75	-	4,720
Issuance of non-cumulative subordinated notes	-	-	-	271	271
Share options cost incurred	-	-	32	-	32
Share options forfeited	-	-	(5)	-	(5)
At December 31, 2012	**4,192**	**453**	**102**	**271**	**5,018**
At January 1, 2011	4,192	453	59	-	4,704
Share options cost incurred	-	-	20	-	20
Share options forfeited	-	-	(4)	-	(4)
At December 31, 2011	**4,192**	**-**	**75**	**-**	**4,720**
At January 1, 2010	4,192	453	64	-	4,709
Share options cost incurred	-	-	7	-	7
Share options forfeited	-	-	(12)	-	(12)
At December 31, 2010	**4,192**	**453**	**59**	**-**	**4,704**

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Junior perpetual capital securities	Coupon rate	Coupon date, as of	Year of next call	2012	2011	2010
USD 500 million	6.50%	Quarterly, December 15	2013	424	424	424
USD 250 million	floating LIBOR rate [1]	Quarterly, December 15	2013	212	212	212
USD 550 million	6.875%	Quarterly, September 15	2013	438	438	438
EUR 200 million	6.00%	Annually, July 21	2013	200	200	200
USD 1,050 million	7.25%	Quarterly, December 15	2013	745	745	745
EUR 950 million	floating DSL rate [2]	Quarterly, July 15	2014	950	950	950
USD 500 million	floating CMS rate [3]	Quarterly, July 15	2014	402	402	402
USD 1 billion	6.375%	Quarterly, June 15	2015	821	821	821
At December 31				**4,192**	**4,192**	**4,192**

1 The coupon of the USD 250 million junior perpetual capital securities is reset each quarter based on the then prevailing three-month LIBOR yield plus a spread of 87.5 basis points, with a minimum of 4%.
2 The coupon of the EUR 950 million junior perpetual capital securities is reset each quarter based on the then prevailing ten-year Dutch government bond yield plus a spread of ten basis points, with a maximum of 8%.
3 The coupon of the USD 500 million junior perpetual capital securities is reset each quarter based on the then prevailing ten-year US dollar interest rate swap yield plus a spread of ten basis points, with a maximum of 8.5%.

The interest rate exposure on some of these securities has been swapped to a three-month LIBOR and/or EURIBOR based yield.

The securities have been issued at par. The securities have subordination provisions and rank junior to all other liabilities. The conditions of the securities contain certain provisions for optional and required coupon payment deferral and mandatory coupon payment events. Although the securities have no stated maturity, Aegon has the right to call the securities for redemption at par for the first time on the coupon date in the years as specified, or on any coupon payment date thereafter.

Perpetual cumulative subordinated bonds	Coupon rate	Coupon date, as of	Year of next call	2012	2011	2010
EUR 114 million	4.156% [1], [4]	June 8	2015	114	114	114
EUR 136 million	5.185% [2], [4]	October 14	2018	136	136	136
EUR 203 million	4.260% [3], [4]	March 4	2021	203	203	203
At December 31				**453**	**453**	**453**

1 The coupon of the EUR 114 million bonds was originally set at 8% until June 8, 2005. Subsequently, the coupon has been reset at 4.156% until 2015.
2 The coupon of the EUR 136 million bonds was originally set at 7.25% until October 14, 2008. Subsequently, the coupon has been reset at 5.185% until October 14, 2018.
3 The coupon of the EUR 203 million bonds was originally set at 7.125% until March 4, 2011. Subsequently, the coupon has been reset at 4.26% until March 4, 2021.
4 If the bonds are not called on the respective call dates and after consecutive period of ten years, the coupons will be reset at the then prevailing effective yield of ten-year Dutch government securities plus a spread of 85 basis points.

The bonds have the same subordination provisions as dated subordinated debt. In addition, the conditions of the bonds provide for interest deferral and for the availability of principal amounts to meet losses. Although the bonds have no stated maturity, Aegon has the right to call the bonds for redemption at par for the first time on the coupon date in the years as specified.

Non-cumulative	Coupon rate	Coupon date, as of	Year of next call	2012	2011	2010

subordinated notes							
USD 525 million	8%	Quarterly, February 15	2017	271	-	-
At December 31				**271**	**-**	**-**

On February 7, 2012, Aegon issued USD 525 million in aggregate principal amount of 8.00% non-cumulative subordinated notes, due 2042, in an underwritten public offering in the United States registered with the U.S. Securities and Exchange Commission. The subordinated notes bear interest at a fixed rate of 8.00% and have been priced at 100% of their principal amount. Any cancelled interest payment will not be cumulative.

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The securities are subordinated and rank senior to the junior perpetual capital securities, equally with the perpetual cumulative subordinated bonds and junior to all other liabilities. The conditions of the securities contain certain provisions for optional and required cancellation of interest payments. The securities have a maturity of 30 years, however Aegon has the right to call the securities for redemption at par for the first time on the coupon date in 2017, or on any coupon payment date thereafter.

The interest cash flows on substantially all of these securities has been swapped to an EURIBOR based interest rate.

These notes are recognized as a compound instrument due to the nature of this financial instrument. Compound instruments are separated into an equity component and liability component. At December 31, 2012 the equity component amounts to EUR 271 million, subordinated borrowings amounts to EUR 42 million and a deferred tax liability amounting to EUR 89 million.

The proceeds from the issuance of the subordinated notes are used for general corporate purposes.

Refer to note 11 for details of the component classified as subordinated borrowings.

11 Subordinated borrowings

Subordinated borrowings include the liability component of the non-cumulative subordinated notes. The liability component for the non-cumulative subordinated notes is related to the redemption amount. For further information on the non-cumulative subordinated notes refer to note 10.

12 Long-term borrowings

	2012	2011
Remaining terms less than 1 year	569	999
Remaining terms 1 - 5 years	1,408	1,477
Remaining terms 5 - 10 years	82	75
Remaining terms over 10 years	791	768
At December 31	**2,850**	**3,319**

The repayment periods of borrowings vary from within one year up to a maximum of 28 years. The interest rates vary from 3.000% to 6.625% per annum. The market value of the long-term borrowings amounts to EUR 3,126 million (2011: EUR 3,414 million).

13 Short-term borrowings

	2012	2011
Amounts owed to credit institutions	1	226
Short term deposits	430	663
At December 31	**431**	**889**

All short-term borrowings have a maturity of less than one year.

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14 Other liabilities

Loans from and payables to group companies have a maturity of less than one year. Other includes derivatives with negative fair values of EUR 350 million (2011: EUR 321 million).

Commitments and contingencies

Aegon N.V. has entered into a contingent capital agreement in order to enable its subsidiary Scottish Equitable Plc. to maintain capital in excess of the minimum capital requirements. The agreement is secured by GBP 200 million in assets, which have been allocated to Scottish Equitable. In the event Scottish Equitable s solvency capital would fall below the minimum capital requirement, Aegon N.V. has agreed to replenish solvency capital up to the amount of assets remaining in the secured account. The agreement expires when certain conditions have been triggered. These conditions are: 1) (partial) disposal of Scottish Equitable or 2) the implementation of solvency II in the UK.

Aegon N.V. also entered into a contingent capital letter for an amount of JPY 7.5 billion (EUR 66 million) to support its joint venture Aegon Sony Life Insurance Company meeting local statutory requirements.

Aegon N.V. has guaranteed and is severally liable for the following:

- Due and punctual payment of payables due under letter of credit agreements applied for by Aegon N.V. as co-applicant with indirect subsidiary companies of Transamerica Corporation, Aegon USA, LLC and Commonwealth General Corporation. At December 31, 2012, the letter of credit arrangements amounted to EUR 3,606 million (2011: EUR 3,773 million); as at that date no amounts had been drawn, or were due under these facilities;
- Due and punctual payment of payables by the consolidated group companies Transamerica Corporation, Aegon Funding Company LLC and Commonwealth General Corporation with respect to bonds, capital trust pass-through securities and notes issued under commercial paper programs (EUR 507 million; 2011: EUR 656 million), as well as payables with respect to certain derivative transactions of Transamerica Corporation (nominal amount EUR 1,963 million; 2011: EUR 2,207 million);
- Due and punctual payment of any amounts owed to third parties by the consolidated group company Aegon Derivatives N.V. in connection with derivative transactions. Aegon Derivatives N.V. only enters into derivative transactions with counterparties with which ISDA master netting agreements including collateral support annex agreements have been agreed; net (credit) exposure on derivative transactions with these counterparties was therefore limited as at December 31, 2012.

15 Number of employees

Other than the Executive Board members, there were no employees employed by Aegon N.V. in either 2012 or 2011.

16 Accountants remuneration

	Total remuneration		Of which Ernst & Young Accountants LLP (NL)	
	2012	2011	**2012**	2011
Audit	19	22	5	5
Other audit	7	6	6	6
Tax	-	-	-	-
Other services	-	1	-	1
Total	**26**	**29**	**11**	**12**

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17 Events after the balance sheet date

On March 8, 2013 the Attorney General (Procureur Generaal) issued advice to the Supreme Court regarding the KoersPlan case. For more details on this advice refer to Note 49 Commitments and contingencies.

On February 15, 2013, Aegon and Vereniging Aegon reached an agreement to exchange, subject to approval by the Annual General Meeting of Shareholders on May 15, 2013, all of Aegon s preferred shares for cash and common shares (see also the section Major Shareholders for a description of the agreement reached).

After the acquisition of Unnim Banc by BBVA on July, 27 2012, Aegon has reached an agreement, on February 1, 2013, with BBVA to end the life, health and pension partnership with Unnim Banc and sell its 50% interest in the joint ventures to BBVA for a total consideration of EUR 353 million. The transaction is expected to be closed in Q2 2013 after obtaining regulatory approval. The sale is expected to result in a book gain of approximately EUR 105 million before tax. Aegon s share in underlying earnings before tax of the joint venture totaled EUR 20 million in 2012.

On January 29, 2013 Aegon announced that it will take over Eureko s life insurance and pension business in Romania. The transaction is expected to close in the second half of 2013, pending regulatory approval. Eureko s Romanian life insurance portfolio and pension fund business will be integrated into the operations of Aegon Romania and into the governance and management structure of Aegon CEE.

The Hague, March 20, 2013

Supervisory Board	Executive Board
Robert J. Routs	Alexander R. Wynaendts
Irving W. Bailey, II	Jan J. Nooitgedagt
Antony Burgmans	
Shemaya Levy	
Karla M.H. Peijs	
Kornelis J. Storm	
Ben van der Veer	
Dirk P.M. Verbeek	
Leo M. van Wijk	

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306 Other information **Proposal for profit appropriation**

Other information

Proposal for profit appropriation

Appropriation of profit will be determined in accordance with the articles 31 and 32 of the Articles of Association of Aegon N.V. The relevant provisions read as follows:

1. The General Meeting of Shareholders shall adopt the annual accounts.
2. If the adopted profit and loss account shows a profit, the Supervisory Board may decide, upon the proposal of the Executive Board, to set aside part of the profit to augment and/or form reserves.
3. From the net profit as reflected in the profit and loss account, if it is sufficient to this end after a part of the profit has been set aside for increasing and/or forming reserves in accordance with 2, first of all the holders of Class A and Class B preferred shares shall receive, on the average amount paid on their preferred shares of the class concerned (nominal value and share premium, where applicable), a dividend the percentage of which, on an annual basis, shall be equal to the European Central Bank s fixed interest percentage for basic refinancing transactions, to be increased by 1.75 percentage points, all applicable to the first trading day on Euronext Amsterdam in the financial year to which the dividend relates. Apart from this, no other dividend is to be paid on the preferred shares. The authority to charge the payment of preferred dividends to the reserves of the company rests with the Executive Board subject to approval by the Supervisory Board.
4. The profits remaining after application of 2 and 3 above shall be put at the disposal of the General Meeting of Shareholders. The Executive Board, subject to the approval of the Supervisory Board, shall make a proposal for that purpose. A proposal to pay a dividend shall be dealt with as a separate agenda item at the General Meeting of Shareholders.
5. The Executive Board may, subject to the approval of the Supervisory Board, make one or more interim distributions to the holders of common shares and/or to the holders of preferred shares, the latter subject to the maximum dividend amount set forth under 3.
6. The Executive Board may, subject to the approval of the Supervisory Board, decide that a distribution on common shares shall not take place as a cash payment but as a payment in common shares, or decide that holders of common shares shall have the option to receive a distribution as a cash payment and/or as a payment in common shares, out of the profit and/or at the expense of reserves, provided that the Executive Board is designated by the General Meeting to issue shares. Subject to the approval of the Supervisory Board, the Executive Board shall also determine the conditions applicable to the aforementioned choices.
7. The company s policy on reserves and dividends shall be determined and can be amended by the Supervisory Board, upon the proposal of the Executive Board. The adoption and thereafter each amendment of the policy on reserves and dividends shall be discussed and accounted for at the General Meeting of Shareholders under a separate agenda item.

Relating to the year 2012, a cash dividend of 2.75% on the amount paid-in on the class A and class B preferred shares shall be paid to the holder of the preferred shares.

At the Annual General Meeting of shareholders on May 15, 2013, the Executive Board will, absent unforeseen circumstances, propose a final dividend for 2012 of EUR 0.11 per common share. The final dividend will be paid in cash or stocks at the election of the shareholder. The value of the stock dividend will be approximately equal to the cash dividend.

If the proposed dividend is approved by shareholders, Aegon shares will be quoted ex-dividend on May 17, 2013. The record date for the dividend will be May 21, 2013. Shareholders can elect to receive a dividend in cash or in shares during the dividend election period, which will run from May 23, 2013 up to and including June 7, 2013. The dividend will be payable as of June 14, 2013.

In order to reflect the prevailing market price of Aegon N.V. common shares fully within the indication provided, the number of dividend coupons that give entitlement to a new common share of EUR 0.12 will be determined on June 7, 2013 after 5.30 pm, based on the average share price on NYSE Euronext Amsterdam in the five trading days from June 3, 2013 up to and including June 7, 2013.

	2012	2011
Dividend on preferred shares	59	59
Final dividend on common shares	214	188
Earnings to be retained	1,258	622
Net income attributable to equity holders of Aegon N.V.	**1,531**	**869**

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Major shareholders

General

As of December 31, 2012, Aegon s total authorized share capital consisted of 3,000,000,000 common shares with a par value of EUR 0.12 per share and 1,000,000,000 preferred shares (divided into 500,000,000 class A and 500,000,000 class B preferred shares), each with a par value of EUR 0.25 per share. At the same date, there were 1,972,029,595 common shares, 211,680,000 class A preferred shares and 118,093,000 class B preferred shares issued. Of the issued common shares, 26,981,154 common shares were held by Aegon N.V. as treasury shares and 1,732,576 treasury shares were held by its subsidiaries.

All of Aegon s common shares and preferred shares are fully paid and not subject to calls for additional payments of any kind. All of Aegon s common shares are registered shares. Holders of shares of New York registry hold their common shares in registered form issued by Aegon s New York transfer agent on Aegon s behalf. Shares of New York registry and shares of Netherlands registry are exchangeable on a one-to-one basis and are entitled to the same rights, except that cash dividends are paid in US dollars on shares of New York registry.

As of December 31, 2012, 215 million common shares were held in the form of New York Registry shares. As of December 31, 2012, there were approximately 22,300 record holders resident in the United States, of Aegon s New York Registry shares.

Vereniging Aegon

Vereniging Aegon is the continuation of the former mutual insurer AGO. In 1978, AGO demutualized and Vereniging AGO became the only shareholder of AGO Holding N.V., which was the holding company for its insurance operations. In 1983, AGO Holding N.V. and Ennia N.V. merged into Aegon N.V. Vereniging AGO initially received approximately 49% of the common shares (which was reduced gradually to less than 40%) and all of the preferred shares in Aegon N.V., giving it voting majority in Aegon N.V. At that time Vereniging AGO changed its name into Vereniging Aegon.

The objective of Vereniging Aegon is the balanced representation of the interests of Aegon N.V. and all of its stakeholders, including shareholders, Aegon Group companies, insured parties, employees and other relations of the companies.

In accordance with the 1983 Merger Agreement, Vereniging Aegon had certain option rights on preferred shares to prevent dilution of voting power as a result of share issuances by Aegon N.V. This enabled Vereniging Aegon to maintain voting control at the General Meeting of Shareholders of Aegon N.V. In September 2002, Aegon N.V. effected a non-dilutive capital restructuring whereby Vereniging Aegon sold 350,000,000 of its common shares, of which 143,600,000 common shares were sold directly by Vereniging Aegon in a secondary offering outside the United States and 206,400,000 common shares were purchased by Aegon N.V. from Vereniging Aegon. Aegon N.V. subsequently sold these common shares in a global offering. The purchase price for the 206,400,000 common shares sold by Vereniging Aegon to Aegon N.V. was EUR 2,064,000,000, which amount (less EUR 12,000,000 related costs) Vereniging Aegon contributed as additional paid-in capital on the existing Aegon N.V. preferred shares, all held by Vereniging Aegon. As a result of these transactions, Vereniging Aegon s beneficial ownership interest in Aegon N.V. s common shares decreased from approximately 37% to approximately 12% and its beneficial ownership interest in Aegon N.V. s voting shares (excluding issued common shares held in treasury by Aegon N.V.) decreased from approximately 52% to approximately 33%.

On May 9, 2003, Aegon s shareholders approved certain changes to Aegon s corporate governance structure and Aegon s relationship with Vereniging Aegon in an extraordinary General Meeting of Shareholders. Aegon s Articles of Association were subsequently amended on May 26, 2003. The relationship between Vereniging Aegon and Aegon N.V. was changed as follows:

- The 440,000,000 preferred shares with nominal value of EUR 0.12 held by Vereniging Aegon were converted into 211,680,000 new class A preferred shares with nominal value of EUR 0.25 and the paid-in capital on the preferred shares was increased by EUR 120,000 to EUR 52,920,000. The voting rights pertaining to the new preferred shares (the class A preferred shares as well as the class B preferred shares which may be issued to Vereniging Aegon under the option agreement as described in the following sections) were adjusted accordingly to 25/12 vote per preferred share.
- Aegon N.V. and Vereniging Aegon have entered into a preferred shares voting rights agreement, pursuant to which Vereniging Aegon has voluntarily waived its right to cast 25/12 vote per class A or class B preferred share. Instead, Vereniging Aegon has agreed to exercise one vote only per preferred share, except in the event of a special cause , such as the acquisition of a 15% interest in Aegon N.V., a tender offer for Aegon N.V. shares or a proposed business combination by any person or group of persons whether individually or as a group, other than in a transaction approved by the Executive Board and the Supervisory Board. If, in its sole discretion, Vereniging Aegon determines that a special cause has occurred, Vereniging Aegon will notify the General Meeting of Shareholders and retain its right to exercise the full voting power of 25/12 vote per preferred share for a limited period of six months.

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- In May 2003, Aegon N.V. and Vereniging Aegon have amended the option arrangements under the 1983 Merger Agreement. Under the amended option arrangements Vereniging Aegon, in case of an issuance of shares by Aegon N.V., may purchase as many class B preferred shares as would enable Vereniging Aegon to prevent or correct dilution to below its actual percentage of voting shares, unless Vereniging Aegon as a result of exercising these option rights would increase its voting power to more than 33%. Class B preferred shares will then be issued at par value (EUR 0.25), unless a higher issue price is agreed. In the years 2003 through 2009 69,030,000 class B preferred shares were issued under these option rights. In 2010, no option rights were exercised. In March 2011 Vereniging Aegon exercised its option rights to purchase in aggregate 41,042,000 class B preferred shares at par value to correct dilution caused by Aegon s issuance of shares conducted under Aegon s US Shelf Registration through the sale of 173,604,912 common shares of Aegon N.V. at a price of EUR 5.20 per share in March 2011. In August 2012 and October 2012 exercised its option rights to purchase in aggregate 8,021,000 class B Preferred Shares at par value to correct dilution caused by Aegon s issuance of shares on 15 June 2012, being the final dividend 2011 in the form of stock-dividend, and the issuance of shares on 15 September 2012, being the interim-dividend 2012 in the form of stock-dividend.

Development of shareholding in Aegon N.V.

Number of shares	Common	Preferred A	Preferred B
At January 1, 2012	171,974,055	211,680,000	110,072,000
Exercise option right Preferred B shares	-	-	8,021,000
At December 31, 2012	**171,974,055**	**211,680,000**	**118,093,000**

Accordingly, under normal circumstances the voting power of Vereniging Aegon, based on the number of outstanding and voting shares (excluding issued common shares held in treasury by Aegon N.V.) at December 31, 2012, amounts to approximately 22.06%. In the event of a special cause , Vereniging Aegon s voting rights will increase, currently to 32.64%, for up to six months per special cause .

At December 31, 2012, the General Meeting of Members of Vereniging Aegon consisted of eighteen members. The majority of the voting rights is with the sixteen members who are not employees or former employees of Aegon N.V. or one of the Aegon Group companies, nor current or former members of the Supervisory Board or the Executive Board of Aegon N.V. The two other members are both elected by the General Meeting of Members of Vereniging Aegon from among the members of the Executive Board of Aegon N.V.

Vereniging Aegon has an Executive Committee consisting of six members, four of whom, including the chairman and the vice-chairman, are not nor have ever been, related to Aegon. The other two members are also members of the Executive Board of Aegon N.V. Resolutions of the Executive Committee, other than with regard to amendment of the Articles of Association of Vereniging Aegon, are made with an absolute majority of the votes. When a vote in the Executive Committee results in a tie, the General Meeting of Members has the deciding vote. With regards to the amendment of the Articles of Association of Vereniging Aegon, a special procedure is in place to provide for the need of a unanimous proposal from the Executive Committee, thereby including the consent of the representatives of Aegon N.V. at the Executive Committee. Following the amendment of the Articles of Association as effected on September 13, 2005, this requirement does not apply in the event of a hostile change of control at the General Meeting of Shareholders of Aegon N.V., in which event Vereniging Aegon may amend its Articles of Association without the cooperation of Aegon N.V.. Furthermore, the two members of the Executive Board of Aegon N.V. who are also members of the Executive Committee have no voting rights in respect of several decisions, set out in the Articles of Association, that relate to Aegon N.V.

Other major shareholders

To Aegon s knowledge, only one other party holds a capital and voting interest in Aegon N.V in excess of 5%. According to its filing with the United States Securities and Exchange Commission on February 13, 2013, US-based investment management firm Dodge & Cox owns over 195 million common shares.

Dodge & Cox are holders of common shares which have no special rights attached to it.

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Proposed capital restructuring

In February 2013 Aegon and Vereniging Aegon have reached an agreement which enables Aegon to simplify the company s capital structure and maintain a high-quality capital base.

Under the agreement, all of Aegon s preferred shares will be exchanged for cash and common shares. The value of all preferred shares, which have a book value of EUR 2.1 billion, has been determined at EUR 1.1 billion. Vereniging Aegon will receive EUR 400 million from Aegon in cash and the equivalent of EUR 655 million in common shares in addition to a total of EUR 83 million of dividends on the preferred shares. The number of common shares to be received by Vereniging Aegon is based on the volume-weighted average price of Aegon common shares on Euronext Amsterdam from February 15 up to, and including, February 28, 2013. The volume-weighted average price over this period was EUR 4.86. Based on this share price, the preferred shares will be converted into 121 million common shares and 566 million common shares B.

Vereniging Aegon will relinquish its preferential rights with regard to dividends and liquidation proceeds. In addition, the voting rights of Vereniging Aegon in ordinary course will be reduced from the current 22.1% to 14.8% which will align its voting rights and economic ownership in Aegon. Vereniging Aegon will maintain its current 32.6% voting rights in case of a special cause .

Aegon s Supervisory Board will propose to approve the new capital structure at the Annual General Meeting of Shareholders on May 15, 2013. This proposal is to contain the following of steps:

- Repayment of EUR 400 million in share premium on preferred shares A.
- Amendment of the Articles of Association of Aegon N.V. to convert the share capital and to reflect the new composition of that share capital. The Aegon preferred shares A and B will be converted into a combination of common shares and common shares B, each with a nominal value of EUR 0.12. The financial rights attached to a common share B are 1/40 of a common share. The combination of common shares and common shares B will be determined such that the aggregate nominal value of the preferred shares which are converted equals the aggregate nominal value of the common shares and common shares B resulting from the conversion.
- Amendment of the Preferred Shares Voting Rights Agreement (Voting Rights Agreement) between Aegon N.V. and Vereniging Aegon to ensure that under normal circumstances the Association will only exercise 1 vote per 40 common shares B (voting rights in normal circumstances will be equal to the financial rights of a common share B) and that it will only exercise its full voting rights in case of a special cause .
- Amendment of the 1983 Merger Agreement (Vereniging Aegon Call Option) to ensure that the Association can always maintain its special cause voting rights at 32.6% in the future.

Following shareholder approval and subsequent execution of the transaction, Vereniging Aegon will hold a total of 307 million [1] common shares and a total of 2,080 million common shares will be outstanding.

1 Includes 14 million common shares which represent the economic equivalent of 566 million common shares B.

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Schedules to the financial statements

Schedule I

Summary of investments other than investments in related parties

As at December 31, 2012 Amounts in million EUR	Cost [1]	Fair value	Book value
Shares:			
Available-for-sale	614	856	856
Fair value through profit or loss	1,406	1,043	1,043
Bonds:			
Available-for-sale and held-to-maturity:			
US government	5,066	5,837	5,837
Dutch government	3,483	3,930	3,930
Other government	13,134	15,041	15,041
Mortgage backed	10,381	10,894	10,894
Asset backed	7,037	7,072	7,072
Corporate	47,865	53,734	53,734
Money market investments	8,713	8,713	8,713
Other	1,147	1,214	1,214
Subtotal	**96,826**	**106,435**	**106,435**
Bonds:			
Fair value through profit or loss	1,516	1,500	1,500
Other investments at fair value through profit or loss	2,333	3,089	3,089
Mortgages	27,077		27,077
Private loans	1,013		1,013
Deposits with financial institutions	217		217
Policy loans	2,110		2,110
Receivables out of share lease agreements	9		9
Other	154		154
Subtotal	**30,580**		**30,580**
Real estate:			
Investments in real estate	2,679		2,679
Total	**135,954**		**146,182**

[1] Cost is defined as original cost for available-for-sale shares and amortized cost for available-for-sale and held-to-maturity bonds.

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Schedule II

Condensed financial information of registrant

Statement of financial position of Aegon N.V.

As at December 31

Before profit appropriation, amounts in EUR million	2012	2011
Investments		
Shares in group companies	25,582	21,352
Loans to group companies	4,379	5,457
Other investments	240	281
	30,201	**27,090**
Receivables		
Receivables from group companies	2,634	2,875
Other receivables	72	4
	2,706	**2,879**
Other assets		
Cash and cash equivalents	1,583	1,300
Deferred tax asset	19	71
Other	333	162
	1,935	**1,533**
Prepayments and accrued income		
Accrued interest and rent	55	48
Total assets	**34,897**	**31,550**
Shareholders equity		
Share capital	319	310
Paid-in surplus	8,780	8,787
Revaluation account	6,445	3,634
Legal reserves - foreign currency translation reserve	(1,023)	(910)
Legal reserves in respect of group companies	4,453	3,285
Retained earnings, including treasury shares	4,125	5,025
Net income / (loss)	1,531	869
	24,630	**21,000**
Other equity instruments	5,018	4,720
Total equity	**29,648**	**25,720**
Subordinated borrowings	42	-
Long-term borrowings	2,850	3,319
Short-term borrowings	431	889
Other liabilities		
Loans from group companies	282	228
Payables to group companies	1,082	951
Other	483	325
	1,847	**1,504**

Accruals and deferred income	79	118
Total equity and liabilities	**34,897**	**31,550**

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Income statement of Aegon N.V.

For the year ended December 31

Amounts in EUR million	2012	2011	2010
Net income / (loss) group companies	1,462	956	1,843
Other income / (loss)	69	(87)	(84)
Net income	**1,531**	**869**	**1,759**

Condensed cash flow statement of Aegon N.V.

For the year ended December 31

Amounts in EUR million	2012	2011	2010
Income / (loss) before tax	**1,507**	**837**	**1,739**
Adjustments	(1,239)	(910)	(125)
Net cash flows from operating activities	**268**	**(73)**	**1,614**
Purchase and disposal of individual intangible assets	-	-	(1)
Net cash flows from investing activities	**-**	**-**	**(1)**
Issuance and repurchase of share capital	2	913	-
Dividends paid	(207)	(59)	(90)
Issuance, repurchase and coupons of convertible core capital securities	-	(2,250)	(563)
Issuance, repurchase and coupons of perpetual securities	(230)	(237)	(251)
Issuance, repurchase and coupons of non-cumulative subordinated notes	241	-	-
Issuance and repurchase of borrowings	431	1,492	(734)
Net cash flows from financing activities	**237**	**(141)**	**(1,638)**
Net increase / (decrease) in cash and cash equivalents	**505**	**(214)**	**(25)**

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Schedule III

Supplementary insurance information

Column A	Column B	Column C	Column D	Column E	Column F
Segment Amounts in million EUR	Deferred policy acquisition costs	Future policy benefits	Unearned premiums	Other policy claims and benefits	Premium revenue
2012					
Americas	7,000	141,101	3,900	1,378	8,208
The Netherlands	178	48,976	138	1,158	3,699
United Kingdom	3,520	67,037	-	-	6,047
New markets	584	10,015	57	119	1,572
Holding and other activities	-	-	-	1	-
Total	**11,282**	**267,129**	**4,095**	**2,656**	**19,526**
2011					
Americas	6,835	140,969	3,480	1,317	7,502
The Netherlands	239	45,971	156	1,078	3,881
United Kingdom	3,412	62,320	-	-	6,474
New markets	541	9,957	51	125	1,664
Holding and other activities	-	-	-	-	-
Total	**11,027**	**259,217**	**3,687**	**2,520**	**19,521**
2010					
Americas	7,284	138,978	3,003	1,276	8,067
The Netherlands	296	43,454	157	1,048	3,837
United Kingdom	3,233	67,941	-	-	7,425
New markets	527	9,142	49	141	1,768
Holding and other activities	-	-	-	-	-
Total	**11,340**	**259,515**	**3,209**	**2,465**	**21,097**

	Column G	Column H	Column I	Column J	Column K
Amounts in million EUR	Net investment income	Benefits, claims and losses	Amortization of deferred policy acquisition costs	Other operating expenses	Premiums written
2012					
Americas	3,643	8,672	608	2,665	4,907
The Netherlands	2,210	4,338	71	989	3,682
United Kingdom	2,337	6,898	266	472	5,631
New markets	304	1,084	122	477	1,570
Holding and other activities	7	-	-	66	1
Total	**8,501**	**20,992**	**1,067**	**4,669**	**15,791**
2011					
Americas	3,551	5,643	917	2,533	4,451
The Netherlands	2,189	3,812	70	1,065	3,852
United Kingdom	2,152	6,342	217	627	6,138
New markets	258	1,017	114	453	1,673
Holding and other activities	17	-	-	168	-

Total	**8,167**	**16,814**	**1,318**	**4,846**	**16,114**
2010					
Americas	3,992	7,515	884	2,586	6,473
The Netherlands	2,160	4,257	79	979	3,817
United Kingdom	2,337	5,998	215	597	7,176
New markets	242	1,139	91	464	1,772
Holding and other activities	31	-	-	139	-
Total	**8,762**	**18,909**	**1,269**	**4,765**	**19,238**

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Schedule IV

Reinsurance

Amounts in million EUR	Gross amount	Ceded to other companies	Assumed from other companies	Net amount	% of amount assumed to net
For the year ended December 31, 2012					
Life insurance in force	941,178	1,064,536	684,275	560,917	122%
Premiums					
Life insurance	14,848	3,324	1,818	13,342	14%
Non-Life insurance	2,860	411	-	2,449	0%
Total premiums	**17,708**	**3,735**	**1,818**	**15,791**	**12%**
For the year ended December 31, 2011					
Life insurance in force	953,819	1,073,026	755,821	636,614	119%
Premiums					
Life insurance	15,100	3,042	1,753	13,811	13%
Non-Life insurance	2,668	365	-	2,303	0%
Total premiums	**17,768**	**3,407**	**1,753**	**16,114**	**11%**
For the year ended December 31, 2010					
Life insurance in force	934,895	590,929	771,867	1,115,833	69%
Premiums					
Life insurance	16,562	1,509	1,804	16,857	11%
Non-Life insurance	2,731	350	-	2,381	0%
Total premiums	**19,293**	**1,859**	**1,804**	**19,238**	**9%**

Schedule V

Valuation and qualifying accounts

Amounts in million EUR	2012	2011	2010
Balance at January 1	337	332	312
Addition charged to earnings	79	93	99
Amounts written off and other changes	(65)	(81)	(90)
Currency translation	5	(7)	11
Balance at December 31	**356**	**337**	**332**
The provisions can be analyzed as follows:			
Mortgages	167	156	149
Other loans	57	43	38
Receivables	132	138	145
Total	**356**	**337**	**332**

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Auditor s report on the Annual Report on Form 20-F

To: The Supervisory Board, the Executive Board and Shareholders of Aegon N.V.

Report of Independent Registered Public Accounting Firm

We have audited the accompanying consolidated statements of financial position of Aegon N.V., as of December 31, 2012 and 2011, and the related consolidated income statement and statements of comprehensive income, changes in equity, and cash flow for each of the three years in the period ended December 31, 2012. Our audits also include the other financial information included on pages 310 to 314. These financial statements and schedules are the responsibility of the company s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in The Netherlands and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Aegon N.V. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standard Board. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Aegon N.V. s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 20, 2013 expressed an unqualified opinion thereon.

The Hague, the Netherlands, March 20, 2013

Ernst & Young Accountants LLP

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Additional information

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Supervision

Individual companies in the Aegon Group are each subject to solvency supervision in their respective home countries. Based on European Union legislation (Directive 98/79/EC) adopted in 1998, the supervisory authority in the Netherlands (De Nederlandsche Bank (DNB or Dutch Central Bank) is required, as a lead supervisor, to carry out supplementary supervision . The supplementary supervision of insurance companies in an insurance group enables EU supervisors to make a detailed assessment of the financial position of the EU insurance companies that are part of that group. The Directive requires DNB to take into account the relevant financial affiliations between the insurance companies and other entities in the group. In this respect, Aegon is required to submit reports to its supervisors twice a year setting out supplemental capital adequacy calculations of the insurance companies, risk concentrations and significant transactions and positions between insurance and non-insurance companies in the Aegon Group.

Since the beginning of October 2009, Aegon has been subject to supplemental group supervision by the Dutch Central Bank in accordance with the requirements of the European Union s Financial Conglomerate Directive. Supplemental group supervision pursuant to the Financial Conglomerate Directive includes supplementary capital adequacy requirements for financial conglomerates and supplementary supervision on risk concentrations and intra-group transactions in the financial conglomerate.

Both the insurance and banking companies in the Aegon Group are required to maintain a minimum solvency margin based on local requirements. The required solvency margin is the sum of the margins of each of Aegon s insurance and banking subsidiaries, based on the local requirements. Available liability capital includes shareholders equity, convertible core capital securities, perpetual capital securities, and dated subordinated debt and senior debt.

Property, plants and equipment

In the United States, Aegon owns many of the buildings that the company uses in the normal course of its business, primarily as offices. Aegon owns 16 offices located throughout the United States with a total square footage of 2.0 million. Aegon also leases space for various offices located throughout the United States under long-term leases with a total square footage of 1.1 million. Aegon s principal offices are located in Baltimore, Maryland; Cedar Rapids, Iowa; Los Angeles, California; St. Petersburg, Florida; Plano & Dallas, Texas; Harrison, New York; Little Rock, Arkansas; Atlanta, Georgia; and Exton, PA.

Other principal offices owned by Aegon are located in The Hague, The Netherlands; Budapest, Hungary; and Madrid, Spain. Aegon owns its headquarters and leases other offices in the Netherlands (Leeuwarden), the United Kingdom and Canada under long-term leases. Aegon believes that its properties are adequate to meet its current needs.

Employees and labor relations

At the end of 2012, Aegon had 24,407 employees of which were 2,847 agent-employees. Approximately 48% are employed in the Americas, 20% in the Netherlands, 12% in the United Kingdom and 20% in New Markets.

All of Aegon s employees in the Netherlands, other than senior management, are covered by collective labor agreements, which are generally renegotiated annually on an industry wide basis. Individual companies then enter into employment agreements with their employees based on the relevant collective agreement. Since its founding, Aegon has participated in collective negotiations in the insurance industry and has based its employment agreements with its employees on the relevant collective agreement. The collective agreements are generally for a duration of one year. Aegon has experienced no significant strike, work stoppage or labor dispute in recent years.

Under Dutch law, members of the Central Works Council responsible for Aegon in the Netherlands are elected by Aegon The Netherlands employees. The Central Works Council has certain defined powers at the level of the Dutch subsidiary company Aegon Nederland N.V., including the right to make non-binding recommendations for appointments to its Supervisory Board and the right to

enter objections against proposals for appointments to that Supervisory Board. Moreover, the Central Works Council of Aegon The Netherlands is to be consulted as regards a nomination for appointment pertaining to one seat on the Supervisory Board of Aegon.

The average number of employees per geographical area was:

	2012	2011	2010
Americas	11,619	12,233	13,279
The Netherlands	4,980	5,289	5,548
United Kingdom	3,030	3,767	4,434
New Markets	5,179	5,135	4,788
	24,808	**26,424**	**28,049**
Of which agent-employees	2,929	2,991	3,095

See Note 14 of the notes to the consolidated financial statements of this Annual Report for a description of share-based payments to employees.

Dividend policy

Under Dutch law and Aegon s Articles of Association, holders of Aegon s common shares are entitled to dividends paid out of the profits remaining, if any, after the creation of a reserve account. First of all, a fixed dividend is paid on the preferred shares, as described below. Aegon s Executive Board may determine the dividend payment date and the dividend record date for the common shares, which may vary for the various kinds of registered shares. Aegon s Executive Board, with the approval of Aegon s Supervisory Board, may also determine the currency or currencies in which the dividends will be paid.

Aegon may make one or more interim distributions to the holders of common shares and/or to the holders of preferred shares, the latter subject to the maximum dividend amount set forth below.

If and when Aegon has paid any dividends in the past, Aegon has traditionally paid interim dividends (usually in September) after the release of Aegon s six-month results and final dividends (usually in May) upon adoption of the annual accounts at the annual General Meeting of Shareholders.

On December 1, 2008, Aegon secured EUR 3 billion of convertible core capital securities from the Vereniging Aegon.

As part of the approval granted by the European Commission in August 2010, Aegon committed itself not to pay any dividend to the common shareholder until the Dutch State is fully repaid. A cash dividend of 2.75% on the amount paid-in on the class A and class B preferred shares was paid to the holder of the preferred shares. Consequently, no final dividend to common shares for 2010 and no interim dividend for 2011 to common shares was declared. On June 15, 2011 Aegon fully repaid the Dutch State.

Following, the Annual General Meeting of shareholders on May 16, 2012, during which the shareholders approved a final dividend for 2011 of EUR 0.10 per common share related to the second half of 2011, the company resumed payment of dividend to the holders of common shares.

Aegon aims to pay out a sustainable dividend to allow equity investors to share in Aegon s performance, which can grow over time if Aegon s performance so allows. After investment in new business to generate organic growth, capital generation in Aegon s operating subsidiaries is available for distribution to the holding company, while maintaining a capital and liquidity position in the operating subsidiaries in line with Aegon s capital management and liquidity risk policies.

Aegon uses the cash flows from the operating subsidiaries to pay holding expenses, including funding costs. The remaining cash flow is available to execute Aegon s strategy and to fund dividends on Aegon s shares, subject to maintaining the holding company targeted excess capital. Depending on circumstances, future prospects and other considerations, Aegon s Executive Board may elect to deviate from this target. Aegon s Executive Board will also take capital position, financial flexibility, leverage ratios and strategic considerations into account when declaring or proposing dividends on common shares.

Under normal circumstances, Aegon would expect to declare an interim dividend when announcing Aegon s second quarter results and to propose a final dividend at the annual General Meeting of Shareholders for approval. Dividends would normally be paid in cash or stock at the election of the shareholder. The relative value of cash and stock dividends may vary. Stock dividends paid may, subject to capital management and other considerations, be repurchased in order to limit dilution.

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When determining whether to declare or propose a dividend, Aegon s Executive Board has to balance prudence versus offering an attractive return to shareholders, for example in adverse economic and/or financial market conditions. Also, Aegon s operating subsidiaries are subject to local insurance regulations which could restrict dividends to be paid to us. There is no requirement or assurance that we will declare and pay any dividends.

Holders of common shares have generally been permitted to elect to receive dividends, if any, in cash or in common shares. For dividends, which holders may elect to receive in either cash or common shares, the value of the stock alternative may differ slightly from the value of the cash option. Aegon pays cash dividends on shares of New York registry in US dollars through Citibank, N.A., Aegon s NYSE paying agent, based on the foreign exchange reference rate (as published each working day at 14:15 hours by the European Central Bank) on the business day following the announcement of the interim dividend or on the second business day following the shareholder meeting approving the relevant final dividend.

The offer and listing

The principal market for Aegon s common shares is NYSE Euronext Amsterdam. Aegon s common shares are also listed on the NYSE Euronext New York.

The table below sets forth, for the calendar periods indicated, the high and low sales prices of Aegon s common shares on NYSE Euronext Amsterdam and the NYSE Euronext New York as reported by Bloomberg and is based on closing prices. Share prices have been adjusted for all stock splits and stock dividends through December 31, 2010.

	NYSE Euronext Amsterdam (EUR)		NYSE Euronext New York (USD)	
	High	Low	High	Low
2008	11.98	2.68	17.52	3.50
2009	6.17	1.85	9.23	2.30
2010	5.41	4.04	7.41	5.11
2011	5.68	2.68	7.92	3.62
2012	4.89	4.07	6.47	5.22
2010				
First quarter	5.10	4.14	7.24	5.51
Second quarter	5.41	4.37	7.41	5.20
Third quarter	4.83	4.04	6.32	5.11
Fourth quarter	4.72	4.23	6.67	5.53
2011				
First quarter	5.68	4.58	7.92	6.13
Second quarter	5.58	4.36	8.03	6.23
Third quarter	4.80	2.68	6.99	3.62
Fourth quarter	3.73	2.79	5.41	3.66
2012				
First quarter	4.52	3.05	5.93	3.92
Second quarter	4.20	3.19	5.60	3.96
Third quarter	4.50	3.35	5.88	4.06
Fourth quarter	4.89	4.08	6.47	5.22
September 2012	4.50	4.05	5.88	5.12
October 2012	4.40	4.08	5.74	5.22
November 2012	4.45	4.08	5.74	5.22
December 2012	4.89	4.42	6.47	5.74
2013				
January 2013	5.12	4.80	6.76	6.44
February 2013	5.17	4.52	6.85	5.88
March 2013 (through March 6, 2013)	4.74	4.62	6.13	5.81

On NYSE Euronext Amsterdam only Euronext registered shares may be traded and on the NYSE Euronext New York only New York Registry Shares may be traded.

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Additional company information

Memorandum and Articles of Association

Aegon is registered under number 27076669 in the Commercial Register of the Chamber of Commerce and Industries for Haaglanden, The Hague, the Netherlands.

Certain provisions of Aegon s current Articles of Association are discussed below.

Objects and purposes

- The objects of Aegon are to incorporate, acquire and alienate shares and interests in, to finance and grant security for commitments of, to enter into general business relationships with, and to manage and grant services to legal entities and other entities, in particular those involved in the insurance business, and to do all that is connected therewith or which may be conducive thereto, all to be interpreted in the broadest sense.
- In achieving the aforesaid objects due regard shall be taken, within the scope of sound business operations, to provide fair safeguards for the interests of all the parties directly or indirectly involved in Aegon.

Provisions related to directors

For information with respect to provisions in the Articles of Association relating to members of the Supervisory Board and Executive Board, refer to the Governance section (pages 106-128).

Description of Aegon s capital stock

Aegon has two types of shares: Common shares (par value EUR 0.12) and (class A and class B) Preferred shares (par value EUR 0.25).

Common Characteristics of the Common and Preferred Shares

- All shares are in registered form.
- All shares have dividend rights except for those shares (if any) held by Aegon as treasury stock. Dividends which have not been claimed within five years lapse to Aegon.
- Each currently outstanding share is entitled to one vote except for shares held by Aegon as treasury stock. There are no upward restrictions.
- However, in line with the higher par value of the preferred shares, the holder of the preferred shares, Vereniging Aegon, may cast 25/12 votes for each preferred share. Vereniging Aegon and Aegon have entered into a preferred shares voting rights agreement, pursuant to which Vereniging Aegon has voluntarily waived its right to cast 25/12 votes per class A or class B preferred share. Instead, Vereniging Aegon has agreed to exercise one vote only per preferred share, except in the event of a special cause , such as the acquisition of a 15% interest in Aegon N.V., a tender offer for Aegon N.V. shares or a proposed business combination by any person or group of persons, whether individually or as a group, other than in a transaction approved by the Executive Board and Supervisory Board. If Vereniging Aegon, acting at its sole discretion, determines that a special cause has arisen, Vereniging Aegon shall notify the General Meeting of Shareholders. In this event, Vereniging Aegon retains full voting rights on the preferred shares for a period limited to six months.
- All shares have the right to participate in Aegon s net profits. Net profits is the amount of profits after contributions, if any, to a reserve account.
- In the event of liquidation, all shares have the right to participate in any remaining balance after settlement of all debts.
- The General Meeting of Shareholders may, at the proposal of the Executive Board, as approved by the Supervisory Board, resolve to reduce the outstanding capital either by (i) repurchasing shares and subsequently canceling them, or (ii) by reducing their nominal share value.
- There are no sinking fund provisions.
- All issued shares are fully paid-up; so there is no liability for further capital calls.
- There are no provisions discriminating against any existing or prospective holder of shares as a result of such shareholder owning a substantial number of shares.

Differences between common and preferred shares

1. The common shares are listed; the preferred shares are not listed.
2. Preferred shares under certain circumstances are entitled to cast 25/12 votes per share in line with their higher par value.
3. Preferred shares are entitled to a preferred dividend on the paid-in amount, restricted to the fixed rate set by the European Central Bank for basic refinancing transactions plus 1.75%. No additional dividend is paid on the preferred shares and the remaining profit is available for distribution to the holders of common shares.

4. Any remaining balance after settlement of all debts in the event of liquidation, will first be allocated (to the extent possible) to repaying the paid-in capital on the preferred shares.
5. Holders of common shares have pre-emptive rights in relation to any issuance of common shares, while holders of preferred shares have no such pre-emptive rights.

Actions necessary to change the rights of shareholders

A change to the rights of shareholders would require an amendment to the Articles of Association. The General Meeting of Shareholders (annual General Meeting or extraordinary General Meeting) may only pass a resolution to amend the Articles of Association pursuant to a proposal of the Executive Board with the approval of the Supervisory Board. The resolution requires a majority of the votes cast at the meeting in order to pass. The actual changes to the text of the Articles of Association will be executed by a civil law notary.

Furthermore, a resolution of the General Meeting of Shareholders to amend the Articles of Association which has the effect of reducing the rights attributable to holders of preferred shares of a specific class shall be subject to the approval of the meeting of holders of preferred shares of such class.

Conditions under which meetings are held

Annual General Meetings and extraordinary General Meetings of Shareholders shall be convened by public notice. Notice must be given no later than forty-two days prior to the date of the meeting. The notice must contain a summary agenda and indicate the place where the complete agenda together with the documents pertaining to the agenda may be obtained. The agenda is also sent to shareholders registered with the Company Register. New York Registry shareholders or their brokers receive a proxy solicitation notice.

For admittance to and voting at the meeting, shareholders must produce evidence of their shareholding as of the record date. The Dutch law determines that the record date is twenty-eight days prior to the General Meeting of Shareholders. Shareholders must notify Aegon of their intention to attend the meeting.

Limitation on the right to own securities

There are no limitations, either under the laws of the Netherlands or in Aegon s Articles of Association, on the rights of non-residents of the Netherlands to hold or vote Aegon common shares.

Provisions that would have the effect of delaying a change of control

A resolution of the General Meeting of Shareholders to suspend or dismiss a member of the Executive Board or a member of the Supervisory Board, other than pursuant to a proposal by the Supervisory Board, shall require at least two-thirds of the votes cast representing more than one-half of the issued capital.

In the event a special cause occurs (such as the acquisition of 15% of Aegon s voting shares, a tender offer for Aegon s shares or a proposed business combination by any person or group of persons, whether individually or as a group, other than in a transaction approved by the Executive Board and Supervisory Board), Vereniging Aegon will be entitled to exercise its full voting rights of 25/12 votes per preferred share for up to six months per special cause , thus increasing its current voting rights to 32.64%.

Threshold above which shareholder ownership must be disclosed

There are no such provisions in the Articles of Association. Dutch law requires public disclosure to an Authority for Financial Markets with respect to the ownership of listed shares when the following thresholds are met: 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%.

Material differences between Dutch law and US law with respect to the items above

Reference is made to the paragraph Differences in company law practices for domestic companies included in the Corporate Governance section.

Special Conditions Governing Changes in the Capital

There are no conditions more stringent than what is required by law.

Material contracts

There are no material contracts.

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European Commission approval of State support

In August 2010 the European Commission approved the capital support obtained from the Dutch State at the height of the global financial crisis. The Commission gave its approval for the state support, but imposed a number of conditions on the company, which will remain in place until the support is fully repaid. These conditions include both structural measures and temporary behavioral constraints.

The behavioral constraints expired with the full repurchase of the core capital securities and repayment of the Dutch State on June 15, 2011. The structural measures that remained in force throughout 2012 include a reduction of the total U.S. general account assets, full delta hedging of the U.S. variable annuity guaranteed minimum income benefit back book, improvement of the ratio of consolidated shareholders equity to total equity base to at least 75% by December 2012 and acceleration of the run-off of certain portfolios, and selling or putting into run-off Aegon s U.K. bulk purchase annuity business.

Exchange controls

There are no legislative or other legal provisions currently in force in the Netherlands or arising under Aegon s Articles of Association restricting remittances to holders of Aegon s securities that are not resident in the Netherlands. Cash dividends payable in euros on Aegon s common shares may be officially transferred from the Netherlands and converted into any other convertible currency.

Taxation

I Certain Netherlands tax consequences for holders of shares

The following section outlines certain material Netherlands tax consequences of the acquisition, holding, redemption and disposal of Aegon common shares, but does not purport to be a comprehensive description of all Netherlands tax considerations that may be relevant. This section is intended as general information only and each prospective investor should consult a professional tax adviser with respect to the tax consequences of an investment in Aegon common shares.

This section is based on tax legislation, published case law, treaties, regulations and published policy, in each case as in force as of the date hereof, and it does not take into account any developments or amendments thereof after that date whether or not such developments or amendments have retroactive effect.

This section does not address the Netherlands tax consequences for:

i. Investment institutions *(fiscale beleggingsinstellingen)*;
ii. pension funds, exempt investment institutions *(vrijgestelde beleggingsinstellingen)* or other entities that are exempt from Netherlands corporate income tax;
iii. corporate holders of Aegon common shares, the shareholding of which qualifies for the participation exemption *(deelnemingsvrijstelling)* of the Netherlands corporate income tax act 1969 *(Wet op de vennootschapsbelasting 1969)*. Generally speaking, a shareholding is considered to qualify as a participation for the participation exemption if it represents an interest of 5% or more of the nominal paid-up share capital;
i. holders of Aegon common shares holding a substantial interest *(aanmerkelijk belang)* or deemed substantial interest *(fictief aanmerkelijk belang)* in Aegon and holders of Aegon common shares of whom a certain related person holds a substantial interest in Aegon. Generally speaking, a substantial interest in Aegon arises if a person, alone or, where such person is an individual, together with his or her partner (statutory defined term), directly or indirectly, holds or is deemed to hold (i) an interest of 5% or more of the total of capital issued by Aegon or of 5% or more of the issued capital of a certain class of Aegon shares, (ii) rights to acquire, directly or indirectly, such interest or (iii) certain profit sharing rights in Aegon;
ii. persons to whom the beneficial interest in Aegon common shares is attributed based on the separated private assets *(afgezonderd particulier vermogen)* provisions of the Netherlands income tax act 2001 *(Wet inkomstenbelasting 2001)*;
iii. entities which are a resident of Aruba, Curacao or Sint Maarten that have an enterprise which is carried on through a permanent establishment or a permanent representative on Bonaire, Sint Eustatius or Saba, to which permanent establishment or permanent representative the Aegon common shares are attributable;
iv. holders of Aegon common shares which are not considered the beneficial owner *(uiteindelijk gerechtigde)* of these shares or of the benefits derived from or realised in respect of the Aegon common shares; and
v. individuals to whom Aegon common shares or the income therefrom are attributable to employment activities which are taxed as employment income in the Netherlands.

Where this section refers to the Netherlands, such reference is restricted to the part of the Kingdom of the Netherlands that is situated in Europe and the legislation applicable in that part of the Kingdom.

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Dividend Tax

Withholding requirement

Aegon is required to withhold 15% Netherlands dividend tax in respect of dividends paid on its common shares. In the Netherlands Dividend Tax Act 1965 *(Wet op de dividendbelasting 1965)*, dividends are defined as the proceeds from shares, which include:

i. proceeds in cash or in kind including direct or indirect distributions of profit;
ii. liquidation proceeds, proceeds on redemption of Aegon common shares and, as a rule, the consideration for the repurchase of its own common shares by Aegon in excess of the average paid-in capital recognised for Netherlands dividend tax purposes, unless a particular statutory exemption applies;
iii. the par value of new common shares issued to a holder of Aegon common shares or an increase of the par value of Aegon common shares, except when the (increase in the) par value of Aegon common shares is funded out of its paid-in capital as recognised for Netherlands dividend tax purposes; and
iv. partial repayments of paid-in capital recognised for Netherlands dividend tax purposes, if and to the extent there are qualifying profits (zuivere winst), unless Aegon s general meeting of the shareholders has resolved in advance to make such repayment and provided that the nominal value of Aegon common shares concerned has been reduced by an equal amount by way of an amendment of the articles of association.

Residents of the Netherlands

If a holder of Aegon common shares is a resident of the Netherlands, or deemed to be a resident of the Netherlands for Netherlands corporate or individual income tax purposes, dividend tax which is withheld with respect to proceeds from Aegon common shares will generally be creditable for Netherlands corporate income tax or Netherlands income tax purposes.

Non-residents of the Netherlands

If a holder of Aegon common shares is a resident of a country other than the Netherlands and if a treaty for the avoidance of double taxation with respect to taxes on income is in effect between the Netherlands and that country, and such holder is a resident for the purposes of such treaty, such holder may, depending on the terms of that particular treaty, qualify for full or partial relief at source or for a refund in whole or in part of the Netherlands dividend tax. A refund of the Netherlands dividend tax is available to entities resident in another EU member state, Norway, Iceland, or Liechtenstein if (i) these entities are not subject to corporate income tax there and (ii) these entities would not be subject to Netherlands corporate income tax, if these entities would be tax resident in the Netherlands for corporate income tax purposes and (iii) these entities are not comparable to investment institutions *(fiscale beleggingsinstellingen)* or exempt investment institutions *(vrijgestelde beleggingsinstellingen)*. Furthermore, a similar refund of Netherlands dividend tax may be available to entities resident in other countries, under the additional condition that (i) the Aegon common shares are considered portfolio investments and (ii) the Netherlands can exchange information with this other country in line with the international standards for the exchange of information.

US-residents

Residents of the United States that qualify for, and comply with the procedures for claiming benefits under, the Convention between the Kingdom of the Netherlands and the United States of America for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income 1992 (*the US/NL Income Tax Treaty*) may, under various specified conditions, be eligible for a reduction of Netherlands dividend withholding tax rate from 15% to 5% if the resident of the United States is a company which holds directly at least 10% voting power in Aegon. The US/NL Income Tax Treaty provides, subject to certain conditions, for a complete exemption from, or refund of, Netherlands dividend withholding tax for dividends received by exempt pension trusts and exempt organizations, as defined therein.

Beneficial Owner

A recipient of proceeds from Aegon common shares will not be entitled to any exemption, reduction, refund or credit of Netherlands dividend tax if such recipient is not considered to be the beneficial owner of such proceeds. The recipient will not be considered the beneficial owner of these proceeds, if, in connection with such proceeds, the recipient has paid a consideration as part of a series of transactions in respect of which it is likely:

a. that the proceeds have in whole or in part accumulated, directly or indirectly, to a person or legal entity that would: - as opposed to the recipient paying the consideration, not be entitled to an exemption from dividend tax; or - in comparison to the recipient paying the consideration, to a lesser extent be entitled to a reduction or refund of dividend tax; and
b. that such person or legal entity has, directly or indirectly, retained or acquired an interest in Aegon common shares or in profit-sharing certificates or loans, comparable to the interest it had in similar instruments prior to the series of transactions being initiated.

Netherlands Withholding Tax upon Redistribution of Foreign Dividends

Aegon must transfer to the Dutch tax authorities all Netherlands dividend withholding tax it withholds on dividends it distributed with respect to the Aegon common shares. Provided certain conditions are met, Aegon may apply a reduction with respect to the withholding tax that it has to pay over to the Dutch tax authorities. This reduction can be applied if Aegon distributes dividends that stem from dividends Aegon itself has received from certain qualifying non-Netherlands subsidiaries, provided these dividends received by Aegon are exempt from Dutch corporate income tax and were subject to withholding tax of at least 5% upon distribution to Aegon. The reduction is applied to the Netherlands dividend tax that Aegon must pay to the Netherlands tax authorities and not to the amount of the Netherlands dividend tax that Aegon must withhold. The reduction is equal to the lesser of:

i. 3% of the amount of the dividends distributed by Aegon that are subject to withholding tax; and
ii. 3% of the gross amount of the dividends received during a certain period from the qualifying non-Netherlands subsidiaries.

Corporate and Individual Income Tax

Residents of the Netherlands

If a holder of Aegon common shares is a resident or deemed to be a resident of the Netherlands for Netherlands corporate income tax purposes and is fully subject to Netherlands corporate income tax or is only subject to Netherlands corporate income tax in respect of an enterprise to which Aegon common shares are attributable, income derived from Aegon common shares and gains realised upon the redemption or disposal of Aegon common shares are generally taxable in the Netherlands (at up to a maximum rate of 25%) under the Netherlands corporate income tax act 1969 *(Wet op de vennootschapsbelasting 1969)*.

If an individual is a resident or deemed to be a resident of the Netherlands for Netherlands individual income tax purposes (including an individual who has opted to be taxed as a resident of the Netherlands), income derived from Aegon common shares and gains realised upon the redemption or disposal of Aegon common shares are taxable at the progressive rates (at up to a maximum rate of 52%) under the Netherlands income tax act 2001 *(Wet inkomstenbelasting 2001)* if:

i. the individual is an entrepreneur *(ondernemer)* and has an enterprise to which Aegon common shares are attributable or the individual has, other than as a shareholder, a co-entitlement to the net worth of an enterprise *(medegerechtigde)*, to which enterprise Aegon common shares are attributable; or
ii. such income or gains qualify as income from miscellaneous activities *(resultaat uit overige werkzaamheden)*, which include but are not limited to the performance of activities with respect to Aegon common shares that exceed regular, active portfolio management *(normaal, actief vermogensbeheer)*.

If neither condition (i) nor condition (ii) above applies to an individual that holds Aegon common shares, such individual must determine taxable income with regard to Aegon common shares on the basis of a deemed return on income from savings and investments *(sparen en beleggen)*, rather than on the basis of income actually received or gains actually realised. This deemed return on income from savings and investments has been fixed at a rate of 4% of the individual s yield basis *(rendementsgrondslag)* at the beginning of the calendar year, insofar as the individual s yield basis exceeds a certain threshold. The individual s yield basis is determined as the fair market value of certain qualifying assets held by the holder of Aegon common shares less the fair market value of certain qualifying liabilities on 1 January. The fair market value of Aegon common shares will be included as an asset in the individual s yield basis. The 4% deemed return on income from savings and investments is taxed at a rate of 30%.

Non-residents of the Netherlands

If a person is neither a resident nor is deemed to be a resident of the Netherlands for Netherlands corporate or individual income tax purposes (nor has opted to be taxed as a resident of the Netherlands for individual income tax purposes), such person is not subject to Netherlands income tax in respect of income derived from Aegon common shares and gains realised upon the redemption or disposal of Aegon common shares, except if:

i. the person is not an individual and (1) has an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which permanent establishment or a permanent representative Aegon common shares are attributable, or (2) is (other than by way of securities) entitled to a share in the profits of an enterprise or a co-entitlement to the net worth of an enterprise, which is effectively managed in the Netherlands and to which enterprise Aegon common shares are attributable. This income and these gains are subject to Netherlands corporate income tax at up to a maximum rate of 25%.
ii. the person is an individual that (1) has an enterprise or an interest in an enterprise that is, in whole or in part, carried on through a permanent establishment or a permanent representative in the Netherlands to which permanent establishment or permanent representative Aegon common shares are attributable, or (2) realises income or gains with respect to Aegon common shares that qualify as income from miscellaneous activities *(resultaat uit overige werkzaamheden)* in the Netherlands which includes activities with respect to Aegon common shares that exceed regular, active portfolio management *(normaal, actief vermogensbeheer)*, or (3)

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is (other than by way of securities) entitled to a share in the profits of an enterprise that is effectively managed in the Netherlands and to which enterprise Aegon common shares are attributable. Income and gains derived from Aegon common shares as specified under (1) and (2) by an individual are subject to individual income tax at up to a maximum rate of 52%. Income derived from a share in the profits of an enterprise as specified under (3) that is not already included under (1) or (2) will be taxed on the basis of a deemed return on income from savings and investments (as described above under Residents of the Netherlands). The fair market value of the share in the profits of the enterprise (which includes Aegon common shares) will be part of the individual s Netherlands yield basis.

Gift and Inheritance Tax

Residents of the Netherlands

Generally, gift tax *(schenkbelasting)* or inheritance tax *(erfbelasting)* will be due in the Netherlands in respect of the acquisition of Aegon common shares by way of a gift by, or on behalf of, or on the death of, a holder of Aegon common shares that is a resident or deemed to be a resident of the Netherlands for the purposes of Netherlands Gift and Inheritance Tax Act 1956 *(Successiewet 1956)* at the time of the gift or his or her death. A gift made under a condition precedent is for the purposes of Netherlands Gift and Inheritance Tax Act 1956 deemed to be made at the time the condition precedent is fulfilled and is subject to gift tax if the donor is, or is deemed to be a resident of the Netherlands at that time.

A holder of Netherlands nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands Gift and Inheritance Tax Act 1956 if he or she has been resident in the Netherlands and dies or makes a gift within ten years after leaving the Netherlands. A holder of any other nationality is deemed to be a resident of the Netherlands for the purposes of the Netherlands Gift and Inheritance Tax Act 1956 if he or she has been resident in the Netherlands and makes a gift within a twelve months period after leaving the Netherlands. The same twelve-month rule may apply to entities that have transferred their seat of residence out of the Netherlands.

Non-residents of the Netherlands

No gift or inheritance tax will arise in the Netherlands in respect of the acquisition of Aegon common shares by way of a gift by, or as a result of, the death of, a holder that is neither a resident nor deemed to be a resident of the Netherlands for the purposes of Netherlands Gift and Inheritance Tax Act 1956, However, inheritance tax will be due in the case of a gift of Aegon common shares by, or on behalf of, a holder who at the date of the gift was neither a resident nor deemed to be a resident of the Netherlands for the purposes of the Netherlands Gift and Inheritance Tax Act 1956, but such holder dies within 180 days after the date of the gift, and at the time of his or her death is a resident or deemed to be a resident of the Netherlands for the purposes of the Netherlands Gift and Inheritance Tax Act 1956. A gift made under a condition precedent is deemed to be made at the time the condition precedent is fulfilled.

Value Added Tax

In general, no value added tax will arise in respect of payments in consideration for the issue of Aegon common shares or in respect of a cash payment made under Aegon common shares, or in respect of a transfer of Aegon common shares.

Other Taxes and Duties

No registration tax, customs duty, transfer tax, stamp duty, capital tax or any other similar documentary tax or duty will be payable in the Netherlands by a holder of Aegon common shares in respect of or in connection with the subscription, issue, placement, allotment, delivery or transfer of the Aegon common shares.

ii Taxation in the United States

This section describes certain US Federal income tax consequences to beneficial holders of common shares that are held as capital assets. This section does not address all US Federal income tax matters that may be relevant to a particular holder. Each investor should consult their tax advisor with respect to the tax consequences of an investment in the common shares. This section does not address tax considerations for holders of common shares subject to special tax rules including, without limitation, the following:

- ¿ Financial institutions;
- ¿ Insurance companies;
- ¿ Dealers or traders in securities or currencies;
- ¿ Tax-exempt entities;
- ¿ Regulated investment companies;
- ¿ Persons that will hold the common shares as part of a hedging or conversion transaction or as a position in a straddle or as part of a synthetic security or other integrated transaction for US Federal income tax purposes;

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- ¿ Holders that own (or are deemed to own for US Federal income tax purposes) 10% or more of the voting shares of Aegon;
- ¿ Partnerships or pass-through entities or persons who hold common shares through partnerships or other pass-through entities; and
- ¿ Holders that have a functional currency other than the US dollar.

Further, this section does not address alternative minimum tax consequences or the indirect effects on the holders of equity interests in a holder of common shares. This section also does not describe any tax consequences arising under the laws of any taxing jurisdiction other than the Federal income tax laws of the US Federal government.

This section is based on the US Internal Revenue Code of 1986, as amended, US Treasury regulations and judicial and administrative interpretations, in each case as in effect and available on the date of this Annual Report. All of the foregoing is subject to change, which change could apply retroactively and could affect the tax consequences described below.

For the purposes of this section, a US holder is a beneficial owner of common shares that is, for US Federal income tax purposes:

- ¿ A citizen or individual resident of the United States;
- ¿ A corporation created or organized in or under the laws of the United States or any state of the United States (including the District of Columbia);
- ¿ An estate, the income of which is subject to US Federal income taxation regardless of its source; or
- ¿ A trust, if a court within the United States is able to exercise primary supervision over its administration and one or more US persons have the authority to control all of the substantial decisions of such trust.

A non-US holder is a beneficial owner of common shares that is not a US holder.

Tax Consequences to US Holders

Distributions

The gross amount of any distribution (including any amounts withheld in respect of Dutch withholding tax) actually or constructively received by a US holder with respect to common shares will be taxable to the US holder as a dividend to the extent of Aegon s current and accumulated earnings and profits as determined under US Federal income tax principles. Such dividends will not qualify for the dividends received deduction otherwise allowable to corporations. Distributions in excess of current and accumulated earnings and profits are treated under US tax law as non-taxable return of capital to the extent of the US holder s adjusted tax basis in the common shares. Distributions in excess of earnings and profits and such adjusted tax basis will generally be taxable to the US holder as capital gain from the sale or exchange of property. However, Aegon does not maintain calculations of its earnings and profits under US Federal income tax principles. Therefore, US holders of Aegon shares will generally be taxed on all distributions as dividends, even if some portion of the distributions might otherwise be treated as a non-taxable return of capital or as capital gain if the amount of US earnings and profits was known. The amount of any distribution of property other than cash will be the fair market value of that property on the date of distribution.

Certain qualified dividend income received by individual US holders is taxed at a maximum income tax rate of 15% in 2012 and 20% in 2013 and subsequent years. Only dividends received from US corporations or from a qualified foreign corporation and on shares held by an individual US holder for a minimum holding period (generally, 61 days during the 121-day period beginning 60 days before the ex-dividend date) can qualify for this reduced rate. Aegon is eligible for benefits under the comprehensive income tax treaty between the Netherlands and the US; therefore, Aegon should be considered a qualified foreign corporation for this purpose. Accordingly, dividends paid by Aegon to individual US holders on shares held for the minimum holding period may qualify for a reduced income tax rate. Each US holder should consult their tax advisor regarding the applicable tax rate.

Distributions paid in currency other than US dollars (a foreign currency), including the amount of any withholding tax thereon, must be included in the gross income of a US holder in an amount equal to the US dollar value of the foreign currency calculated by reference to the exchange rate in effect on the date of receipt. This is the case regardless of whether the foreign currency is converted into US dollars. If the foreign currency is converted into US dollars on the date of receipt, a US holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend. If the foreign currency received in the distribution is not converted into US dollars on the date of receipt, a US holder will have a basis in the foreign currency equal to its US dollar value on the date of receipt. Any gain or loss on a subsequent conversion or other disposition of the foreign currency will be treated as ordinary income or loss.

Dividends received by a US holder with respect to common shares will be treated as foreign source income for foreign tax credit limitation purposes. Subject to certain conditions and limitations, any Dutch income tax withheld on dividends may be deducted from

taxable income or credited against a US holder s Federal income tax liability. The limitation on foreign taxes eligible for the US foreign tax credit is calculated separately with respect to passive category income and general category income . Dividends distributed by Aegon generally will constitute passive category income , or, in the case of certain US holders, financial services income , which is treated as general category income. Each US holder should consult their tax advisor regarding the availability of the foreign tax credit under their particular circumstances.

The amount of the qualified dividend income paid by Aegon to a US holder that is subject to the reduced dividend income tax rate and that is taken into account for purposes of calculating the US holder s US foreign tax credit limitation must be reduced by the rate differential portion of such dividend (which, assuming a US holder is in the highest income tax bracket, would generally require a reduction of the dividend amount by approximately 57.14% in 2012 and 49.49% in 2013 and subsequent years). Each US holder should consult their tax advisor regarding the implications of the rules relating to qualified dividend income on the calculation of US foreign tax credits under their particular circumstances.

In general, upon making a distribution to shareholders, Aegon is required to remit all Dutch dividend withholding taxes to the Dutch tax authorities The full amount of the taxes so withheld should (subject to certain limitations and conditions) be eligible for the US holder s foreign tax deduction or credit as described above. Investors are urged to consult their tax advisors regarding the general creditability or deductibility of Dutch withholding taxes.

Aegon generally affords shareholders an option to receive dividend distributions in cash or in stock. A distribution of additional common shares to US holders with respect to their common shares that is made pursuant to such an election will generally be taxable in the same manner as a cash dividend under the rules described above.

Sale or Other Disposition of Shares

Upon the sale or exchange of common shares, a US holder will generally recognize gain or loss for US Federal income tax purposes on the difference between the US dollar value of the amount realized from such sale or exchange and the tax basis in those common shares. This gain or loss will be a capital gain or loss and will generally be treated as from sources within the United States. Investors should consult their tax advisors with respect to the treatment of capital gains (which may be taxed at lower rates than ordinary income for taxpayers who are individuals, trusts or estates that have held the common shares for more than one year) and capital losses (the deductibility of which is subject to limitations).

If a US holder receives foreign currency upon a sale or exchange of common shares, gain or loss, if any, recognized on the subsequent sale, conversion or disposition of such foreign currency will be ordinary income or loss, and will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. However, if such foreign currency is converted into US dollars on the date received by the US holder, the US holder generally should not be required to recognize any gain or loss on such conversion.

Passive Foreign Investment Company Considerations

Based on the nature of Aegon s gross income, the average value of Aegon s gross assets, and the active conduct of Aegon s insurance business, Aegon does not believe that it could be classified as a Passive Foreign Investment Company (PFIC). If Aegon were treated as a PFIC in any year during which a US holder owns common shares, certain adverse tax consequences could apply. Investors should consult their tax advisors with respect to any PFIC considerations.

Tax Consequences to Non-US Holders

A non-US holder generally will not be subject to US Federal income tax on dividends received on common shares or on any gain realized on the sale or exchange of common shares unless the gain is connected with a trade or business that the non-US holder conducts in the United States or unless the non-US holder is an individual, such holder was present in the United States for at least 183 days during the year in which such holder disposes of the common shares, and certain other conditions are satisfied. Non-US holders should consult their tax advisors with respect to the US Federal income tax consequences of dividends received on, and any gain realized from the sale or exchange of, the common shares.

Backup Withholding and Information Reporting

Backup withholding and information reporting requirements may apply to certain payments on the common shares and to proceeds of a sale or redemption of the common shares to US holders made within the United States. Aegon, its agent, a broker, or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding if a US holder fails to furnish the US holder s taxpayer identification number, fails to certify that such US holder is not subject to backup withholding, or fails

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to otherwise comply with the applicable requirements of the backup withholding rules. Certain US holders are not subject to the backup withholding and information reporting requirements.

Non-US holders that provide the required tax certifications of exempt or foreign status will generally be exempt from US information reporting requirements and backup withholding. However, sales proceeds a non-US holder receives on a sale of common shares through a broker may be subject to information reporting and backup withholding if the non-US holder is not eligible for an exemption.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a US holder or a non-US holder generally may be claimed as a credit against such holder s US Federal income tax liability provided that the required information is furnished to the US Internal Revenue Service. Investors should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption. Non-US holders should consult their tax advisors concerning the applicability of the information reporting and backup withholding rules.

Individual US holders may be required to report to the IRS certain information with respect to their beneficial ownership of certain foreign financial assets, such as the common shares, if the aggregate value of such assets exceeds USD 50,000 and the assets are not held through a US financial institution. US holders who fail to report required information could be subject to substantial penalties. Prospective investors should consult their own tax advisors concerning the application of the information reporting rules to their particular circumstances.

Principal accountant fees and services

Ernst & Young Accountants has served as Aegon s independent public accountant for each of the fiscal years in the three-year period ended December 31, 2012, for which audited financial statements appear in this Annual Report.

The following table presents the aggregate fees for professional services and other services rendered by Ernst & Young Accountants to Aegon in 2012, 2011 and 2010.

Fees Ernst & Young

In million EUR	2012	2011	2010
Audit Fees	19	22	24
Audit Related Fees	7	6	2
Tax Fees	-	-	-
All Other Fees	-	1	-
	26	29	26

Audit fees consist of fees billed for the annual financial statement audit (including required quarterly reviews), subsidiary audits, equity investment audits and other procedures required to be performed by the independent auditor to be able to form an opinion on Aegon s consolidated financial statements. These other procedures include information systems and procedural reviews and testing performed in order to understand and place reliance on the systems of internal control, and consultations relating to the audit or quarterly review. They also include fees billed for other audit services, which are those services that only the external auditor reasonably can provide, and include statutory audits or financial audits for subsidiaries or affiliates of the company and services associated with SEC registration statements, periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings.

Audit-related fees consist of fees billed for audit-related services including assurance and related services that are reasonably related to the performance of the audit or review of Aegon s financial statements or that are traditionally performed by the independent auditor. Audit-related services include, among others, assurance services to report on internal controls for third parties, due diligence services pertaining to potential business acquisitions/dispositions; accounting consultations related to accounting, financial reporting or disclosure matters not classified as Audit services ; assistance with understanding and implementing new accounting and financial reporting guidance from rulemaking authorities; financial audits of employee benefit plans; agreed-upon or expanded audit procedures related to accounting and/or billing records required to respond to or comply with financial, accounting or regulatory reporting matters; and assistance with internal control reporting requirements.

Tax fees include fees billed for tax compliance.

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All other fees include fees billed for permissible non-audit services that Aegon believes are routine and recurring services, would not impair the independence of the auditor and are consistent with the SEC s rules on auditor independence.

Audit Committee Pre-approval Policies and Procedures

Aegon s Audit Committee is responsible, among other matters, for the oversight of the external auditor. The Audit Committee has adopted a policy regarding pre-approval of audit and permissible non-audit services provided by Aegon s independent auditors (the Pre-approval Policy).

Under the Pre-approval Policy, proposed services either

- ¿ May be pre-approved by the Audit Committee without consideration of specific case-by-case services (general pre-approval); or
- ¿ Require the specific pre-approval of the Audit Committee (specific pre-approval). Appendices to the Pre-approval Policy (that are adopted each year) set out the audit, audit-related, tax and other services that have received general pre-approval of the Audit Committee. All other audit, audit-related, tax and other services must receive specific pre-approval from the Audit Committee.

For the period 2010 to 2012, all services provided to Aegon by Ernst & Young Accountants were pre-approved by the Audit Committee in accordance with the Pre-approval Policy.

Purchases of equity securities by the issuer and affiliated purchasers

Period	Total number of shares purchased [1]	Average price paid per share in EUR	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs at end of month
January 1 - 31, 2012	14,156	3.83	-	-
February 1 - 29, 2012	13,765	3.79	-	-
March 1 - 31, 2012	8,547	4.58	-	-
April 1 - 30, 2012	14,963	3.83	-	-
May 1 - 31, 2012	15,477	3.10	-	-
June 1 - 30, 2012	15,323	3.11	-	-
July 1 - 31, 2012	15,222	4.01	-	-
August 1 - 31, 2012	11,931	4.06	-	-
September 1 - 30, 2012	10,320	4.77	-	-
October 1 - 31, 2012	9,436	4.69	-	-
November 1 - 30, 2012	7,932	3.91	-	-
December 1 - 31, 2012	6,193	4.62	-	-
Total	**143,265**		**-**	**-**

[1] The shares have been purchased as part of a share purchase program, to neutralize the dilution effect of issued stock dividends and to hedge Aegon s obligations under its employee stock appreciation plans and other agent related incentive programs. Excluding Aegon shares purchased by index funds controlled by Aegon. Such purchases are made to the extent necessary to maintain a basket of securities within the relevant fund reflecting the underlying index.

Documents on display

Aegon files annual reports with and furnishes other information to the Securities and Exchange Commission. You may read and copy any document filed with or furnished to the SEC by Aegon at the SEC s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Aegon s SEC filings are also available to the public through the SEC s web site at www.sec.gov. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room in Washington D.C. and in other locations.

The SEC allows Aegon to incorporate by reference information into this Annual Report on Form 20-F, which means that:

1. Incorporated documents are considered part of this Annual Report on Form 20-F; and
2. Aegon can disclose important information to you by referring you to those documents.

Those documents contain important information about Aegon and its financial condition. You may obtain copies of those documents in the manner described above. You may also request a copy of those documents (excluding exhibits) at no cost by contacting us (refer to page 337)

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Glossary

Acquisition date is the date on which the acquirer effectively obtains control of the acquiree. In most cases this includes at least the transfer of risks and rewards related to the acquired business or assets/liabilities.

Actuarial funding enables a life insurance company to reduce the size of the unit reserves it holds for unit linked business to reflect some or all of the unit-linked charges it expects to receive in the future from the units nominally allocated. Actuarial funding is used on those contracts that have surrender penalties and the company will hold a minimum of the surrender value at all times.

Actuarial gains and losses relate to the accounting for post-employment benefit plans. They comprise the effects of experience adjustments and changes in assumptions used to determine the cost of a plan.

Alt-A mortgages relates to a type of US residential mortgage which are securitized home equity loans. Typical Alt-A borrower has a credit score high enough to obtain an: A standing. Alt- A mortgages are primarily backed by loans with fixed interest rates for the entire term of the loan.

Amortized cost is the amount at which the financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Asset Backed Securities (ABS) are securities whose value and income payments are derived from and collateralized (or backed) by a specified pool of underlying assets.

Assets held by long-term employee benefit funds are part of plan assets. These are assets (other than non-transferable financial instruments issued by the reporting entity) that:

- ¿ Are held by an entity that is legally separate from the reporting entity and exists solely to pay or fund employee benefits; and
- ¿ Are available to be used only to pay or fund employee benefits and are not available to the reporting entity s own creditors.

Bifurcation is the measurement and presentation of embedded derivatives separate from the host contracts, as if they were stand-alone derivative financial instruments.

Binomial option pricing model uses a binomial lattice that represents possible paths that might be followed by the underlying asset s price over the life of the option, for a given

number of time steps between valuation date and option expiration. Each node in the lattice represents a possible price of the underlying asset, at a particular point in time. The valuation process is iterative; it starts at each final node and then works backwards through the lattice to the first node, which is the valuation date, where the calculated result is the value of the option.

Business combination is the bringing together of separate entities or operations of entities into one reporting entity. This can be realized through a purchase transaction or by means of a merger. A business combination involving entities (or operations of entities) under common control is a business combination in which all of the combining entities (or operations of entities) ultimately are controlled by the same party or parties both before and after the combination, and that control is not transitory.

Capitalization is the recognition of a cost as part of the cost of an asset on the statement of financial position.

Cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cedant is the policyholder under a reinsurance contract.

Claims settlement expenses are costs incurred in settling a claim. These costs include internal administration and payout costs, but also such items as attorney s fees and investigation expenses.

Collateral is an asset pledged by a borrower to secure a loan and is subject to seizure in the case of default.

Collateralized Debt Obligation (CDO) is **a** type of asset-backed security which provides investors exposure to the credit risk of a pool of fixed income assets.

Collateralized Loan Obligation (CLO) is a type of CDO which is backed primarily by leveraged loans.

Commercial Mortgage Backed Securities (CMBS) is a type of mortgage-backed security that is secured by the loan on a commercial property.

Compound financial instruments are financial instruments that, from the issuer s perspective, contain both a liability and an equity element.

Constructive obligation is an obligation that derives from an entity s actions whereby an established pattern of past practice, published policies or a sufficiently specific current statement,

the entity has indicated to other parties that it will accept certain responsibilities, and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Currency exchange rate risk is a market risk, namely the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Deferred tax assets are amounts of income taxes recoverable in future periods in respect of deductible temporary differences; the carryforward of unused tax losses; and the carryforward of unused tax credits.

Deferred tax liabilities are amounts of income taxes payable in future periods in respect of taxable temporary differences.

Defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Deferred Policy Acquisition Cost (DPAC) - are the variable costs related to the acquisition or renewal of insurance contracts and investment contracts with discretionary participation features.

Deposit accounting method includes amounts charged and paid to customers directly into the financial liability and not through the income statement as premium income and claims.

Derecognition is the removal of a previously recognized asset or financial liability from an entity s statement of financial position.

Derivatives are financial instruments whose value changes in response to an underlying variable, that require little or no net initial investment and are settled at a future date.

Discretionary participation feature is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

¿ That are likely to be a significant portion of the total contractual benefits;
¿ Whose amount or timing is contractually at the discretion of the issuer; and
That are contractually based on:

¿ The performance of a specified pool of contracts or a specified type of contract;
¿ Realized and/or unrealized investment returns on a specified pool of assets held by the issuer; or
¿ The profit or loss of the company, fund or other entity that issues the contract.

Effective interest rate method is a method of calculating the amortized cost of a financial asset or liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

Embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a derivative.

Equity instruments are financial instruments issued by the Group that are classified as equity if they evidence a residual interest in the assets of the Group after deducting all of its liabilities.

Equity method is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor s share of net assets of the investee. The profit or loss of the investor includes the investor s share of the profit or loss of the investee.

Equity volatility is the relative rate at which the price of equity changes.

Exchange differences are differences resulting from translating a given number of units of one currency into another currency at different exchange rates.

Finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset.

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Financial asset is any asset that is:

- ¿ Cash;
- ¿ An equity instrument of another entity;
- ¿ A contractual right to receive cash or another financial asset from another entity or to exchange financial instruments with another party under conditions that are potentially favorable; or
- ¿ A contract that will or may be settled in the entity s own equity instruments; and is
- ¿ A non-derivative for which the entity is or may be obliged to receive a variable number of the entity s own equity instruments; or
- ¿ A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity s own equity instruments.

Financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial liability is any liability that is:

- ¿ A contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or
- ¿ A contract that will or may be settled in the entity s own equity instruments; and is
- ¿ A non-derivative for which the entity is or may be obliged to deliver a variable number of the entity s own equity instruments; or
- ¿ A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity s own equity instruments.

Financial risks are risks of a possible future change in one or more of the following variables: a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index or prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable, that the variable is not specific to a party to the contract.

Firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

Foreign currency is a currency other than the functional currency of an entity within the Group.

Foreign operation is an entity that is a subsidiary, associate, joint venture or branch of a reporting entity within the Group, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

Functional currency is the currency of the primary economic environment in which an entity within the Group operates.

General account investments are investments of which the financial risks are not borne by the policyholder.

Goodwill is the amount of future economic benefits arising from assets that are not capable of being individually identified and separately recognized as an asset in a business combination.

Guaranteed benefits are payments or other benefits to which a particular policyholder or investor has an unconditional right that is not subject to the contractual discretion of the issuer.

Hedge effectiveness is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.

Incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of a financial instrument.

Insurance asset is an insurer s contractual right under an insurance contract.

Insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

Insurance liability is an insurer s contractual obligation under an insurance contract.

Insurance risk is a risk, other than financial risk, transferred from the holder of a contract to the issuer.

Interest rate risk is a market risk, namely the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Joint control is the contractually agreed sharing of control over an economic activity, which exists when the strategic and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Liability adequacy testing is an assessment of whether the carrying amount of an insurance liability needs to be increased (or the carrying amount of related deferred acquisition costs or related intangible assets decreased) based on a review of future cash flows.

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments.

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Master netting agreement is an agreement providing for an entity that undertakes a number of financial instrument transactions with a single counterparty to make a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any contract.

Negative amortization mortgages are loans whereby the payment made by the borrower may be less than the accrued interest due and the difference is added to the loan balance. When the accrued balance of the loan reaches the negative amortization limit (typically 110% to 125% of the original loan amount), the loan recalibrates to a fully amortizing level and a new minimum payment amount is determined.

Non-controlling interests are that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.

Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

Monoline insurer is an insurance company which issues types of insurance for securities and bonds to cover the interest and principal when an issuer defaults.

Onerous contracts are contracts in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Operating expenses are all expenses associated with selling and administrative activities (excluding commissions) after reallocation of claim handling expenses to benefits paid.

Past service cost is the increase in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits.

Plan assets are assets held by a long-term employee benefit fund and qualifying insurance policies.

Policy acquisition costs are the expenses incurred in soliciting and placing new business as well as renewal of existing business. It includes agent s commissions, underwriting expenses, medical and credit report fees, marketing expenses and all other direct and indirect expenses of the departments involved in such activities.

Policyholder is a party that has a right to compensation under an insurance contract if an insured event occurs.

Presentation currency is the currency in which the financial statements are presented.

Price risk is a market risk, namely the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

Private loan is a non-derivative financial asset with a fixed interest rate and a maturity date, which is not bought in an active market but negotiated between the two parties involved. Private loans are not embodied in securities. When a private loan takes the form of a private placement of bonds or other investments directly to an institutional investor like an insurance company, it has more the character of a bond loan and such financial instruments are classified as available-for-sale investments rather than as loans and receivables.

Projected unit credit method is an actuarial valuation method that sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Qualifying insurance policies are a component of plan assets. These are insurance policies issued by an insurer that is not a related party of the reporting entity, if the proceeds of the policies:

- Can be used only to pay or fund employee benefits under a defined benefit plan; and
- Are not available to the reporting entity s own creditors.

Real estate investments foreclosed are real estate investments purchased through foreclosure on the mortgage. Such purchases are not accounted for as mortgages, but as real estate investments until they can be sold at a better price than at the foreclosure. Meanwhile they yield a rental income.

Realizable value is the amount of cash or cash equivalents that could currently be obtained by selling an asset in an orderly disposal.

Recognition is the process of incorporating in the statement of financial position or income statement an item that meets the definition of an element and satisfies the following criteria for recognition:

- It is probable that any future economic benefit associated with the item will flow to or from the entity; and
- The item has a cost or value that can be measured with reliability.

Reinsurance assets are a cedant s net contractual rights under a reinsurance contract.

Reinsurance contract is an insurance contract issued by one insurer to compensate another insurer for losses on one or more contracts issued by the cedant.

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Renewal of a contract is when a policyholder takes whatever action is required, typically payment of a premium, in order to maintain benefits under the contract.

Repurchase agreement is a sale of securities with an agreement to buy back the securities at a specified time and price.

Residential Mortgage Backed Security (RMBS) is an asset-backed security that is secured by a mortgage or collection of mortgages.

Return on plan assets is the investment income derived from plan assets, together with realized and unrealized gains and losses on the plan assets less any costs of administering the plan and less any tax payable by the plan itself.

Reverse repurchase agreement is a purchase of securities with the agreement to resell them at a later specified date and price.

Security lending involves a loan of a security from one party to another.

Settlement date is the date that a financial asset is delivered to the entity that purchased it.

Solvency II is the fundamental reform of European insurance solvency and risk governance legislation.

Sovereign exposures relates to government issued securities including Dutch Government bonds and US Treasury, agency and state bonds.

Spot exchange rate is the exchange rate for immediate delivery.

Spread is the difference between the current bid and the current ask or offered price of a given security.

Stochastic modeling is a statistical process that uses probability and random variables to predict a range of probable investment performances.

Temporary differences are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base that will reverse over time.

Trade date is the date that an entity commits itself to purchase or sell an asset.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Trust Pass-Through securities are securities through which the holders participate in a trust. The assets of these trusts consist of debentures issued by an Aegon Group company.

Unlocking of DPAC and VOBA refers to the process of updating the DPAC or the VOBA amortization schedule to reflect changes between the past and current expectations of key assumptions used in the projection of future gross profits.

Value of Business Acquired (VOBA) the difference between the fair value and the carrying amount of the insurance liabilities recognized when a portfolio of insurance contracts is acquired (directly from another insurance company or as part of a business combination).

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Quarterly results - unaudited

	2012					2011				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Underlying earnings before tax										
Life	213	249	284	240	986	236	241	250	218	945
Individual savings and retirement products	122	116	101	142	481	139	115	84	136	474
Pensions	97	99	109	78	383	74	70	72	38	254
Non-life	8	(1)	(3)	9	13	16	11	3	21	51
Distribution	6	4	(1)	6	15	9	(3)	(3)	(3)	-
Asset Management	29	23	25	24	101	14	18	15	13	60
Other	(64)	(55)	(50)	(55)	(224)	(83)	(67)	(69)	(84)	(303)
Share in underlying earnings before tax of associates	14	8	7	3	32	9	16	9	7	41
Underlying earnings before tax	**425**	**443**	**472**	**447**	**1,787**	**414**	**401**	**361**	**346**	**1,522**
Fair value items	156	101	(126)	(131)	-	(85)	(23)	(288)	(20)	(416)
Realized gains / (losses) on investments	45	85	128	149	407	91	204	102	49	446
Impairment charges	(41)	(42)	(35)	(58)	(176)	(62)	(100)	(132)	(94)	(388)
Other income / (charges)	(17)	(254)	3	106	(162)	(3)	(16)	(54)	(194)	(267)
Run-off businesses	(2)	6	12	(14)	2	22	10	(5)	1	28
Income before tax	**566**	**339**	**454**	**499**	**1,858**	**377**	**476**	**(16)**	**88**	**925**
Income tax	(45)	(85)	(80)	(116)	(326)	(50)	(72)	76	(7)	(53)
Net income / (loss)	**521**	**254**	**374**	**383**	**1,532**	**327**	**404**	**60**	**81**	**872**
Net underlying earnings	**328**	**337**	**369**	**348**	**1,382**	**333**	**339**	**308**	**253**	**1,233**
Underlying earnings before tax										
Americas	292	339	344	342	1,317	336	314	307	316	1,273
The Netherlands	79	71	82	83	315	81	74	68	75	298
United Kingdom	29	25	26	25	105	12	10	9	(26)	5
New Markets	88	64	70	52	274	68	70	46	65	249
Holding and other activities	(63)	(56)	(50)	(55)	(224)	(83)	(67)	(69)	(84)	(303)
Underlying earnings before tax	**425**	**443**	**472**	**447**	**1,787**	**414**	**401**	**361**	**346**	**1,522**
Gross deposits (on and off balance sheet)	**11,043**	**9,757**	**9,426**	**9,246**	**39,472**	**7,377**	**6,715**	**10,496**	**7,100**	**31,688**
Net deposits (on and off balance sheet)	**1,079**	**811**	**1,325**	**390**	**3,605**	**(2,945)**	**(2,687)**	**3,276**	**(1,548)**	**(3,904)**
New life sales										
Life single premiums	1,160	1,068	1,125	2,058	5,411	1,726	1,189	1,073	1,876	5,864
Life recurring premiums annualized	329	321	293	471	1,414	328	312	298	311	1,249
Total recurring plus 1/10 single	**445**	**428**	**405**	**677**	**1,955**	**501**	**431**	**405**	**498**	**1,835**
	195	187	190	196	768	159	145	153	188	645

New premium production accident & health insurance										
New premium production general insurance	14	13	12	16	55	13	14	12	13	52

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Disclaimer

Cautionary note regarding non-GAAP measures

This report includes the non-IFRS financial measures: underlying earnings before tax, income tax (including associated companies) and income before tax (including associated companies). The reconciliation of these measures to the most comparable IFRS measures is presented in the tables in note 5 of this report. These non-IFRS measures are 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 measures provide 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.

Functional currencies

This report contains certain information about Aegon s results and financial condition in USD for the Americas and GBP for the United Kingdom because those businesses operate and are managed primarily in those currencies. None of this information is a substitute for or superior to financial information about us presented in EUR, which is the currency of Aegon s primary financial statements.

Forward-looking statements

The statements contained in this document that are not historical facts are forward-looking statements as defined in the US Private Securities Litigation Reform Act of 1995. The following are words that identify such forward-looking statements: aim, believe, estimate, target, intend, may, expect, anticipate, predict, project, counting on, plan, continue, want, forecast, goal, should, would, is confident, will, and similar expressions as they relate to Aegon. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Aegon undertakes no obligation to publicly update or revise any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which merely reflect company expectations at the time of writing. Actual results may differ materially from expectations conveyed in forward-looking statements due to changes caused by various risks and uncertainties. Such risks and uncertainties include but are not limited to the following:

- ¿ Changes in general economic conditions, particularly in the United States, the Netherlands and the United Kingdom.
- ¿ Changes in the performance of financial markets, including emerging markets, such as with regard to:
- ¿ The frequency and severity of defaults by issuers in Aegon s fixed income investment portfolios;
- ¿ The effects of corporate bankruptcies and/or accounting restatements on the financial markets and the resulting decline in the value of equity and debt securities Aegon holds; and
- ¿ The effects of declining creditworthiness of certain private sector securities and the resulting decline in the value of sovereign exposure that Aegon holds.
- ¿ Changes in the performance of Aegon s investment portfolio and decline in ratings of Aegon s counterparties.
- ¿ Consequences of a potential (partial) break-up of the euro.
- ¿ The frequency and severity of insured loss events.
- ¿ Changes affecting mortality, morbidity, persistence and other factors that may impact the profitability of Aegon s insurance products.
- ¿ Reinsurers to whom Aegon has ceded significant underwriting risks may fail to meet their obligations.
- ¿ Changes affecting interest rate levels and continuing low or rapidly changing interest rate levels.
- ¿ Changes affecting currency exchange rates, in particular the EUR/USD and EUR/GBP exchange rates.
- ¿ Changes in the availability of, and costs associated with, liquidity sources such as bank and capital markets funding, as well as conditions in the credit markets in general such as changes in borrower and counterparty creditworthiness.
- ¿ Increasing levels of competition in the United States, the Netherlands, the United Kingdom and emerging markets.
- ¿ Changes in laws and regulations, particularly those affecting Aegon s operations, ability to hire and retain key personnel, the products Aegon sells, and the attractiveness of certain products to its consumers.
- ¿ Regulatory changes relating to the insurance industry in the jurisdictions in which Aegon operates.
- ¿ Changes in customer behavior and public opinion in general related to, among other things, the type of products also Aegon sells, including legal, regulatory or commercial necessity to meet changing customer expectations.
- ¿ Acts of God, acts of terrorism, acts of war and pandemics.
- ¿ Changes in the policies of central banks and/or governments.
- ¿ Lowering of one or more of Aegon s debt ratings issued by recognized rating organizations and the adverse impact such action may have on Aegon s ability to raise capital and on its liquidity and financial condition.
- ¿ Lowering of one or more of insurer financial strength ratings of Aegon s insurance subsidiaries and the adverse impact such action may have on the premium writings, policy retention, profitability and liquidity of its insurance subsidiaries.

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- ¿ The effect of the European Union s Solvency II requirements and other regulations in other jurisdictions affecting the capital Aegon is required to maintain.
- ¿ Litigation or regulatory action that could require Aegon to pay significant damages or change the way Aegon does business.
- ¿ As Aegon s operations support complex transactions and are highly dependent on the proper functioning of information technology, a computer system failure or security breach may disrupt Aegon s business, damage its reputation and adversely affect its results of operations, financial condition and cash flows.
- ¿ Customer responsiveness to both new products and distribution channels.
- ¿ Competitive, legal, regulatory, or tax changes that affect profitability, the distribution cost of or demand for Aegon s products.
- ¿ Changes in accounting regulations and policies may affect Aegon s reported results and shareholder s equity.
- ¿ The impact of acquisitions and divestitures, restructurings, product withdrawals and other unusual items, including Aegon s ability to integrate acquisitions and to obtain the anticipated results and synergies from acquisitions.
- ¿ Catastrophic events, either manmade or by nature, could result in material losses and significantly interrupt Aegon s business.
- ¿ Aegon s failure to achieve anticipated levels of earnings or operational efficiencies as well as other cost saving initiatives.

Further details of potential risks and uncertainties affecting the company are described in the company s filings with NYSE Euronext Amsterdam and the US Securities and Exchange Commission, including the Annual Report. These forward-looking statements speak only as of the date of this document. Except as required by any applicable law or regulation, the company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the company s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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338 Additional information Exhibits

Exhibits

Index to Exhibits

1	Articles of Association, incorporated by reference to Exhibit 99.1 to Form 6-K filed with the SEC on May 18, 2011. (1)
4.1	Amendment of the 1983 Merger Agreement among Aegon and Vereniging Aegon. (2)
4.2	Preferred Shares Voting Rights Agreement. (3)
4.3	Employment Agreement between J.J. Nooitgedagt and Aegon N.V. (4)
4.4	Employment Agreement between A.R. Wynaendts and Aegon N.V. (5)
4.5	A.R. Wynaendts 2004 Long-term Incentive Plan Agreement (5)
4.6	Aegon N.V. Long-term Incentive Plan Rules (7)
4.7	Aegon N.V. Short-term Incentive Plan Rules (8)
4.8	Assignment Agreement between A.R. Wynaendts and Aegon N.V. (9)
4.9	Senior Loan Agreement between Vereniging Aegon, The State of the Netherlands and Aegon N.V. dated December 1, 2008. (10)
4.10	Subscription Agreement between Vereniging Aegon, The State of the Netherlands and Aegon N.V. dated December 1, 2008. (11)
4.11	Agreement on Governance and Certain Other Matters between Vereniging Aegon, The State of the Netherlands and Aegon N.V. dated December 1, 2008. (12)
4.12	Amendment agreement Terms and Conditions of Aegon Securities between Vereniging Aegon, The State of the Netherlands and Aegon N.V. dated August 16, 2010 (13).
7	Ratio of earnings to fixed charges.
8	List of Subsidiaries of Aegon N.V. Incorporation by reference to Note 52 of this Annual Report.
12.1	Certification of the Chief Executive Officer pursuant to Rule 13A-14 or 15D-14 of the Securities Exchange Act of 1934.
12.2	Certification of the Chief Financial Officer pursuant to Rule 13A-14 or 15D-14 of the Securities Exchange Act of 1934.
13	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350
15	Consent of independent registered public accounting firm.

(1) Incorporated by reference to Form 6-K (file no. 1193125-07-126500) filed with the SEC on May 31, 2007.
(2) Incorporated by reference to Exhibit 4.2 to Form F-3 (file no. 333-106497) filed with the SEC on June 25, 2003.
(3) Incorporated by reference to Exhibit 4.3 to Form F-3 (file no. 333-106497) filed with the SEC on June 25, 2003.
(4) Incorporated by reference to Exhibit 4.3 to Form 20-F 2009 filed with the SEC on March 29, 2010.
(5) Incorporated by reference to Exhibit 4.11 to Form 20-F 2004 filed with the SEC on March 29, 2005.
(6) Incorporated by reference to Exhibit 4.12 to Form 20-F 2004 filed with the SEC on March 29, 2005.
(7) Incorporated by reference to Exhibit 4.13 to Form 20-F 2004 filed with the SEC on March 29, 2005.
(8) Incorporated by reference to Exhibit 4.14 to Form 20-F 2004 filed with the SEC on March 29, 2005.
(9) Incorporated by reference to Exhibit 4.15 to Form 20-F 2005 filed with the SEC on March 30, 2006.
(10) Incorporated by reference to Exhibit 4.10 to Form 20-F 2008 filed with the SEC on March 31, 2009.
(11) Incorporated by reference to Exhibit 4.11 to Form 20-F 2008 filed with the SEC on March 31, 2009.
(12) Incorporated by reference to Exhibit 4.12 to Form 20-F 2008 filed with the SEC on March 31, 2009.
(13) Incorporated by reference to Exhibit 4.12 to Form 20-F 2010 filed with the SEC on March 30, 2011.

The Company agrees to furnish to the Securities and Exchange Commission upon request copies of instruments with respect to long-term debt of the Company and its consolidated subsidiaries.

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Signatures

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: March 20, 2013

Aegon N.V.

/s/ Jan J. Nooitgedagt
Jan J. Nooitgedagt
Chief Financial Officer