

AEGON NV  
Form 20-F/A  
October 05, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F/A**

(Mark One)

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

**OR**

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

**OR**

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

**OR**

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

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

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

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

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

**Darryl Button**

**Executive Vice-President**

**AEGON N.V.**

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

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**Darryl.Button@aegon.com**

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

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

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

**Not applicable**  
(Title of Class)

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

**Not applicable**  
(Title of Class)

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

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

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

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

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

Large accelerated filer       Accelerated filer       Non-accelerated filer

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

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

by the International Accounting Standards Board

If  other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

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

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**EXPLANATORY NOTE**

In response to certain comments made by the staff of the Securities and Exchange Commission, AEGON N.V. hereby amends Items 3A, 5A and 18 of AEGON N.V.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2011, which was originally filed on March 23, 2012 (the "Original Form 20-F"), as follows:

Item 3A Selected financial data has been amended to remove the reference to earnings per share, excluding premium on convertible core capital securities from the table entitled selected consolidated income statement information on page 12.

Item 5A Operating results has been amended to present a reconciliation from net underlying earnings to net income and disclose that this is the after-tax equivalent of underlying earnings for the 2011 and 2010 worldwide results included on pages 16 and 21 respectively and the individual segments (Americas, The Netherlands, United Kingdom and New Markets) included on pages 24, 27, 43, 45, 53, 55, 62 and 65.

Item 18 Financial Statements has been amended to (1) present basic earnings per share and diluted earnings per share on the face of the income statement, (2) remove the line-items Earnings per share, excluding premium on convertible core capital securities, Earnings per share after potential attribution to convertible core capital securities and Diluted earnings per share after conversion of convertible core capital securities on page 132, (3) remove the earnings per share, excluding premium on convertible core capital securities line-item from the basic earnings per share table in Note 19 on page 243, (4) change the column titles in the segment information note on pages 225 to 227 from Non-IFRS Total to Segment Total and from Total IFRS based to Consolidated, and (5) clarify that 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.

No other changes have been made to the Original Form 20-F. Among other things, none of the changes included in this Form 20-F/A affect underlying earnings, net income or shareholders' equity nor does this Form 20-F/A reflect events occurring after the filing of the Original Form 20-F or modify or update the disclosure therein in any way other than as required to reflect the amendments described above.

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**INTRODUCTION**

**FILING**

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

**PRESENTATION OF CERTAIN INFORMATION**

AEGON N.V. is referred to in this document as AEGON, , or the company. AEGON N.V. together with its member companies are together referred to as the AEGON Group. For such purposes, member companies means, in relation to AEGON N.V., those companies that are required to be consolidated in accordance with legislative requirements of the Netherlands relating to consolidating accounts. References to the NYSE are to the New York Stock Exchange. References to the SEC are to the Securities and Exchange Commission.

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

**ABOUT THIS REPORT**

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

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**Alex Wynaendts, CEO**

### **FULFILLING PROMISES**

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

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

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

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

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

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

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

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

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

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

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

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

**Alex Wynaendts**  
Chief Executive Officer and Chairman

of the Executive Board of AEGON N.V.

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

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

Chief Executive Officer

Chairman of the Executive Board

Chairman of the Management Board

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

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

Member of the Management Board

Chief Executive Officer of AEGON Americas

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

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

Member of the Management Board

Chief Executive Officer of AEGON The Netherlands

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

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

Chief Financial Officer

Member of the Executive Board

Member of the Management Board

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

Board and Chief Financial Officer in April 2009.

**GÁBOR KEPECS (1954, HUNGARIAN)**

Member of the Management Board

Chief Executive Officer of AEGON Central & Eastern Europe

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

**ADRIAN GRACE (1963, BRITISH)**

Member of the Management Board

Chief Executive Officer of AEGON UK

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

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**AEGON'S STRATEGY**

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

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

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

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

**MARKET CONDITIONS**

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

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

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

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

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

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

### **LONG-TERM INDUSTRY TRENDS**

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

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

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

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

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

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

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

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

### **AEGON'S STRATEGY**

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

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

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

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

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

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



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

**OPTIMIZE PORTFOLIO**

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

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

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

**ENHANCE CUSTOMER LOYALTY**

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

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

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

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

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

**DELIVER OPERATIONAL EXCELLENCE**

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

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

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

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

### **EMPOWER EMPLOYEES**

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

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

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

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

### **SUSTAINABILITY**

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

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

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

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

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10 AEGON'S STRATEGY /

### **GOVERNANCE**

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

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

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

### **HIGHLIGHTS FROM 2011**

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

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

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

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

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

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

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

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

### **PLANS FOR 2012**

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

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

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

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

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

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

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

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**BUSINESS OVERVIEW**

**HISTORY AND DEVELOPMENT OF AEGON**

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

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

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

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

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

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

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

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12 BUSINESS OVERVIEW / SELECTED FINANCIAL DATA

**SELECTED FINANCIAL DATA**

The business-results reviews is based upon AEGON's consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

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

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

All per share amounts have been calculated based on the weighted average number of common shares outstanding after giving effect to all stock dividends through December 31, 2011.

**Selected consolidated income statement information**

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

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

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

Per share data has been calculated based on the weighted average number of common shares outstanding after giving effect to all stock dividends, stock splits and share repurchases through December 31, 2011. Diluted per share data gives effect to all dilutive securities.

**Selected consolidated balance sheet information**

In million EUR (except per share amount)	2011	2010	2009	2008	2007
<b>Amounts based upon IFRS</b>					
Total assets	345,577	332,222	298,540	289,156	314,227
Insurance and investment contracts	270,880	270,920	248,903	240,030	266,735
Trust pass-through securities and (subordinated) borrowings <sup>1</sup>	10,040	8,604	7,314	4,824	5,152

Shareholders' equity	21,000	17,328	12,273	6,169	15,258
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<sup>1</sup> Excludes bank overdrafts.

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**Number of common shares**

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

**DIVIDENDS**

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

Year	EUR per common share <sup>1</sup>			USD per common share <sup>1</sup>		
	Interim	Final	Total	Interim	Final	Total
2007	0.30	0.32	0.62	0.41	0.50	0.91
2008	0.30		0.30	0.45		0.45
2009						
2010						
2011			0.10 <sup>2</sup>			

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

<sup>2</sup> Proposed.

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

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



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14 BUSINESS OVERVIEW / SELECTED FINANCIAL DATA

**EXCHANGE RATES**

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

As of March 2, 2012 the USD exchange rate 1 was EUR 1 = USD 1.3202.

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

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

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

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

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

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**LINES OF BUSINESSES**

**AMERICAS**

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

**Life and protection**

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

**Individual savings and retirement products**

Primarily fixed and variable annuity products and retail mutual funds.

**Employer solutions and pensions**

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

**Life reinsurance**

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

**THE NETHERLANDS**

**Life and savings**

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

**Pensions**

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

**Distribution**

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

**Non-life insurance**

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

**UNITED KINGDOM**

**Life**

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

**Pensions**

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

**Distribution**

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

**NEW MARKETS**

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

**Central & Eastern Europe**

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

**Spain**

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

**France**

Partnership with French insurer and pension specialist AG2R La Mondiale.

**Asia**

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

**Variable Annuities Europe**

Variable annuities offered by AEGON operating companies in Europe.

**AEGON Asset Management**

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

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16 BUSINESS OVERVIEW / RESULTS 2011 WORLDWIDE

**RESULTS OF OPERATIONS****RESULTS 2011 WORLDWIDE**

Amounts in EUR million	2011	2010	%
<b>Net underlying earnings</b>	<b>1,233</b>	<b>1,417</b>	<b>(13%)</b>
Taxes on underlying earnings	289	416	(31%)
Underlying earnings before tax geographically			
Americas	1,310	1,459	(10%)
The Netherlands	298	385	(23%)
United Kingdom	5	72	(93%)
New markets	212	200	6%
Holdings and other activities	(303)	(283)	(7%)
<b>UNDERLYING EARNINGS BEFORE TAX</b>	<b>1,522</b>	<b>1,833</b>	<b>(17%)</b>
Net fair value items	(416)	221	
Gains / (losses) on investments	446	658	(32%)
Impairment charges	(388)	(452)	14%
Other income / (charges)	(267)	(309)	14%
Run-off businesses	28	(26)	
<b>Income before tax (excluding income tax from certain proportionately consolidated associates)</b>	<b>925</b>	<b>1,925</b>	<b>(52%)</b>
<i>Income tax from certain proportionately consolidated associates included in income before tax</i>	9	11	(18%)
Income tax	(53)	(165)	68%
<i>Of which income tax from certain proportionately consolidated associates</i>	(9)	(11)	18%
<b>NET INCOME</b>	<b>872</b>	<b>1,760</b>	<b>(50%)</b>
Commissions and expenses	6,272	6,145	2%
Of which operating expenses	3,442	3,397	1%

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

This 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

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AEGON and its peers present similar information before comparing them.

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

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**New life sales**

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

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

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

**Worldwide revenues geographically 2011**

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

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

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

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



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18 BUSINESS OVERVIEW / RESULTS 2011 WORLDWIDE

**RESULTS 2011 WORLDWIDE**

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

**NET INCOME**

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

**UNDERLYING EARNINGS BEFORE TAX**

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

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

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

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

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

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

**FAIR VALUE ITEMS**

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

**REALIZED GAINS ON INVESTMENTS**

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

**IMPAIRMENT CHARGES**

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

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**OTHER CHARGES**

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

**RUN-OFF BUSINESSES**

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

**INCOME TAX**

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

**COMMISSIONS AND EXPENSES**

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

**PRODUCTION**

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

**CAPITAL MANAGEMENT**

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

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

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

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

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

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

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**RESULTS 2010 WORLDWIDE**

Amounts in EUR million	2010	2009	%
<b>Net underlying earnings</b>	<b>1,417</b>	<b>934</b>	<b>52%</b>
Taxes on underlying earnings	416	195	
Underlying earnings before tax geographically			
Americas	1,459	761	92%
The Netherlands	385	398	(3%)
United Kingdom	72	52	38%
New markets	200	170	18%
Holdings and other activities	(283)	(252)	(12%)
<b>UNDERLYING EARNINGS BEFORE TAX</b>	<b>1,833</b>	<b>1,129</b>	<b>62%</b>
Net fair value items	221	(544)	
Gains / (losses) on investments	658	518	27%
Impairment charges	(452)	(1,277)	65%
Other income / (charges)	(309)	(323)	4%
Run-off businesses	(26)	43	
<b>Income before tax (excluding income tax from certain proportionately consolidated associates)</b>	<b>1,925</b>	<b>(454)</b>	
<i>Income tax from certain proportionately consolidated associates included in income before tax</i>	<i>11</i>	<i>10</i>	<i>10%</i>
Income tax	(165)	658	
<i>Of which income tax from certain proportionately consolidated associates</i>	<i>(11)</i>	<i>(10)</i>	<i>(10)%</i>
<b>NET INCOME</b>	<b>1,760</b>	<b>204</b>	
Commissions and expenses	6,145	6,046	2%
Of which operating expenses	3,397	3,292	3%

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

This table also includes the non-IFRS 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.

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

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**New life sales**

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

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

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

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

**By product segment**

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



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

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**RESULTS 2010 WORLDWIDE**

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

**NET INCOME**

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

**UNDERLYING EARNINGS BEFORE TAX**

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

**COMMISSIONS AND EXPENSES**

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

**PRODUCTION**

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

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**RESULTS 2011 AMERICAS**

	2011	2010	%	2011	2010	%
	Amounts in USD million			Amounts in EUR million		
<b>Net underlying earnings</b>	<b>1,368</b>	<b>1,419</b>	<b>(4%)</b>	<b>984</b>	<b>1,074</b>	<b>(8%)</b>
Taxes on underlying earnings	455	509	(11%)	326	385	(15%)
Underlying earnings before tax by product segment						
Life & Protection	779	897	(13%)	560	679	(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	
<b>Underlying earnings before tax</b>	<b>1,823</b>	<b>1,928</b>	<b>(5%)</b>	<b>1,310</b>	<b>1,459</b>	<b>(10%)</b>
Net fair value items	(665)	(32)		(478)	(24)	
Gains / (losses) on investments	172	502	(66%)	124	380	(67%)
Impairment charges	(352)	(506)	30%	(253)	(383)	34%
Other income / (charges)	(49)	(404)	88%	(35)	(306)	89%
Run-off businesses	39	(35)		28	(26)	
<b>Income before tax (excluding income tax from certain proportionately consolidated associates)</b>	<b>968</b>	<b>1,453</b>	<b>(33%)</b>	<b>696</b>	<b>1,100</b>	<b>(37%)</b>
Income tax from certain proportionately consolidated associates included in income before tax	1	2	(50%)	1	2	(50%)
Income tax	(35)	41		(26)	31	
Of which income tax from certain proportionately consolidated associates	(1)	(2)	50%	(1)	(2)	50%
<b>Net income</b>	<b>933</b>	<b>1,494</b>	<b>(38%)</b>	<b>670</b>	<b>1,131</b>	<b>(41%)</b>
Life insurance gross premiums	8,668	9,085	(5%)	6,232	6,877	(9%)
Accident and health insurance premiums	2,475	2,443	1%	1,780	1,850	(4%)
<b>Total gross premiums</b>	<b>11,143</b>	<b>11,528</b>	<b>(3%)</b>	<b>8,012</b>	<b>8,727</b>	<b>(8%)</b>
Investment income	5,061	5,380	(6%)	3,638	4,073	(11%)
Fees and commission income	1,041	1,319	(21%)	749	998	(25%)
Other revenues	2	2		1	1	
<b>Total revenues</b>	<b>17,247</b>	<b>18,229</b>	<b>(5%)</b>	<b>12,400</b>	<b>13,799</b>	<b>(10%)</b>
Commissions and expenses	5,046	4,816	5%	3,628	3,646	
which includes operating expenses of	1,992	1,971	1%	1,432	1,492	(4%)

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

**Exchange rates**

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

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**RESULTS 2011 AMERICAS**

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

**NET INCOME**

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

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

**UNDERLYING EARNINGS BEFORE TAX**

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

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

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

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

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

**COMMISSIONS AND EXPENSES**

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

**PRODUCTION**

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

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

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

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**RESULTS 2010 AMERICAS**

	2010	2009	%	2010	2009	%
	Amounts in USD million			Amounts in EUR million		
<b>Net underlying earnings</b>	<b>1,419</b>	<b>917</b>	<b>55%</b>	<b>1,074</b>	<b>652</b>	<b>65%</b>
Taxes on underlying earnings	509	154		385	109	
<b>Underlying earnings before tax by product segment</b>						
Life & Protection	897	903	(1%)	679	641	6%
<i>Fixed annuities</i>	<i>439</i>	<i>334</i>	<i>31%</i>	<i>333</i>	<i>237</i>	<i>41%</i>
<i>Variable annuities</i>	<i>216</i>	<i>(348)</i>		<i>164</i>	<i>(248)</i>	
<i>Retail mutual funds</i>	<i>9</i>	<i>(16)</i>		<i>7</i>	<i>(11)</i>	
Individual Savings and Retirement	664	(30)		504	(22)	
Employer Solutions & Pensions	307	172	78%	231	123	88%
Canada	54	32	69%	40	23	74%
Latin America	6	(6)		5	(4)	
<b>Underlying earnings before tax</b>	<b>1,928</b>	<b>1,071</b>	<b>80%</b>	<b>1,459</b>	<b>761</b>	<b>92%</b>
Net fair value items	(32)	(123)	74%	(24)	(87)	72%
Gains / (losses) on investments	502	89		380	63	
Impairment charges	(506)	(1,337)	62%	(383)	(950)	60%
Other income / (charges)	(404)	(4)		(306)	(3)	
Run-off businesses	(35)	61		(26)	43	
<b>Income before tax (excluding income tax from certain proportionately consolidated associates)</b>	<b>1,453</b>	<b>(243)</b>		<b>1,100</b>	<b>(173)</b>	
<i>Income tax from certain proportionately consolidated associates included in income before tax</i>	<i>2</i>			<i>2</i>		
Income tax	41	940	(96%)	31	669	(95%)
<i>Of which income tax from certain proportionately consolidated associates</i>	<i>(2)</i>			<i>(2)</i>		
<b>Net income</b>	<b>1,494</b>	<b>697</b>	<b>114%</b>	<b>1,131</b>	<b>496</b>	<b>128%</b>
Life insurance gross premiums	9,085	8,388	8%	6,877	5,961	15%
Accident and health insurance premiums	2,443	2,377	3%	1,850	1,689	10%
<b>Total gross premiums</b>	<b>11,528</b>	<b>10,765</b>	<b>7%</b>	<b>8,727</b>	<b>7,650</b>	<b>14%</b>
Investment income	5,380	5,505	(2%)	4,073	3,913	4%
Fees and commission income	1,319	1,260	5%	998	896	11%
Other revenues	2	3	(33%)	1	2	(50%)
<b>Total revenues</b>	<b>18,229</b>	<b>17,534</b>	<b>4%</b>	<b>13,799</b>	<b>12,461</b>	<b>11%</b>
Commissions and expenses	4,816	5,065	(5%)	3,646	3,600	1%
which includes operating expenses of	1,971	2,249	(12%)	1,492	1,599	(7%)

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

**Exchange rates**

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



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**RESULTS 2010 AMERICAS**

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

**NET INCOME**

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

**UNDERLYING EARNINGS BEFORE TAX**

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

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

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

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

**COMMISSIONS AND EXPENSES**

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

**PRODUCTION**

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

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

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### **BACKGROUND AMERICAS**

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

#### **AEGON USA**

AEGON USA<sup>1</sup> is one of the leading life insurance organizations in the United States and is the largest of AEGON's country units. AEGON USA administers more than 33 million policies and employs approximately 10,000 people. AEGON USA companies can trace their roots back as far as the mid-19th century. AEGON USA operates under one of the best known names in the US insurance business: Transamerica. AEGON USA's main offices are in Cedar Rapids, Iowa, and Baltimore, Maryland, with affiliated companies' offices located throughout the United States.

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

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

#### **AEGON CANADA**

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

#### **AEGON MEXICO**

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

#### **AEGON BRAZIL**

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

### **ORGANIZATIONAL STRUCTURE**

#### **AEGON USA**

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

AEGON USA's primary insurance subsidiaries are:

Transamerica Life Insurance Company

Transamerica Financial Life Insurance Company

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Transamerica Advisors Life Insurance Company

Transamerica Advisors Life Insurance Company of New York

Monumental Life Insurance Company

Stonebridge Life Insurance Company

Stonebridge Casualty Insurance Company

Western Reserve Life Assurance Co. of Ohio

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

Life & Protection

Individual Savings & Retirement

Employer Solutions & Pensions

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

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

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**AEGON CANADA**

In Canada, AEGON has three main operating subsidiaries:

Transamerica Life Canada

AEGON Capital Management Inc.

AEGON Fund Management Inc.

**OVERVIEW SALES AND DISTRIBUTION CHANNELS**

**AEGON USA**

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

Independent and career agents

Financial planners

Registered representatives

Independent marketing organizations

Banks

Regional and independent broker-dealers

Benefit consulting firms

Wirehouses

Affinity groups

Institutional partners

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

**AEGON CANADA**

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

Independent managing general agencies

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

Bank-owned national broker-dealers

World Financial Group, part of AEGON Americas

Other national, regional or local niche broker-dealers

**OVERVIEW LINES OF BUSINESS**

**LIFE & PROTECTION**

**GENERAL DESCRIPTION**

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

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

**PRODUCTS**

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

**TERM LIFE INSURANCE**

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

**UNIVERSAL LIFE INSURANCE**

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

**WHOLE LIFE INSURANCE**

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

### OTHER LIFE INSURANCE

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

### SUPPLEMENTAL HEALTH AND SPECIALTY

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

### LONG TERM CARE

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

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

### **SALES AND DISTRIBUTION**

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

#### **AFFINITY MARKETS**

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

#### **AGENCY**

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

#### **BROKERAGE**

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

#### **INTERNATIONAL MARKETS**

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

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

#### **BROKER-DEALER**

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

### **INDIVIDUAL SAVINGS & RETIREMENT**

#### **GENERAL DESCRIPTION**

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

#### **PRODUCTS**

##### **VARIABLE ANNUITIES**

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

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

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

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



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

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

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

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

**MUTUAL FUNDS / ASSET MANAGEMENT**

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

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

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

**FIXED ANNUITIES**

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

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

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

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

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

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

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

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

**SALES AND DISTRIBUTION**

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

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

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

To help the millions of baby boomers who are approaching or transitioning into retirement, AEGON USA formed Transamerica Retirement Management, Inc. (TRM) in 2006. This division is focused on providing consumers with personalized financial advice, brokerage products and guidance to help them successfully transition into and throughout retirement. TRM helps pre-retirees develop an individual retirement plan that is tailored to be as simple or as detailed as necessary, depending on the growth or retirement income goals and needs of the individual. As of January 2012, this division will be part of Employer Solutions and Pensions.

**EMPLOYER SOLUTIONS & PENSIONS**

**GENERAL DESCRIPTION**

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

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

401 (k)

403 (b)

457 (b)

Non-qualified deferred compensation

Money purchase

Defined benefit

Defined contribution

Profit-sharing

**PRODUCTS**

**PENSION PLANS**

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

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

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

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

**LIFE AND SUPPLEMENTAL HEALTH**

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

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

**SYNTHETIC GICS**

AEGON Stable Value Solutions provides synthetic GICs in the United States primarily to tax-qualified institutional entities such as 401(k) plans and other retirement plans. AEGON provides a synthetic GIC wrapper around fixed-income invested assets, which are owned by the plan and managed by the plan or a third party money manager hired by the plan. A synthetic GIC is typically issued with an evergreen maturity and can be terminated under certain conditions. Such a contract helps to reduce fluctuations in the value of the wrapped assets for plan participants, and provides book value benefit-responsiveness in the event that qualified plan benefit requests exceed plan asset values.

**SALES AND DISTRIBUTION**

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

Transamerica Retirement Services serves more than 16,500 small to mid-sized companies across the United States. Transamerica Retirement Services offers a number of specialized services, including innovative plan design, a wide array of investment choices, extensive education programs and online investment education.

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

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

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

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

INDIVIDUAL SAVINGS & RETIREMENT

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

SEGREGATED FUNDS

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

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

#### **LATIN AMERICA**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### LIFE REINSURANCE

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

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



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

**COMPETITION**

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

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

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

AEGON USA has built long-term relations with many institutions, and these relations have enabled AEGON USA to offer many product lines such as fixed annuities, variable annuities, life insurance, mutual funds, and 401(k) products through these institutions.

Most fixed annuity sales occur at banks. AEGON USA's primary competitors for fixed annuity sales are AIG, New York Life, Protective, Western-Southern, and Symetra Financial.

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

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

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

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

AEGON USA has been a leading issuer of synthetic GICs (Source: reports from LIMRA International and the Stable Value Investment Association's Stable Value and Funding Agreement Products as of the first two quarters for 2011).

**CANADIAN LIFE INSURANCE MARKETPLACE**

The top ten companies in Canada account for 88% of the life insurance sales (Source: LIMRA's Canadian Individual Life Insurance Sales - Fourth Quarter 2011, issued February 2012). TLC's primary competitors in Canada are the following: Power Corporation (Canada Life, London Life, Great West Life), Manulife Financial, Sun Life Financial, Industrial-Alliance, RBC Life, Empire Life, Equitable Life, Desjardins Financial and BMO Life.

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

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

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

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

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

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

Although the US federal government has not historically regulated the insurance business, many federal laws impact the insurance business in a variety of ways. US federal and state privacy laws and regulations impose restrictions on financial institutions' use and disclosure of customer information. Legislation is sometimes introduced in the US Congress or state governments that would either impose additional restrictions on the use and disclosure of customer information or would require financial institutions to enhance the security of personal information and impose new obligations in the event of data security breaches. States are considering as the US Congress may also do again legislation that would restrict the ability of insurers to underwrite based in whole or in part on specified risks or practices such as genetic testing. These laws and regulations, if enacted, could impact AEGON's ability to market or underwrite its products, or otherwise limit the nature or scope of AEGON's insurance and financial services operations in the United States.

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

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

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

Some of AEGON USA's investment advisory activities are subject to federal and state securities laws and regulations. Mutual Funds managed, issued and distributed by AEGON USA companies are registered under the Securities Act of 1933, as amended (the Securities Act), and the Investment Company Act of 1940 (the Investment Company Act). With the exception of its investment accounts which fund private placement investment options that are exempt from registration, or support fixed rate investment options that are also exempt from registration, all of AEGON USA's separate investment accounts that fund retail variable annuity contracts and retail variable life insurance products issued by AEGON USA companies are registered both under the Securities Act and the Investment Company Act. Institutional products such as group annuity contracts, guaranteed investment contracts, and funding agreements are sold to tax qualified pension plans or to other sophisticated investors and are exempt from registration under both Acts. On July 21, 2010, the SEC proposed a framework to replace the requirements of Rule 12b-1 of the Investment Company Act with respect to how mutual funds and underlying funds of separate accounts collect and pay fees to cover the costs of selling and marketing their shares. The proposed changes are subject to public comment and, following any enactment, would be phased in over several years. Since these changes are still proposed, the impact of changes proposed by these regulations cannot be predicted at this time.

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

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

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

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

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

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

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

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

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

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

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

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

Many other federal tax laws affect the business in a variety of ways. At the end of 2010, the US congress reinstated the federal estate tax rate at 45% for those estates over USD 5 million. This will expire at the end of 2012. As a result, uncertainty remains in this area. AEGON believes a permanent repeal of the federal estate tax would have an adverse impact on sales and surrenders of life insurance in connection with estate planning.

**AEGON CANADA**

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

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

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

**ASSET LIABILITY MANAGEMENT**

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

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

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

**REINSURANCE CEDED****UNITED STATES**

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

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

AEGON USA remains contingently liable with respect to the amounts ceded should the reinsurance company not be able to meet its obligations. To minimize its exposure to such defaults, AEGON USA regularly monitors the creditworthiness of its reinsurers. AEGON USA has experienced no material reinsurance recoverability problems in recent years. Where appropriate, the company arranges additional cover through letters of credit or trust agreements. Availability of letters of credit or other financing mechanics are scarce in difficult financial markets. For certain agreements, funds are withheld for investment by the ceding company.

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

**CANADA**

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

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



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**RESULTS 2011 THE NETHERLANDS**

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

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

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**RESULTS 2011 THE NETHERLANDS**

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

**NET INCOME**

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

**UNDERLYING EARNINGS BEFORE TAX**

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

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

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

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

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

**COMMISSIONS AND EXPENSES**

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

**PRODUCTION**

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

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as mortgage production slowed down.

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

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

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**RESULTS 2010 THE NETHERLANDS**

Amounts in EUR million	2010	2009	%
<b>Net underlying earnings</b>	<b>292</b>	<b>298</b>	<b>(2%)</b>
Taxes on underlying earnings	93	100	(7%)
Underlying earnings before tax by product segment			
Life & Savings	186	180	3%
Pensions	153	174	(12%)
Non life	33	29	14%
Distribution	16	16	
Share in underlying earnings before tax of associates	(3)	(1)	
<b>Underlying earnings before tax</b>	<b>385</b>	<b>398</b>	<b>(3%)</b>
Net fair value items	361	(374)	
Gains / (losses) on investments	155	351	(56%)
Impairment charges	(11)	(111)	90%
Other income / (charges)	38		
<b>Income before tax</b>	<b>928</b>	<b>264</b>	
Income tax	(217)	(23)	
<b>Net income</b>	<b>711</b>	<b>241</b>	<b>195%</b>
Life insurance gross premiums	3,185	3,066	4%
Accident and health insurance premiums	201	206	(2%)
General insurance premiums	451	457	(1%)
<b>Total gross premiums</b>	<b>3,837</b>	<b>3,729</b>	<b>3%</b>
Investment income	2,161	2,211	(2%)
Fees and commission income	348	383	(9%)
<b>Total revenues</b>	<b>6,346</b>	<b>6,323</b>	
Commissions and expenses which includes operating expenses of	1,058 748	1,181 873	(10%) (14%)
<b>New life sales</b>			
Amounts in EUR million	2010	2009	%
Life & Savings	83	82	1%
Pensions	165	157	5%
<b>Total recurring plus 1/10 single</b>	<b>248</b>	<b>239</b>	<b>4%</b>
New premium production accident and health insurance	26	17	53%
New premium production general insurance	26	26	
<b>Gross deposits (on and off balance)</b>			
Life & Savings	2,036	3,032	(33%)
Pensions	346	402	(14%)

<b>TOTAL GROSS DEPOSITS</b>	<b>2,382</b>	<b>3,434</b>	<b>(31%)</b>
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### **RESULTS 2010 THE NETHERLANDS**

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

#### **NET INCOME**

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

#### **UNDERLYING EARNINGS BEFORE TAX**

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

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

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

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

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

#### **COMMISSIONS AND EXPENSES**

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

#### **PRODUCTION**

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

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

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**BACKGROUND THE NETHERLANDS**

AEGON has a history in the Netherlands that dates back more than 150 years. Today, AEGON The Netherlands<sup>1</sup> is one of the country's leading providers of life insurance and pensions, with millions of customers and approximately 5,000 employees. The fully owned Unirobe Meeùs Group is one of the largest intermediaries in the Netherlands. AEGON The Netherlands has its headquarters in The Hague and offices in Leeuwarden and Groningen.

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

**ORGANIZATIONAL STRUCTURE**

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

AEGON The Netherlands' primary subsidiaries are:

AEGON Bank N.V.

AEGON Levensverzekering N.V.

AEGON Schadeverzekering N.V.

AEGON Spaarkas N.V.

OPTAS Pensioenen N.V.

AEGON Hypotheken B.V.

TKP Pensioen B.V.

Unirobe Meeùs Groep B.V.

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

AEGON The Netherlands is present in four lines of business:



Life and savings

Pensions

Non-life

Distribution

## **OVERVIEW SALES AND DISTRIBUTION CHANNELS**

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

## **OVERVIEW LINES OF BUSINESS**

### **LIFE AND SAVINGS**

#### **GENERAL DESCRIPTION**

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

#### **PRODUCTS**

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

#### **ENDOWMENT INSURANCE**

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

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

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

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

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

### TERM AND WHOLE LIFE INSURANCE

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

### ANNUITY INSURANCE

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

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

### VARIABLE UNIT-LINKED PRODUCTS

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

### TONTINE PLANS

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

### MORTGAGE LOANS

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

### SAVINGS ACCOUNTS

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

### INVESTMENT CONTRACTS

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

### LEVENSLLOOP

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

### BANKSPAREN

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

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**SALES AND DISTRIBUTION**

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

**PENSIONS****GENERAL DESCRIPTION**

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

**PRODUCTS**

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

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

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

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

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

**SALES AND DISTRIBUTION**

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

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

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

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

### **PRODUCTS**

#### **GENERAL INSURANCE**

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

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

AEGON The Netherlands offers disability (WIA) and sick leave products to employers that cover the sick leave payments to employees that are not covered by social security and where the employers bear the risk. Over the past several years, the Dutch government has gradually shifted responsibility for sick leave and workers' disability from the state to the private sector. This has helped stimulate demand for private health insurance.

#### **SALES AND DISTRIBUTION**

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

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

### **DISTRIBUTION**

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

### **COMPETITION**

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

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

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

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

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

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

### **REGULATION AND SUPERVISION**

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

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

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

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

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

### **FINANCIAL SUPERVISION INSURANCE COMPANIES**

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

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

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

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

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

AEGON Levensverzekering N.V.

AEGON Schadeverzekering N.V.

AEGON Spaarkas N.V.

OPTAS Pensioenen N.V.

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

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

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

**FINANCIAL SUPERVISION CREDIT INSTITUTIONS**

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

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



**ASSET LIABILITY MANAGEMENT**

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

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

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managers. Portfolio managers are allowed to deviate from the benchmark based on their short-term and medium-term investment outlook. Risk-based restrictions are in place to monitor and control the actual portfolio allocations compared to their strategic portfolio allocations. An internal framework limits investment exposure to any single counterparty.

**REINSURANCE CEDED**

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

AEGON The Netherlands remains contingently liable with respect to the amounts ceded, should the reinsurance company not be able to meet the obligations it has. To minimize its exposure to such defaults, AEGON The Netherlands regularly monitors the creditworthiness of its primary reinsurers. AEGON The Netherlands has experienced no material reinsurance recoverability problems in recent years. Where appropriate, additional reinsurance protection is contracted either through letters of credit or, alternatively, through trust arrangements. Under certain conditions of these arrangements, funds are withheld for investment by the ceding company.

AEGON The Netherlands reinsures its life exposure through a profit-sharing contract between its subsidiary AEGON Levensverzekering N.V. and a reinsurer. Under this arrangement, AEGON The Netherlands retains exposure of up to a maximum of EUR 1.2 million per insured person with respect to death risk and EUR 50,000 per year for disability risk (increased by EUR 1,500 per year above the age of 40). Any amount in excess of this is transferred to the reinsurer. As of January 1, 2012, AEGON The Netherlands has ended this reinsurance contract and therefore retains the full death and disability risk.

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

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**RESULTS 2011 UNITED KINGDOM**

	2011	2010	%	2011	2010	%
	Amounts in GBP million			Amounts in EUR million		
<b>Net underlying earnings</b>	<b>33</b>	<b>103</b>	<b>(68%)</b>	<b>38</b>	<b>120</b>	<b>(68%)</b>
Taxes on underlying earnings	(28)	(42)	(33%)	(33)	(48)	(31%)
<b>Underlying earnings before tax by product segment</b>						
Life	86	60	43%	99	71	39%
Pensions	(75)	6		(86)	7	
Distribution	(6)	(5)	(20%)	(8)	(6)	(33%)
<b>Underlying earnings before tax</b>	<b>5</b>	<b>61</b>	<b>(92%)</b>	<b>5</b>	<b>72</b>	<b>(93%)</b>
Net fair value items	(5)	(8)	38%	(6)	(9)	33%
Gains / (losses) on investments	44	12		51	14	
Impairment charges	(55)	(30)	(83%)	(62)	(36)	(72%)
Other income / (charges)	(49)	41		(57)	48	
<b>Income before tax</b>	<b>(60)</b>	<b>76</b>		<b>(69)</b>	<b>89</b>	
Income tax attributable to policyholder return	(37)	(57)	35%	(43)	(67)	36%
<b>Income before income tax on shareholders return</b>	<b>(97)</b>	<b>19</b>		<b>(112)</b>	<b>22</b>	
Income tax on shareholders return	52	53	(2%)	60	62	(3%)
<b>Net income</b>	<b>(45)</b>	<b>72</b>		<b>(52)</b>	<b>84</b>	
Life insurance gross premiums	5,611	6,344	(12%)	6,474	7,425	(13%)
<b>Total gross premiums</b>	<b>5,611</b>	<b>6,344</b>	<b>(12%)</b>	<b>6,474</b>	<b>7,425</b>	<b>(13%)</b>
Investment income	1,867	1,999	(7%)	2,154	2,340	(8%)
Fees and commission income	119	140	(15%)	137	164	(16%)
<b>Total revenues</b>	<b>7,597</b>	<b>8,483</b>	<b>(10%)</b>	<b>8,765</b>	<b>9,929</b>	<b>(12%)</b>
Commissions and expenses	732	694	5%	844	812	4%
which includes operating expenses of	409	390	5%	472	456	4%
<b>New life sales</b>						
	2011	2010	%	2011	2010	%
	Amounts in GBP million			Amounts in EUR million		
Life	66	81	(19%)	77	94	(18%)
Pensions	672	826	(19%)	775	967	(20%)
<b>Total recurring plus 1/10 single</b>	<b>738</b>	<b>907</b>	<b>(19%)</b>	<b>852</b>	<b>1,061</b>	<b>(20%)</b>
<b>Gross deposits (on and off balance)</b>						
Variable annuities	49	82	(40%)	56	96	(42%)
<b>TOTAL GROSS DEPOSITS</b>	<b>49</b>	<b>82</b>	<b>(40%)</b>	<b>56</b>	<b>96</b>	<b>(42%)</b>

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

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**RESULTS 2011 UNITED KINGDOM**

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

**NET INCOME**

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

**UNDERLYING EARNINGS BEFORE TAX**

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

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

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

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

**COMMISSIONS AND EXPENSES**

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

**PRODUCTION**

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

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**RESULTS 2010 UNITED KINGDOM**

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

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

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**RESULTS 2010 UNITED KINGDOM**

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

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

**NET INCOME**

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

**UNDERLYING EARNINGS BEFORE TAX**

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

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

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

**COMMISSIONS AND EXPENSES**

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

**PRODUCTION**

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



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**BACKGROUND UNITED KINGDOM**

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

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

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

**ORGANIZATIONAL STRUCTURE**

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

AEGON UK's leading operating subsidiaries are:

Scottish Equitable plc. (trading as AEGON)

Origen Financial Services Ltd.

Positive Solutions (Financial Services) Ltd.

AEGON UK is organized into two distinct businesses:

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

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

**OVERVIEW SALES AND DISTRIBUTION CHANNELS**

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

In all, there are an estimated 30,000 registered financial advisors in the United Kingdom. These advisors may be classified as single-tied, multi-tied, whole of market or independent, depending on whether they are either restricted in the number of providers they deal with or are free to advise on all available products. AEGON UK maintains strong links with financial advisors in all segments of the market. Single-tie relationships have also been established with some advisors who have selected AEGON UK to be the sole provider of a particular product type.

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In November 2011, AEGON UK launched a retail platform, AEGON Retirement Choices (ARC). ARC is a technology driven delivery system for pensions, individual savings accounts (ISAs), investment bonds and other tax wrappers. It provides access to a wide range of investments and is focused on providing income solutions to customers who are planning their retirement. It allows customers to plan for the future, prepare for retirement, take an income and adapt to changing circumstances while in retirement. AEGON UK plans to launch a platform to meet the savings needs of employers and employees in 2012.

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

### **OVERVIEW LINES OF BUSINESS**

AEGON UK has three lines of business:

Life

Pensions

Distribution

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### **LIFE**

#### **GENERAL DESCRIPTION**

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

#### **PRODUCTS**

##### **INDIVIDUAL PROTECTION**

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

##### **IMMEDIATE ANNUITY**

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

##### **SALES AND DISTRIBUTION**

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

### **PENSIONS**

#### **GENERAL DESCRIPTION**

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

#### **PRODUCTS**

##### **INDIVIDUAL PENSIONS**

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

Flexible personal pensions.

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

Transfers from other retirement plans.

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Phased retirement options and income drawdown.

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

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

### PLATFORM

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

### CORPORATE PENSIONS

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

As a result of this trend, the market for new DB plans has shrunk dramatically in recent years, largely because of concerns over long-term liabilities. There are, however, opportunities for AEGON UK to take on the administration and management of existing plans.

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

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

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**INVESTMENT PRODUCTS**

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

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

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

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

**UNIT-LINKED GUARANTEES**

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

**SALES AND DISTRIBUTION**

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

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

**DISTRIBUTION**

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

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

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

**COMPETITION**

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

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

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

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

### **REGULATION**

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

The Financial Services Authority acts both as a prudential and conduct of business supervisor. As such, it sets minimum standards for capital adequacy and solvency, and regulates the sales and marketing activities of regulated companies.

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

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

**ASSET LIABILITY MANAGEMENT**

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

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

For its with-profit business, AEGON UK's general philosophy is to match guarantees with appropriate investments. However, the nature of with-profit businesses typically prevents perfect matching, and the role of the committee is therefore to monitor the capital implications of any mismatching. On an annual basis, detailed reports are produced for the relevant subsidiary Boards covering the impact of a range of possible investment scenarios on the solvency of each of the funds. These reports allow the central investment strategy for the with-profit funds to be discussed and are summarized for the Board of AEGON UK. In respect of non-profit business, interest rate risk arises substantially on AEGON UK's large book of annuities in payment. Assets are purchased to provide a close expected match to liability outflows, with regular reporting to the MIC on the capital implications of any mismatching.

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

**WITH-PROFIT FUNDS**

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

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

**GUARANTEES**

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

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

**SCOTTISH EQUITABLE PLC.**

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

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



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

**MANAGEMENT OF THE WITH-PROFIT FUNDS**

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

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

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

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

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

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

**REINSURANCE CEDED**

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

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

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**RESULTS 2011 NEW MARKETS**

Amounts in EUR million	2011	2010	%
<b>Net underlying earnings</b>	<b>157</b>	<b>152</b>	<b>3%</b>
Taxes on underlying earnings	55	48	15%
Underlying earnings before tax by product segment			
Central & Eastern Europe	96	95	1%
Asia	(41)	(39)	(5%)
Spain & France	88	87	1%
Variable Annuities Europe	9	11	(18%)
AEGON Asset Management	60	46	30%
<b>Underlying earnings before tax</b>	<b>212</b>	<b>200</b>	<b>6%</b>
Net fair value items	(29)	(10)	(190%)
Gains / (losses) on investments	2	13	(85%)
Impairment charges	(58)	(22)	(164%)
Other income / (charges)	7	(56)	
<b>Income before tax (excluding income tax from certain proportionately consolidated associates)</b>	<b>134</b>	<b>125</b>	<b>7%</b>
<i>Income tax from certain proportionately consolidated associates included in income before tax</i>	8	10	(20%)
Income tax	(50)	(34)	(47%)
<i>Of which income tax from certain proportionately consolidated associates</i>	(8)	(10)	20%
<b>Net income</b>	<b>84</b>	<b>91</b>	<b>(8%)</b>
Life insurance gross premiums	1,317	1,306	1%
Accident and health insurance premiums	71	72	(1%)
General insurance premiums	149	159	(6%)
<b>Total gross premiums</b>	<b>1,537</b>	<b>1,537</b>	
Investment income	247	234	6%
Fees and commission income	464	479	(3%)
Other revenues	1	4	(75%)
<b>Total revenues</b>	<b>2,249</b>	<b>2,254</b>	
Commissions and expenses	725	735	(1%)
which includes operating expenses of	547	562	(3%)

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**New life sales**

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

**Exchange rates**

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

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**RESULTS 2011 NEW MARKETS**

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

**NET INCOME**

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

**UNDERLYING EARNINGS BEFORE TAX**

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

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

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

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

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

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

**COMMISSIONS AND EXPENSES**

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

**PRODUCTION**

New life sales increased 3% to EUR 283 million.

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

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

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

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

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**RESULTS 2010 NEW MARKETS**

Amounts in EUR million	2010	2009	%
<b>Net underlying earnings</b>	<b>152</b>	<b>110</b>	<b>38%</b>
Taxes on underlying earnings	48	60	(20%)
Underlying earnings before tax by product segment			
Central & Eastern Europe	95	117	(19%)
Asia	(39)	(14)	(179%)
Spain & France	87	71	23%
Variable Annuities Europe	11	(4)	
AEGON Asset Management	46		
<b>Underlying earnings before tax</b>	<b>200</b>	<b>170</b>	<b>18%</b>
Net fair value items	(10)	3	
Gains / (losses) on investments	13	5	160%
Impairment charges	(22)	(27)	19%
Other income / (charges)	(56)	(387)	86%
<b>Income before tax (excluding income tax from certain proportionately consolidated associates)</b>	<b>125</b>	<b>(236)</b>	
<i>Income tax from certain proportionately consolidated associates included in income before tax</i>	<i>10</i>	<i>10</i>	
Income tax	(34)	(53)	36%
<i>Of which income tax from certain proportionately consolidated associates</i>	<i>(10)</i>	<i>(10)</i>	
<b>Net income</b>	<b>91</b>	<b>(289)</b>	
Life insurance gross premiums	1,306	1,284	2%
Accident and health insurance premiums	72	68	6%
General insurance premiums	159	151	5%
<b>Total gross premiums</b>	<b>1,537</b>	<b>1,503</b>	<b>2%</b>
Investment income	234	283	(17%)
Fees and commission income	479	140	
Other revenues	4	2	100%
<b>Total revenues</b>	<b>2,254</b>	<b>1,928</b>	<b>17%</b>
Commissions and expenses which includes operating expenses of	735	392	88%
	562	227	148%

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<b>New life sales</b>			
Amounts in EUR million	2010	2009	%
Life	229	196	17%
Associates	46	89	(48%)
<b>Total recurring plus 1/10 single</b>	<b>275</b>	<b>285</b>	<b>(4%)</b>
New premium production accident and health insurance	11	5	120%
New premium production general insurance	32	30	7%
<b>Gross deposits (on and off balance)</b>			
Central & Eastern Europe	948	801	18%
Asia	53	4	
Spain & France	89	61	46%
Variable Annuities Europe	663	622	7%
AEGON Asset Management	7.329	3.329	120%
<b>TOTAL GROSS DEPOSITS</b>	<b>9.082</b>	<b>4.817</b>	<b>89%</b>

**Exchange rates**

Per 1 EUR	Weighted average rate	
	2010	2009
Czech koruna	25.1205	26.3343
Hungarian forint	273.9494	280.2934
Polish zloty	3.9771	4.3248
Chinese rin min bi yuan	8.9699	9.4849

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**RESULTS 2010 NEW MARKETS**

AEGON's operations in New Markets reported improved results in 2010. Higher contributions from Spain & France, Variable Annuities Europe and the first-time inclusion of AEGON Asset Management were partly offset by lower underlying earnings before tax from Central & Eastern Europe and higher losses from continued investments in the company's operations in Asia. Although still negative, net results from AEGON's Asian operations improved considerably compared to the previous year, which included a charge related to the sale of the company's activities in Taiwan.

**NET INCOME**

In 2010, New Markets turned a net profit of EUR 91 million. A loss was reported in 2009 due to a one-off charge related to the sale of the company's life insurance activities in Taiwan. Net income in 2010 included a charge related to the Hungarian pension legislation changes of EUR 23 million and EUR 19 million related to bank tax in Hungary.

**UNDERLYING EARNINGS BEFORE TAX**

Underlying earnings before tax from New Markets increased 18% compared with 2009 to EUR 200 million. The increase was driven by a higher contribution from Spain and France and Variable Annuities Europe, as well as the inclusion of AEGON Asset Management, which added EUR 46 million in underlying earnings before tax to New Markets.

Underlying earnings before tax from Central & Eastern Europe decreased, while in Asia losses were higher as a result of continued investments in growth of the business. In Central Eastern Europe, the life and pensions operations performed in-line with 2009. However, the non-life business reported lower underlying earnings before tax due to higher claims relating to storms and floods in Hungary.

AEGON's operations in Asia recorded a loss of EUR 39 million as a result of continued investments in the company's joint ventures in China, India and Japan.

Underlying earnings before tax from Spain and France increased due to a higher contribution from La Mondiale, AEGON's associate in France.

Variable Annuities Europe turned to profit during the year and contributed EUR 11 million as a result of continued growth of the business. In 2010 asset management and administration fees were reduced, due to new pension legislation in Hungary. Assets are expected to be transferred to the Hungarian State during the first quarter of 2011. In Poland, the government has announced plans to reduce contributions to private pension funds. AEGON expects these measures to have a combined negative impact on underlying earnings before tax of approximately EUR 25 million in 2011.

**COMMISSION AND EXPENSES**

Commissions and expenses increased to EUR 735 million in 2010. Operating expenses increased to EUR 562 million for 2010, as compared to EUR 227 million in 2009. The increase was mainly due to the inclusion of AEGON Asset Management and restructuring charges.

**PRODUCTION**

New life sales during 2010 declined 4% compared with the previous year to EUR 275 million. Growth in Central & Eastern Europe - and to a lesser extent Asia - was more than offset by a decline in Spain. Strong single premium production in the bank channel in Poland, continued



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growth in Hungary and a successful shift from pensions to life insurance in Turkey contributed to the 26% growth in new life sales in Central & Eastern Europe. Sales in Asia increased 6% as a result of growth in both China and India, while the decrease in Spain was mainly due to lower sales from AEGON's partnership with CAM.

Gross deposits rose to EUR 9.1 billion, mainly as a result of strong growth in AEGON Asset Management. The main reason for the 2010 net deposits of EUR 3.9 billion was new asset management mandates, but all units contributed and experienced net inflows.

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**BACKGROUND CENTRAL & EASTERN EUROPE**

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 remains AEGON's leading business in the region and a springboard for further expansion. Today, AEGON has operations in six Central & Eastern European countries: the Czech Republic, Hungary, Poland, Romania, Slovakia and Turkey.

**ORGANIZATIONAL STRUCTURE**

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

AEGON Hungary Composite Insurance Company Limited by Shares

AEGON Hungary Investment Fund Management Company Limited by Shares

AEGON Hungary Pension Fund Management Company Limited by Shares

AEGON Poland Life Insurance Company

AEGON Pension Fund Management Company (Poland)

**SALES AND DISTRIBUTION CHANNELS**

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

**LINES OF BUSINESS**

**LIFE**

AEGON companies in Central & Eastern Europe offer a range of life insurance and personal protection products. This range includes traditional life, as well as unit-linked products. Unit-linked products cover all types of life insurance, including pension, endowment and savings. In Poland, AEGON is one of the leading providers of unit-linked products, offering around 184 different investment funds. In Hungary, AEGON's unit-linked market position is similar. In the course of 2011, the number of the offered investment funds reached 133.

Traditional general account life insurance is a marginal product for most of the region's businesses, except for Hungary 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.

Preferred life is an individual life term insurance product which offers insurance protection at competitive pricing. 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.

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AEGON offers savings products in Central & Eastern Europe as part of employee benefit programs. These products include guaranteed interest rate returns.

The main guarantee in Hungary is variable crediting rates with minimum interest guarantees between 0% and 4% for universal life type products, plus 100% participation in actual interest earned. Traditional non-profit share products have 5.5% technical interest rates, but this is an insignificant block of business. Profit share products 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 an announced interest guarantee of 2% and 1.5% 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 in 2010. For foreign currency products, the guaranteed interest rate is 2.5% for the old portfolio and varies between 2% - 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.

Based on gross written premium, Hungary has a share of around 55%, while Turkey has a share of around 25% in the traditional general account life insurance portfolio of the Central & Eastern Europe (CEE) region. The majority of the unit-linked portfolio (around 50%) was written in Poland, around 30% 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 two years, the mortgage lending shifted toward lending in Hungarian forint.

Starting from 2010, some legislation changes impacting on mortgage loans business have been enacted by the Hungarian Parliament. One of the most significant changes, enacted in September 2011, was the introduction of the possibility for debtors having mortgage loans denominated in foreign currency of redeeming the outstanding loan amount at fixed, below market exchange rate and thus forcing the financial institutions to suffer the financial loss resulting from the difference of the fixed and current market exchange rates.

**PENSIONS**

In the past, AEGON's pension business in Central & Eastern Europe 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 has introduced mandatory private pension plans: Hungary, Slovakia, Poland and Romania in the past. Additionally, at the end of 2011, AEGON had 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<sup>1</sup>. As of December 2011, AEGON had a total of 1.7 million pension fund members in the CEE region.

Since 2009, legislative changes have been implemented in the region's country units. These pension legislation changes have slowed the business growth. The most significant impact has been in Hungary, but changes have also slowed down the 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 had been required to make their choice as to whether they wish to stay at private pension funds (under the condition that they lose the entitlement to state pension related to employment years following the end of 2011) or if they opt out of the private pension funds, transferring their accumulated savings to the state held pension system. As a result, approximately 3% of the members decided to remain enrolled in the private pension system and the rest (97%) stepped back to the state pension.

At the end of 2011, further legislation changes were enacted in Hungary. Accordingly all the contributions deducted from the monthly wages of the members will be transferred to the state driven pension system (Pillar I) in the future. Members can transfer contribution to the private (formerly mandatory) pension funds only on a voluntary basis. Additionally, the members may decide to return back to the state driven pension system till the end of March 2012.

In accordance with the legislation 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 cannot be actively recruited into the private pension funds any more by the management companies.

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In 2011, AEGON announced the withdrawal from the voluntary pension business in Slovakia.

Also in 2011, pension system reform started in the Czech Republic. Accordingly, the so far existing Pillar III pension

<sup>1</sup> Source: the Association of Pension Fund Management Companies, Slovakia ([www.adss.sk](http://www.adss.sk)), Hungarian Financial Supervisory Authority ([www.pszaf.hu](http://www.pszaf.hu)) and Polish Financial Supervision Authority ([www.knf.gov.pl](http://www.knf.gov.pl)).

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funds need to be transformed and can continue operating in a new form as of 2013. Also, Pillar II was introduced by the new legislation enacted at the end of 2011.

### **NON-LIFE**

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

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 on these markets.

### **COMPETITION**

AEGON is among the biggest players on the life insurance market in Hungary. In 2011, based on the first nine months' total premium income, it is the fourth largest in Hungary. In terms of regular premium income AEGON is the second largest in the same period. (Source: Hungarian Insurance Association, [www.mabisz.hu](http://www.mabisz.hu)). Also based on the first nine months' premium income, AEGON is the fourth largest on the Hungarian non life insurance market (Source: Hungarian Insurance Association, [www.mabisz.hu](http://www.mabisz.hu)). AEGON is also a significant market player on the Polish market, ranked as seventh based on the unit-linked products in September 2011 (Source: [www.knf.gov.pl](http://www.knf.gov.pl)) 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.

On Hungary's voluntary pension fund market, AEGON was ranked third both in terms of the number of members and in terms of its managed assets in June 2011. (Source: [www.pszaf.hu](http://www.pszaf.hu)). In terms of managed assets AEGON was ranked fifth on the Slovakian private pension market in December 2011 (Source: Association of Pension Fund Management Companies). In Poland, AEGON is ranked sixth in terms of the number of members and eighth in terms of its managed assets in December 2011. (Source: [www.knf.gov.pl](http://www.knf.gov.pl)). As of December 31, 2011, on the Romanian mandatory private pension market, AEGON was ranked eighth, both in terms of net assets under management and number of members. (Source: [www.csspp.ro](http://www.csspp.ro)).

### **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:

the Hungarian Financial Supervisory Authority (HFSA);

the National Bank of Slovakia;

the Czech National Bank;

the Polish Financial Supervisory Authority (PFSA);

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

the Undersecretariat of Treasury (Turkey).

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

In addition to legal regulation, insurance companies are subject to a number of self-regulatory 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 private and voluntary pension funds are regulated by the country's Act on Private Pension and Private Pension Funds (LXXXII. 1997) and its Act on Voluntary Mutual Pension Funds (XCVI. 1993) respectively. Although, for AEGON, these activities are outsourced to AEGON Hungary Pension Fund Management Company, its operations must still comply with this legislation. This activity is also supervised by the HFSA. Slovakia's mandatory pension market is regulated by Act 43/2004 on pension asset management companies and respective notices, and the voluntary pension market by Act 650/2004 on Supplementary Pension Insurance. Both the mandatory and the voluntary pension business fall under the supervision of the National Bank of Slovakia (NBS). In Romania, the private pension system is regulated and supervised by the Private Pension System Supervisory Commission (CSSPP) and the mandatory pension system is subject to Act 411/2004 on Privately Administered Pension Funds, as primary legislation, complemented by individual Norms, as secondary legislation. In Poland, this activity is supervised by the Polish Financial Supervisory Authority (PFSA) and is governed by Act as of August 28, 1997 on Organization and Operation of Pension Funds. In the Czech Republic, the voluntary pension funds fall under the supervision of the Czech National Bank and are

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regulated by Act 42/1994 on State-Contributory Supplementary Pension Insurance. In Turkey, the voluntary pension funds fall under the supervision of the Undersecretariat of Treasury and the companies are subject to Individual Retirement Saving and Investment System Law No. 4632.

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

**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 calculations and liquidity. The performance of portfolios against benchmarks is also being 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 only at least A- rating by S&P and for long tail business CEE accepts only at least AA- rated (S&P) reinsurance company. The credit standing of the reinsurance partners is held under strict monitoring, being assessed by Risk Management 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 5.9 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 1.1 million).

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



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**BACKGROUND ASIA**

AEGON has life insurance joint ventures in China, India and Japan. In 2002, AEGON signed a joint venture agreement with China National Offshore Oil Corporation (CNOOC), China's leading offshore oil and gas producer. AEGON-CNOOC Life Insurance Co. Ltd. (AEGON-CNOOC) began operations in May 2003. The joint venture is licensed to sell both life insurance and accident and health products in mainland China.

Since 2003, AEGON-CNOOC has been steadily extending its network of offices and businesses in China. It now has licenses in Shanghai, Beijing, Hebei, Jiangsu, Shandong, Qingdao, Zhejiang, Ningbo, Tianjin, Guangdong, Shenzhen, Fujian and Hubei. These locations give the joint venture access to a potential market of more than 500 million people, most of them in the booming coastal provinces of eastern China.

AEGON is also present in India. In 2006, AEGON agreed to form a new life insurance partnership in India with Religare Enterprises Limited. This partnership began operations as a joint venture named AEGON Religare Life Insurance Co. Ltd. (AEGON Religare) in 2008. By December 31, 2011, AEGON Religare has a pan-India distribution footprint with 118 branches, across 84 cities and 23 states and has issued more than 200,000 policies.

Early 2007, AEGON signed a joint venture agreement with Sony Life, one of Japan's leading insurance companies. The joint venture in Japan, AEGON Sony Life Insurance Co. Ltd. (AEGON Sony Life) will initially focus on variable annuities sales in Japan, but the agreement also provides a platform for further cooperation between AEGON and Sony Life. The joint venture received its insurance license in Japan in August 2009 and its operations were launched on December 1, 2009. To date, 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 professional agents.

The shareholders in the joint venture agreement also agreed to jointly establish an offshore reinsurance company, SA Reinsurance Ltd (SA Re), to provide AEGON Sony Life relief from applicable reserve and capital requirements. Access to such offshore reinsurance will allow AEGON Sony Life greater flexibility in the pricing and product design of its variable annuity products. SA Re was established during late 2009 and received its Bermuda insurance license in January 2010. The Bermuda based reinsurance company is set up with Sony Life to hedge the guarantees of AEGON Sony Life's annuities. SA Re was launched in March 2010.

Since January 2011, AEGON adopted a new organizational structure for its operations in Asia. Whereas in the past, a number of AEGON's businesses in Asia were managed from the US, under the new structure all Asian based insurance businesses are managed as one regional division headquartered in Hong Kong. The aim is to leverage product and distribution expertise, capture efficiencies, and pursue organic growth of AEGON's franchise in Asia. The integration will be carried out in 2011 and 2012, in line with AEGON's strategy to achieve a greater geographical balance in favor of those regions and markets that offer higher growth and returns in the longer-term. Financial reporting reflecting the new organizational structure will start in 2012.

**ORGANIZATIONAL STRUCTURE**

AEGON-CNOOC Life Insurance Co. Ltd. (AEGON-CNOOC)

50% AEGON share

AEGON Religare Life Insurance Co. Ltd. (AEGON Religare)

26% AEGON share

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AEGON Sony Life Insurance Co. Ltd (AEGON Sony Life)

50% AEGON share

AEGON Asia Pacific B.V. Regional Office

100% AEGON share

### **SALES AND DISTRIBUTION**

As elsewhere around the world, AEGON operates through a number of different sales channels in Asia. 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 via multiple distribution channels like agents, independent brokers, banks, direct marketing and the group channel. The agency channel mainly sells regular premium participating endowment and critical illness products. The key product of bancassurance channel is regular premium participating endowment, telemarketers mainly sell return of premium products and the popular products in the brokerage channel are return of premium,

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participating endowment and critical illness products. AEGON now has partnerships in place with several of China's national banks including Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, Bank of Communications, China Construction Bank and China Merchants Bank.

As of December 2011, AEGON's bancassurance network in China totals 810 outlets.

AEGON Religare's focus has been on building a widespread nationwide agency network. The number of agents as of December 31, 2011 was in excess of 11,000. In addition, AEGON Religare distributes products via diverse channels: i) Religare Group, our strategic partner, ii) via other partnerships with companies that offer financial services to their clients; iii) brokers, and iv) to some extent via co-operative banks. Existing products are tailored to meet the specific customer requirements. There is focus on the gradual development of the on-line business by offering a protection and linked product online. AEGON Religare has been the pioneer for the launch of on-line protection business through its i-Term product.

AEGON Sony Life in Japan has two primary channels of distribution. One is the life planner channel of Sony Life, AEGON's joint venture partner, and the other is the bank distribution channel. Life planner began operations on December 1, 2009, and six regional banks have begun selling AEGON Sony Life's products since the launch of operation. AEGON Sony Life launched a partnership with one of the largest national mega banks in February 2010 and intends to add other bank partners going forward. Bancassurance is expected to become an increasingly important channel in Japan as banks are 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 in Japan.

**LINES OF BUSINESS****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 while regular premium participating endowment product is key product 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.

AEGON Religare started operations with the launch of three term assurance and three unit-linked insurance plans (ULIPs). However, owing to the revised regulatory norms relating to ULIP products, the sale of the existing ULIPs had to be discontinued by the end of August 2010 and new ULIP products were launched in the succeeding month. By December 31, 2011, AEGON Religare had seven term plans (including two group policies and one on-line), three traditional individual participating products, one traditional pension participating product, one traditional non-participating product, seven ULIP products (including one on-line), one group unit linked (group gratuity) product and a health product.

**INDIVIDUAL SAVINGS AND RETIREMENT**

AEGON Sony Life sells variable annuities. It provides guaranteed life time withdrawal benefit (GLWB) with rollup function during deferral period by 4% per annum and guaranteed minimum accumulation benefit (GMAB) (with 10, 12 and 15 year accumulation period options). All these new or renewed products were launched in August 2011. The GLWB product with guaranteed minimum surrender benefit (GMSB) is currently selling only through the mega bank partner.

SA Re reinsures all minimum guarantees offered on the variable annuity products from AEGON Sony Life, including GMAB, GMSB and GLWB. SA Re has been writing reinsurance contracts in relation to AEGON Sony Life guarantees since March 2010.

**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 product is group medical policies.

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As of December 31, 2011, AEGON Religare is selling a health product with the same nature 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). Its current contribution to AEGON Religare is small and it is sold by all the channels of the joint venture including agency, direct and business alliance.

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**COMPETITION****CHINA - AEGON-CNOOC**

China's life insurance industry declined in 2011 as reflected by new bancassurance regulations. As of December 31, 2011, there were 61 life insurance companies in the market, including 25 foreign life insurers with year to date total premiums of RMB 956 billion, a decrease of 9.0% over the same period last year. The top five life insurance companies control 72.8% of the market, while the foreign life insurance companies occupied 4.0%, i.e. RMB 38.6 billion of total premium (Source: China Insurance Regulatory Commission (CIRC)).

As of December 31, 2011, AEGON-CNOOC ranked 35th among all life insurance companies and 11th among foreign life companies (Source: CIRC). The company's market share among foreign-invested companies was 3.0% (Source: CIRC). Channel contributions to the APE production ranked in the following order: bancassurance, brokerage, direct marketing, agency and group.

A selection of domestic Chinese banks are allowed to make equity investments into insurance companies, and in some cases have become their key shareholders. As of December 31, 2011, there are nine bank-invested life insurance companies in China, including CITIC-Prudential (China CITIC Bank), Sunlife-Everbright Life (China Everbright Group), CCB Life (China Construction Bank), BoComm Life (Bank of Communications), HSBC Life (HSBC Bank), CIGNA-CMC Life (China Merchants Bank), AXA-Minmetals (ICBC), Jia He Life (ABC) and ING-BOB Life (Bank of Beijing). So far, these companies are slightly affected by regulator's strict requirements on bancassurance business in 2011.

Due to fast growth in premium contributed by bancassurance in recent years, the China Banking Regulatory Commission (CBRC) and China Insurance Regulatory Commission (CIRC) introduced various new circulars and guidelines to better protect policyholders and supervise bancassurance business of commercial banks and ensure both insurers and banks act prudently.

In response to the CIRC's bancassurance rules, banks are increasing their interests and taking controlling stakes in insurers. In February 2011, Agricultural Bank of China took a 51% holding in Jiahe Life. In June 2011, China Construction Bank (CCB) bought a stake in life insurer Pacific-Antai Life Insurance from a consortium and became the controlling shareholder with a 51% stake. Insurers are also investing in banks. In August 2011, Ping An became the majority shareholder in Shenzhen Development Bank.

As most life insurers do not like to see the unbalanced distribution channel caused by bancassurance monopoly, more and more companies are developing telemarketing (e.g. AVIVA-COFCO, Generali China) and TV shopping (e.g. CIGNA-CMC) channels.

Many small and medium-sized life insurers are also developing broker channels, including, Happy Life, Sino Life, Greatwall Life, Sinatay Life and Generali China etc.

**INDIA - AEGON RELIGARE**

The Indian life insurance industry is one of the strongest growing sectors in the country for the last several years being second only to banks for mobilized savings and forms an important part of the capital market. However, it has seen some slow-down in the financial year ending March 31, 2011 (2010-11) together with a shift towards non-linked products after the new regulatory changes effective as of September 1, 2010 with respect to pricing of unit linked products. The first year premium which is a measure of new business secured by the life insurers during 2010-11 was INR 1,264 billion as compared to INR 1,099 billion in 2009-10 registering a growth of 15%. In terms of linked and non linked business during the year of 2010-11, 37.4% of the total premium was underwritten in the linked segment while 62.6% of the business was in non-linked segment (43.5% and 56.5% respectively in 2009-10). The total premium underwritten by the life insurance sector in 2010-11 was INR 2,916 billion as against INR 2,655 billion in 2009-10 exhibiting a growth of 9.9%. While renewal premium accounted for 56.7% (58.6% in 2009-10) of the total premium received by life insurers, first year premium contributed 43.3% (41.4% in 2009-10). During 2010-11, the growth in renewal premium was 6.2% (15.7% in 2009-10) (Source: IRDA Annual Report 2010-11). The agency force is still an important distribution channel, but life insurers are increasingly lining up with the banks to distribute their products. During the period of April to September 2011, the total premium collected which includes new premiums and renewal premiums decreased 2% to around INR 1,227 billion from around INR 1,252 billion. The fall can be attributed to a drop in new business premium collection, down 22% in the same period. However, for the same period, the renewal premium collection grew 17% to around INR 736 billion, compared to around INR 628 billion in the corresponding period last year (Source: Article related to Life Insurance Council data reported in website of Indiaexpress.com dated November 23, 2011).

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There were 24 life insurers licensed in India as of the end of December 2011 (Source: IRDA website). The Life Insurance Company of India (LIC) remains the dominant player in the market and has a 72% share of the new business premium

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while the balance is dispersed among the private sector companies (Source: Monthly New Business Report from IRDA website). On its part, AEGON Religare has underwritten total premium of INR 4.6 billion for the calendar year of 2011, this being an increase of nearly 60% compared to the same period last year.

AEGON Religare has been making a steady progress in the vastly competitive Indian insurance market by striving to drive growth through the branches set-up, launching innovative products, building upon the third party distribution network through new alliances. Being the pioneer in the country for on-line protection product, the Company is working the on-line model for better offering.

**JAPAN - AEGON SONY LIFE**

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

The size of the VA market for the first three quarters 2011 was about JPY 0.4 trillion, which is about half the size of the previous year of JPY 0.9 trillion, and only 10% of the peak market size (Source: Website of Life Insurance Association of Japan). This is due to the introduction of negatively priced single premium whole life (SPWL) by large, aggressive mutual companies who want to get top line at the expense of selling loss making products. One of the major players of the product has announced a shift in its pricing, which we believe will revert to the norm over time.

Most of the players concentrate on GMAB products. GLWB is currently provided by Mitsui Sumitomo, Primary Life and AXA. At the end of September 2011, Allianz, one of the major players in GMAB announced its termination of new business from 2012. Although overall insurance savings market size is relatively stable, large part of the share was taken by SPWL in these two or three years. As fixed annuity (FA) market size is more or less stable, the VA market is now facing severe challenge. There are only ten active players in the VA market and AEGON Sony Life Insurance Co's (ASLIC) position in December 2011 (based on April - December data) is around the 7th with about 4% of market share (Source: Bancassurance information exchange (informal)). ASLIC gross deposits in 2010 were JPY 12 billion and JPY 13 billion in 2011, which represents growth of about 7%.

**REGULATION AND SUPERVISION****CHINA - AEGON-CNOOC**

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

In 2011, in the field of business management, CIRC regulated operating behavior of bancassurance business and regulated agent qualification, operation rules, agency fee, sales methods, sales behavior, financial accounting and emergency mechanisms. In the field of corporate governance, CIRC clarified the regulations with respect to required acceptance checks for business commencement of insurance companies to standardize and guide this process to improve the procedures for insurance market access. CIRC also clarified the requirements with respect to the application, placement, administration, repayment, information disclosure of issuing subordinated term debts. In the field of capital guarantee funds management, CIRC clarified deposit rules of capital guarantee funds to strengthen the administration of capital guarantee funds of insurance companies and maintain the steady and healthy development of the insurance market. In the field of Anti-Money Laundering (AML), CIRC restated and emphasized AML obligations of the insurance industry, clarified the regulatory duties of CIRC and dispatched offices of the CIRC to further promote the sustainable and healthy development of AML work. In the field of product management, CIRC promoted the pilot work for variable annuity insurance and regulated management model, product shape, appropriation of liability reserves and information disclosure. CIRC issued the Administrative Measures for the Insurance Clauses and Premium Rates of Personal Insurance Companies, which restated and regulated the design and classification, the examination, approval and filing and the changes and the stop of the use of the insurance clauses. In other fields, CIRC further strengthened regulation on operation of personal insurance business to protect the legitimate rights and interests of the insured and policyholder.

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Due to fast growth in premium contributed by bancassurance in recent years, the China Banking Regulatory Commission (CBRC) and CIRC introduced various new circulars and guidelines to better protect policyholders and supervise bancassurance business of commercial banks and ensure both insurers and banks act prudently.



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CIRC is developing a set of regulations governing telemarketing and e-sales. The aim is to ensure the healthy development of such business in China, preventing fraud and protecting the rights of insurers, policyholders and their beneficiaries.

**INDIA - AEGON RELIGARE**

The Indian life insurance companies are regulated by the Insurance Regulatory and Development Authority (IRDA) that regulates, promotes and encourages orderly growth of insurance and re-insurance business in India. Established by the Government of India, it safeguards the interest of the insurance policy holders of the country.

IRDA introduced certain regulatory changes in 2011, major among them are the guidelines on outsourcing of activities by insurance companies (February 2011), distance marketing and web aggregator guidelines (October 2011), health insurance portability (October 2011) and IPO (initial public offering) guidelines for life insurers (December 2011).

**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. The standard examination period for approval is 90 days (60 days for minor changes). General policy provisions, statements of business procedure, pricing and valuation require approval. The FSA also has the right to do on and off site inspection. Relevant regulations for insurance operation include the Insurance Business Law and related enforcement/notice, the Insurance Act, the Financial Instruments and Exchange Act, amongst others.

**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 that most insurance liabilities are single-pay products with benefit term ten years or less, AEGON-CNOOC purchased corporate bonds, government bonds, and statutory deposits to match this liability while operating funds are invested in the short-term bond, money-market fund and bond repurchase markets in order to achieve higher investment returns.

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

**INDIA - AEGON RELIGARE**

AEGON Religare has a Board level Investment Committee and Risk management and Capital Committee. Additionally, there is a management level Risk and Capital Committee (RCC). A regular review of risk and capital requirement is conducted across the committees. As the business mix has changed during the year with traditional products increasingly being sold, Asset Liability Management (ALM) becomes 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 SA RE**

AEGON Sony Life reinsures (cedes) 100% of its guarantees on the variable annuities to SA Re. SA Re 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, SA Re accepts certain market and policyholder behavior risks. SA Re will cover payments under the guarantees to the extent that benefits to the policyholder exceed the variable annuity account value. The market risks are

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managed through the use of capital markets hedging techniques.

The hedging program include 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. Because some of the equity indices are not traded in Japanese Yen (SA Re s functional currency), 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, but it is expected that income volatility will be reduced by approximately 70%-80% of what it would be un-hedged. The hedge will also not fund all changes in capital, as the minimization of income volatility leads to a strategy different from that required to minimize capital volatility.

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Policyholder behavior risks are managed through a combination of product design (for example, investment mix limitations), pricing techniques (for example, assuming that the riskiest investment mix is elected), and through hedge construction and rebalancing to reflect emerging experience, and are reflected in the reinsurance premium that is charged by SA Re 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 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 our hedge strategy (the back test spans the period June 1999 to June 2009). SA Re's Risk & Capital Committee meets on a quarterly basis.

**REINSURANCE CEDED****CHINA - AEGON-CNOOC**

AEGON-CNOOC shares its morbidity and mortality risk with some international and national reinsurers. The mortality risk of individual products is shared through a surplus reinsurance structure. Most of the morbidity risks are taken by Gen Re and Munich Re in quota share. The life and accidental group products are reinsured by Hannover Re and group health products are ceded to Munich Re and 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 SA RE**

AEGON Sony Life reinsures (cede) 100% of its guarantees on the variable annuities to SA Re. AEGON Sony Life may utilize third party reinsurance for a minor portion, considering the transfer pricing issues.

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**BACKGROUND SPAIN**

AEGON first entered the Spanish market in 1980 when it bought local insurer, Seguros Galicia. In recent years, AEGON's activities in Spain have grown rapidly, mainly due to distribution partnerships with some of the country's leading saving 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 companies in Spain, including joint ventures with third parties, are provided by AEGON Administracion y Servicios A.I.E., a separate legal entity. In addition, AEGON operates through partnerships with the financial entities Caja Mediterraneo (CAM), Banca Cívica, Caja Tres, Liberbank and Unnim.

**ORGANIZATIONAL STRUCTURE**

AEGON's main subsidiaries and affiliates in Spain are:

AEGON ESPAÑA, S.A. de Seguros y Reaseguros, S.A.

AEGON Administracion y Servicios A.I.E

Mediterraneo Vida, 49.99%

Caja Badajoz Vida y Pensiones, 50%

CAN Vida y Pensiones, 50%

CAN Salud, 50%

Cantabria Vida y Pensiones, 50%

Unnim Vida, 50%

Caixa Sabadell Vida, 50%

Caja Burgos Vida, 50%

**SALES AND DISTRIBUTION**

In Spain, over 70% of life insurance policies are sold through the country's retail banks. In 2010, a process of restructuring was underway in Spain's financial sector, with an aim to reduce the number of saving banks from 45 to 18. So far, there have been 7 merging processes involving

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17 saving banks. Additionally, 22 saving banks have been party to 5 agreements based on Spain's Institutional Protection System (SIP). For these reasons, Spain in recent years has been an important part of AEGON's efforts to expand its web of bank distribution partnerships.

AEGON now has partnerships in place with five of Spain's leading financial entities, giving the AEGON Group access to nearly 2,100 branches across the country:

Caja de Ahorros del Mediterráneo

Banca Cívica

Caja Tres

Liberbank

Unnim

Each of these entities has been subject to the restructuring process in Spain's financial sector.

### CAM

AEGON's partnership with Caja de Ahorros del Mediterraneo (CAM) goes back to 2004. CAM has a network of more than 1,120 branches across the Valencia, Murcia and Catalonia provinces, as well as in Madrid and on the Balearic and Canary Islands. AEGON and CAM, respectively, have a 49.99% and 50.01% interest in Mediterraneo Vida, the life insurance and pensions company that has exclusive access to CAM's branch network.

AEGON is of the opinion that, in 2010, a change of control occurred in Caja de Ahorros de Mediterráneo (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. Currently, CAM and AEGON are in an arbitration process to determine the occurrence of a change in control and the corresponding date, which determines the exit price. Considering possible alternative outcomes of the arbitration process, AEGON expects that it will recover at least the book value as at December 31, 2011.

### BANCA CÍVICA

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

In 2010, Caja Navarra entered into a SIP named Banca Cívica, currently integrating the following entities: Caja Navarra, Caja Burgos, Caja Sol and Caja Canarias. AEGON has signed an agreement with Banca Cívica to considerably improve its existing partnership agreement with Caja Navarra and to integrate 50% of the life business of Caja Burgos. Furthermore, AEGON and Banca Cívica undertake to extend and modify their agreement in the future in order to permit the incorporation of any other entity that becomes an integral part of the Banca Cívica Group (Caja Canarias and Cajasol). The acquisition of Caja Burgos was completed in October 2011.

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In July 2011, the Spanish insurance regulator authorized CAN Salud to start its health insurance activity. Consequently, CAN Salud sells health insurance products since October 2011.

**CAJA TRES**

Caja Badajoz has a network of 216 branches, primarily in the western region of Extremadura, which adjoins Spain's border with Portugal. Under AEGON's partnership with Caja Badajoz, also agreed in 2005, AEGON and Caja Badajoz have set up a 50/50 joint company to sell life insurance and pensions. In 2011, Caja Badajoz Vida entered into a SIP named Grupo Caja Tres, currently integrating Caja Inmaculada, Caja Círculo de Burgos and Caja Badajoz.

**LIBERBANK**

Caja Cantabria is one of the largest saving banks in northern Spain, with a total of 172 branches, located primarily in its home province of Cantabria. In 2011, Caja Cantabria Vida entered into a SIP named Liberbank, currently integrating Cajastur, Caja Extremadura and Caja Cantabria.

**UNNIM**

In 2010, Caixa Terrasa merged with two other saving banks (Caixa Sabadell and Caixa Manlleu) to create a new company (Unnim). AEGON has signed an agreement with Unnim in order to integrate Caixa Sabadell and Caixa Manlleu into its existing joint venture with Caixa Terrasa. The integration of Caixa Sabadell was completed on July 1, 2011. Unnim is one of the largest saving banks in Catalonia. As a result of this partnership, AEGON has access to one of the wealthiest areas of Spain. On September 30, 2011, Unnim was capitalized by a 100% state-owned fund (FROB), being de facto nationalized. On March 7, 2012, it was announced that the FROB awarded BBVA Group to acquire Unnim, after a competitive auction.

The 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.

**LINES OF BUSINESS**

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, foreign and local companies for health insurance products.

**REGULATION**

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

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

**ASSET LIABILITY MANAGEMENT**

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

**REINSURANCE CEDED**

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

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

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**BACKGROUND FRANCE**

In 2002, AEGON signed a partnership agreement with mutual insurer La Mondiale, one of France's largest providers of life insurance and pensions. AEGON has a 35 percent interest in La Mondiale's subsidiary company La Mondiale Participations. La Mondiale Participations offers a wide range of life insurance, pension, savings, investment, asset management and accident and health products to both corporations and individual retail customers. In 2005, the AEGON Pension Network was launched in collaboration with La Mondiale.

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

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



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**BACKGROUND VARIABLE ANNUITIES EUROPE**

AEGON Ireland plc (Variable Annuities Europe) has two business lines: 1) variable annuities for Europe (active in the United Kingdom, France and the Netherlands) and 2) international/offshore bonds for the UK market.

**SALES AND DISTRIBUTION CHANNELS**

AEGON Ireland does not employ a (direct) sales force, but works with the sales force of the AEGON companies in the UK and the Netherlands. Sales in France are through AG2R La Mondiale. AEGON NV 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 primarily distributed through independent financial advisers (IFAs) and banks.

In the United Kingdom, the distribution channels are AEGON's Regional Sales Centres, Access (telephony account management) and Partnerships with major third parties such as HSBC, Barclays and Openwork. AEGON Ireland launched three new variable annuity products in the United Kingdom in June 2011 to complement existing VA products.

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 Netherlands, distribution of AEGON Variabele Lijfrente is through AEGON's local banking and Independent Financial Adviser (IFA) channels.

**INTERNATIONAL BONDS**

In the UK, the distribution channels are AEGON's Regional Sales Centres, Banks and Private Wealth Management Team.

**LINES OF BUSINESS****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; 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 pay-out 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

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rates are typically lower when a surrender charge penalty is still present. Any surrender charges collected are typically applied to recoup outstanding installation 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 collective investment schemes such as unit trusts, SICAVs and open-ended investment companies (OEICs), together with internal linked funds 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. 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.

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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 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 outstanding installation costs.

## **COMPETITION**

### VARIABLE ANNUITIES

There has been no significant change from 2010 to 2011 in the competitive environment for variable annuities across Europe. Continued difficult economic and financial conditions during 2011 meant that new product launches were limited. AEGON's main competitors in Europe are AXA, Metlife, Allianz, ING, Generali and SwissLife.

In the UK, 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 ING, Generali and Swiss Life are also offering variable annuity products.

### INTERNATIONAL BONDS

The UK offshore bond market remains highly competitive. AEGON has a 4.5% market share, placing it in seventh place. The top three providers by market share are Canada Life, AXA Wealth and Standard Life respectively. AEGON's current ranking reflects the difficulties experienced in 2011 as a result of aggressive competitor pricing in the retail IFA market and increasing platform use amongst IFAs. As progress continues with the platform strategy, AEGON Ireland is now currently available on six external platforms. Key channels going forward will be platforms and wealth managers/private banks.

## **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 and I. 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 (and very extensive powers in relation to) the prudential supervision and regulation of AEGON Ireland. As a consequence of its regulatory status, AEGON Ireland is subject to a large number of significant restrictions on its:

Capital and solvency position

Scope of business activities

Interaction with other group companies

Reporting and prudential supervision

Corporate governance

The Central Bank of Ireland's supervisory process is carried out by way of:

Analysis of returns submitted

Risk-rating of undertakings

Themed inspections across the life insurance industry

Annual review meetings with individual life insurance undertakings

Regular correspondence and engagement

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**BACKGROUND 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 its New Markets segment.

**ORGANIZATIONAL STRUCTURE**

AEGON Asset Management is situated within the Netherlands, the United Kingdom, the United States, Central Europe, Hong Kong, China and India. In 2011, Transamerica Investment Management (TIM), a unit within the United States was dissolved and the Netherlands based unit TKP Investments transferred into AEGON Asset Management. Furthermore, the UK business was mandated to be a distinctive third party profit-driven asset manager.

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 Netherlands

TKP Investments (Netherlands)

Kames Capital (UK)

AIFMC (China)

**SALES AND DISTRIBUTION**

AEGON Asset Management's primary customer is 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.

**LINES OF BUSINESS**

AEGON Asset Management operates three lines of business general account, unit-linked and third party corresponding to the client groups listed above. In Asia, all of its business was third party in 2011. 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 bespoke 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.

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**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 its active. Generally, there are different competitors for different types of asset class or different styles of management. In 2011, the asset management industry experienced volatility in major world currencies, historically low interest rate, rising inflation in certain pockets and overall credit crisis in the US and eurozone. In this environment asset allocation to fixed income and emerging markets has tended to rise. In addition, investor demands have increased with a greater likelihood to scrutinise and challenge the asset managers leading to more focus on portfolio risk management and investment in better systems and governance. In third party markets, there is evidence of a shift in customers' requirements towards absolute return funds, global products (e.g., global equities) and solutions tailored to their specific requirements.

**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 firm 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 over the company's overall risk and solvency positions. By setting certain pre-defined 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 three measures to determine its approach to financial strength:

regulatory requirements.

relevant requirements for AA capital adequacy.

any additionally 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 as follows:

To minimize ambiguity by clearly defining responsibilities and reporting procedures for decision makers.

To institute a proper system of checks and balances by ensuring that senior management is aware at all times of material risk exposure.

To manage concentration of risk 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 constituencies 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 number of company-wide risk policies in place, 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 operating units. AEGON's risk management governance structure has three basic layers:

The Supervisory Board (and the Supervisory Board Risk Committee).

The Executive Board (and the Executive Board Risk Committee) and the Management Board.

The Enterprise Risk Management Committee (ERMC) and Group Risk & Capital Committee (GRCC). Additionally, there are sub-committees and regional committees, who support the ERMC and GRCC.

AEGON's Executive Board (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 Executive Board Risk Committee (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

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policies. The EBRC regularly reports significant risks to, and discusses AEGON's risk strategy with, the Supervisory Board Risk Committee (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 Supervisory Board Risk Committee.

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 market consistent value at risk 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 Supervisory Board's Risk Committee can be found on page 110 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 and Capital Committee (GRCC) to support the EBRC with risk oversight, as the primary balance sheet management committee of AEGON.

The ERMC is advised by three sub-committees: the Risk Governance and 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 (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 and strategic business units (SBUs). 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 operating unit Chief Risk Officers (CROs) have the additional authority to defer decisions that can have a significant impact on the region's or operating unit's solvency, liquidity or operations to the Board of the region or operating unit and AEGON's Chief Risk Officer.

The Management Board (MB) oversees a broad range of strategic and operational issues. While the Executive Board remains AEGON's sole statutory executive body, the Management Board provides vital support and expertise in safeguarding AEGON's strategic goals. In the context of Enterprise Risk Management, the MB advises the EBRC regarding material changes of risk methodology, risk governance, risk policies and risk tolerance.

Group Risk is responsible for developing and keeping 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 operating 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 analyses, either at its own initiative or at the request of management, including the analysis of extreme events and related management capabilities.

AEGON's risk management staff structure is fully integrated. Operating unit CROs have a direct reporting line into AEGON's Chief Risk Officer or one of the regional CROs that report directly into AEGON's Chief Risk Officer. Regions include the Netherlands, Americas, United Kingdom, New Markets (Central & Eastern Europe, Asia, Spain, VA Europe and AEGON Asset Management) and Holding.

**LINES OF DEFENSE**

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AEGON's risk management structure includes the establishment of 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, either due to unidentified risks materializing or losses that exceed pre-defined 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, i.e. business and support functions. The second line of defense facilitates and oversees the effectiveness and integrity of enterprise risk management across the company, i.e. risk functions and committees. Finally, the third line of defense provides independent assurance and challenge regarding the effectiveness and integrity of enterprise risk management across the company, i.e. audit functions and committees.

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**RISK MANAGEMENT IN 2011 <sup>1</sup>**

The effects of the global crisis that began in 2008 continued to be felt throughout 2011 and were exacerbated by the European debt crisis. Equity markets decreased and remained volatile. Interest rates, already at historic lows, declined during the year and more sharply during the second half of the year, to levels lower than the end of the previous year. After initially narrowing during the first quarter of the year, credit spreads later widened. General economic and business conditions remained difficult. During the year, AEGON carried out regular sensitivity analyses to determine the impact of different economic and business scenarios, particularly on the company's earnings and capital position. These plans also cover extreme event scenarios, such as the possibility of pandemics in one or more of the company's main markets.

During 2011, AEGON took a series of measures to limit the company's exposure to major financial risks.

**RISK OVERVIEW 2011****CREDIT RISK**

After initially narrowing during the first part of the year, credit spreads later widened for the remainder of 2011. During the year, AEGON took a number of specific steps to reduce its exposure to credit risk:

Further restructuring of AEGON US's investment portfolio increasing the allocation to US Treasury bonds.

In the UK, increased investment in lower-risk long-term UK government bonds.

Reduced 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 2011, AEGON continued to refine its program of hedging equity risk at its US and Dutch operations to protect the company against a possible deterioration in equity markets. In the Netherlands, additional steps were taken to reduce equity exposure through the sale of equity positions that were held against employee pension liabilities.

**INTEREST RATE RISK**

Similar to 2010, interest rates continued to decline especially in the second half of 2011 from already low levels. Falling rates particularly impacted investment income and margins on financial guarantees included in certain policies. AEGON took several de-risking initiatives to reduce exposure to movements in interest rates. In the US, a number of interest rate sensitive products were re-priced and product features adjusted to decrease interest rate risk. Fixed annuity sales in the US, meanwhile, were de-emphasized. In addition, in the UK, steps were taken to direct investments to lower risk long-dated UK government bonds.

**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 country 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 regularly considers the most 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 2011, 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 for at least the next two years, even if market conditions were to significantly deteriorate from current conditions.

#### **UNDERWRITING RISK**

AEGON's earnings depend, to a significant degree, on the extent to which claims experience is consistent with assumptions used by the company 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. AEGON believes it has the capacity to take on more underwriting risk (providing it is correctly priced) in line with the company's broader strategy to capitalize on growth opportunities in its main life insurance and pension markets. In keeping with this strategy, AEGON reduced exposure to underwriting risks outside of its chosen markets through the divestment of Transamerica Reinsurance.

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

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**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.

**TYPES OF RISK**

As an international provider of life insurance, pensions and asset management products, AEGON faces a number of risks, including underwriting, operational and financial. Some of these risks 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.

**I RISKS RELATING TO AEGON'S BUSINESS**

The following discusses some of the key risk factors that could affect AEGON's business and operations, as well as other risk factors that are particularly relevant to AEGON in the current period of significant economic and market disruption. Additional risks to which we are subject include, but are not limited to, the factors mentioned under Forward-Looking Statements (refer to page 380) and the risks of AEGON's businesses described elsewhere in this Annual Report. Other factors besides those discussed below or elsewhere in this Annual Report also could adversely affect AEGON's business 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 and continue to affect, and could have material adverse effects on, AEGON's business, 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 2008 and 2009. World economies experienced a significant slowdown in 2008 and 2009 and only slowly began to recover late in 2009 and throughout 2010, although the strength of recovery has varied by region and by country and has shown signs of slowing. Uncertainty in financial markets is expected to remain high in 2012, with signs of an economic slowdown apparent as national governments start to withdraw the financial stimuli that they introduced as a response to the slowdown in 2008 and 2009 and governments in the European Monetary Union openly consider the future viability of the euro currency. 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 have resulted and may continue to result in a reduction in 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 business, results of operations, cash flows and financial condition, may occur.

In Europe, countries such as Portugal, Ireland, Italy, Greece and Spain 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 that intensified in the latter part of 2011, 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. At December 31, 2011, AEGON had exposure to government debt (based on amortized cost) of Portugal, Ireland, Italy, Greece and Spain of EUR 13 million, EUR 46 million, EUR 30 million, EUR 1 million and EUR 1,022 million, respectively. Yields on the sovereign debt of most European Union member states have recently been volatile and trending upward. The European Union, the European Central Bank and the International Monetary Fund have prepared rescue packages for some of the

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affected countries. 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

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currency or the European Monetary Union nor the impact on AEGON's business, results of operations, cash flows and financial condition if such rescue packages are not successful. AEGON also cannot predict with any certainty the effect a sovereign default may have on AEGON's business, result of operations, cash flows and financial condition, although the effect of such events may have could be material and adverse.

Governmental action in the Netherlands, the US, the European Union and elsewhere to address any of the foregoing could impact our business. AEGON's cannot predict with any certainty the effect that these government actions and actions by the European Central Bank, the Federal Reserve or other governmental actions may have on the financial markets or on AEGON's business, results of operations, cash flows and financial condition.

**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, we typically bear 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.

AEGON's investment portfolio contains investments in Dutch government bonds, US Treasury, agency and state bonds, as well as other government issued securities. Recently, there has been uncertainty regarding the ability of certain European nations (in particular Portugal, Italy, Ireland, Greece and Spain) and US states and municipalities to satisfy their financial obligations. Over the past couple of years, during the weak economic environment, AEGON incurred significant investment impairments on its 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 material adverse effect on AEGON's business, 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.*

Fluctuations in the equity markets have affected AEGON's profitability, capital position and sales of equity related products in the past and continue to do so. Exposure to equity markets exists in both assets and liabilities. Asset exposure exists through direct equity investment where we bear all or most of the volatility in returns and investment performance risk. Equity market exposure is also present in insurance and investment contracts for account of policyholders where funds are invested in equities (such as variable annuities, unit-linked products and mutual funds). Although most of the risk remains with the policyholder, lower investment returns can reduce the asset management fee that we earn on the asset balance in these products and prolonged investment under-performance may cause existing customers to withdraw funds and potential customers not to grant investment mandates. In addition, some of AEGON's insurance and investment contract business has minimum return or accumulation guarantees, which requires AEGON to establish reserves to fund these future guaranteed benefits when equity market returns do not meet or exceed these guarantee levels. AEGON's reported results under International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board and adopted by the European Union, 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 our savings and investment products, which could lead to lower sales and net income. Deteriorating general economic conditions may again result in significant decreases in the value of AEGON's equity investments. The equity market conditions experienced through 2011 led to a recognized impairment loss on equity securities held in general account of EUR 10 million (2010: EUR 7 million).



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**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, 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 re-finance 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.

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

Base interest rates set by central banks and government treasuries remained at the historically low levels initiated in response to the worldwide recession. Certain central banks and government treasuries, including the US Federal Reserve and the European Central Bank, announced during 2011 initiatives designed to maintain or lower long-term interest rates over the next year or longer. Although base rates remained low, credit spreads remained at historically high levels in 2011 with widening credit spreads for sovereign debt in a number of European countries, which has had an adverse impact on credit spreads for banks and other financial institutions, in particular in such countries.

The profitability of AEGON's spread-based business depends in large part upon the ability to manage interest rate spreads, credit risk and other risks inherent in the investment portfolio. AEGON may not be able to successfully manage interest rate spreads, credit risk and other risks in the investment portfolio or the potential negative impact of those risks. Investment income from general account fixed income investments for the years 2009, 2010 and 2011 was EUR 5.8 billion, EUR 6.0 billion and EUR 5.6 billion, respectively. The value of the related general account fixed income investment portfolio at the end of the years 2009, 2010 and 2011 was EUR 130 billion, EUR 138 billion and EUR 139 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 operating 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 operating units that maintain their equity in currencies other than the euro.

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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 UK, 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 2011. In 2011, the US dollar ranged by as much as 14% against the euro, finishing around 3% up on 2010. The UK pound fluctuated by around 9% 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 2011 amounted to EUR 12.4 billion and EUR 670 million, respectively. For the UK segment, which primarily conducts its business in UK pounds, total revenues and net income in 2011 amounted to EUR 8.8 billion and EUR (52) million, respectively.

On a consolidated basis, these two segments represented 73% of the total revenues and 71% of the net income for the year 2011. Additionally, AEGON borrows in various currencies to hedge the currency exposure arising from its operations. On December 31, 2011 AEGON has borrowed or swapped amounts in proportion to the currency mix of capital in units, which was denominated approximately 58% in US dollars, 25% 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.*

Despite measures taken by the European Union to provide funding to certain European Union member states in financial difficulties and by a number of European countries to stabilize their economies and reduce their debt burdens, 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 material 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 business. Each asset purchased and liability sold has liquidity characteristics that are unique. Some liabilities are surrenderable while some assets, such as privately placed loans, mortgage loans, real estate and limited partnership interests, have low liquidity. AEGON continued to maintain its reserves of cash and liquid assets in 2011. In depressed markets AEGON may be unable to sell or buy significant volumes of assets at quoted prices. For example, over the past few years, the market for residential mortgage-backed securities has experienced a significant decrease in liquidity. In addition, any securities AEGON issues of significant volume may be issued at higher financing costs if liquidity conditions are impaired as they have been in recent years. 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 time, AEGON may need to sell assets below quoted prices to meet its insurance obligations during periods of impaired liquidity.

In 2011, 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. To the extent that 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,

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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

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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 material adverse effect on AEGON's reported results of operations and financial condition.

Sources of underwriting risk include policy lapses, policy claims (such as mortality and morbidity) and expenses. In general, 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. 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 that are at risk if mortality decreases (longevity risk) such as annuity products. 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. In 2011, a total of EUR 124 million was added to the provision for longevity in the Netherlands compared to 2010. This amount was fully charged to underlying earnings before tax. 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 material 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 certain of its products which will decrease AEGON's returns on these products unless AEGON increases its prices.*

The European Commission's Solvency II directive, which will likely become effective January 1, 2014, is expected to impose, among other things, substantially greater quantitative and qualitative capital requirements on some of AEGON's businesses and at the 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 US 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 US to establish additional statutory reserves for term life insurance policies with long-term premium guarantees. In addition, "The Application of the Valuation of Life Insurance Policies Regulation," commonly known as Regulation AXXX, requires insurers to establish additional statutory reserves for certain universal life insurance policies with secondary guarantees. Virtually all of AEGON's newly issued term and universal life insurance products in the US are now affected by Regulations XXX and AXXX, respectively. Additionally, regulators and the industry are reviewing the interpretation of Actuarial Guideline 38 (AG38). This guideline addresses reserve requirements for certain term and universal life products. Changes to AG38 could have an adverse impact on reserve levels and design of these products.

In response to the NAIC regulations, AEGON has implemented reinsurance and capital management actions to mitigate their impact. However, 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. Additionally, any change to or repeal of Regulation XXX or AXXX could also reduce the effectiveness of AEGON's reinsurance and capital management actions, adversely affecting its life insurance operations.

For certain 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

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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.

In addition, 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 material adverse effect on AEGON's business, 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 business, 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.

In addition, certain jurisdictions, such as the European Union, are questioning the use of gender-based distinctions in the insurance industry. This may 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 will be unlawful to use gender-related factors for determining premiums and benefits under insurance policies. This decision may have a material adverse effect on AEGON's business, 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 2010, Fitch lowered the senior debt rating for AEGON N.V. to A- with a stable outlook. Fitch also lowered the insurance financial strength rating for AEGON USA to AA- with a stable outlook. Standard and Poor's lowered the insurance financial strength rating for AEGON Scottish Equitable to A+ with a negative outlook. A downgrade or potential downgrade, including changes in outlook, could result in higher funding and financing costs in the capital markets and affect the availability of funding to us 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 material adverse effect on AEGON's business, 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 business. 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 in all countries in which AEGON operates. The primary purpose of such regulation is to protect clients

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(e.g. 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 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), which provides for comprehensive changes to the regulation of financial services in the US by granting existing government agencies and newly created government agencies and bodies (e.g., the Financial Stability Oversight Council and the Federal Insurance Office) authority to promulgate new financial regulations applicable to systemically important non-bank financial institutions. The Financial Stability Oversight Council has proposed a new rule specifying the criteria it will use to determine which non-banking financial institutions are systemically important. That rule has not yet been finalized. Financial institutions designated as systemically important will likely be subject to higher capital standards and increased prudential regulation, neither of which has been developed. As a result, it is uncertain whether AEGON's US operations would be subject to these rules and if these rules are applicable to AEGON's US operations, it is uncertain what effect they will have. In addition, Dodd-Frank authorizes the Federal Insurance Office, which does not have general authority over the business of insurance, to make recommendations to the Financial Stability Oversight Council that certain insurers be subject to more stringent regulation. Further, Dodd-Frank requires the Federal Insurance Office to conduct a study on how to modernize and improve the system of insurance regulation in the US. AEGON cannot predict the requirements of the Dodd-Frank regulations that will ultimately be adopted, how the regulations will affect the financial markets generally or how the regulations will affect AEGON's operations or financial condition.

For information relating to the European Commission's Solvency II directive, see AEGON may be required to increase its statutory reserves and/or hold higher amounts of statutory capital for certain 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 Parliament passed laws in 2011 that suspend money transfers to pension fund clients' accounts and redirect the contributions to the state budget, with the aim to reduce the budget deficit. The new laws also allow pension fund customers to step back to the public non-funded pay-as-you-go pension system. It is possible that similar policy measures may be taken in other countries in which AEGON operates in Central & Eastern Europe or elsewhere.

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 material adverse effect on AEGON's business, results of operations or financial condition.

*Litigation and regulatory investigations and actions may adversely affect AEGON's business, reputation, results of operations, cash flow, financial condition, and solvency.*

AEGON faces significant risks of litigation and regulatory investigations and actions in connection with AEGON's activities as an insurer, securities issuer, employer, investment advisor, investor and taxpayer among others.

Insurance companies are 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 employment or third party relationships, adequacy of operational processes, environmental matters, anti-competition and intellectual property infringement. AEGON is, for example, co-operating with an industry-wide inquiry initiated by various state controllers and various regulators in the US, including an inquiry by regulatory authorities in the State of New York, in each case into the application by insurers of 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 already implemented or is in the process of implementing. AEGON Americas increased certain reserves in regard to this matter by approximately EUR 37 million during the fourth quarter of 2011. While AEGON believes that its 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. In addition, insurance companies are generally the subject of litigation, investigations and

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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 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 believes claims are without merit. 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 we reached in 2009 with *Stichting Verliespolis* and *Stichting Woekerpolis* Claim in the Netherlands, that among other things, provided for up to EUR 250 million in potential policy modifications which did not have a significant impact on AEGON's income statement as the actual reserves for insurance and investments policies are sufficient to cover the estimated future liabilities. Any amounts due for past periods have been recorded in insurance contract reserves. The Ombudsman Financiële Dienstverlening supports the arrangement with *Stichting Verliespolis* and *Stichting Woekerpolis* Claim. However, recently a public debate emerged on the adequacy generally of the arrangements reached between the various insurance companies and customer interest groups like *Stichting Verliespolis* and *Stichting Woekerpolis* Claim, and the matter is also subject of discussion in the Dutch Parliament. The settlements reached by the various market participants have been compared and there is a call on the insurance companies to re-examine the terms of their arrangements and apply *best of class* principles identified as part of that comparison. It is not yet possible to determine the outcome of this debate, including what actions AEGON may take in response to the call for general application of those principles, or the impact that any such actions may have on AEGON's results of operations or financial position. Any such actions, whether triggered by legal requirements or commercial necessity, a substantial legal liability or a significant regulatory action could have a material adverse effect on AEGON's business, results of operations, cash flow, financial condition and solvency. 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.

While 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, there can be no assurance that the Supreme Court will agree with AEGON's position. If this decision is ultimately upheld on appeal 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, including in relation to employer owned life insurance products sold to banks and other corporations in the US. 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. 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

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not have a material adverse effect on AEGON's business, reputation, results of operations, cash flow, financial position and solvency.

*As a result of the European Commission's approval of the core capital AEGON received from the Dutch State in 2008, AEGON is subject to certain requirements which may have a material adverse effect on AEGON's business, results of operations and financial condition.*

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 AEGON's 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 remain in force are:

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 2007 (USD 130 billion) to the end of 2012 (USD 105 billion); as at December 31, 2011, this figure was USD 108 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, 2011, this ratio was 73.5%.

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 7,641 million as at December 31, 2011;

Americas payout annuities, with a total account balance of EUR 5,999 million as at December 31, 2011.

The execution of these structural measures may have a material adverse effect on AEGON's business, results of operations and financial condition.

*AEGON may be unable to manage our 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 business, results of operations and financial condition.

AEGON's ability to manage risks through derivatives may be negatively affected by Dodd-Frank and legislation initiatives of the European Commission, which provide for a new framework of regulation of OTC derivatives markets. These new regulations, including the proposed



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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 us 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 certain operating expenses is dependent upon the receipt of dividends from subsidiaries. Certain of these subsidiaries have regulatory restrictions that can limit the payment of dividends. In addition, local regulators, acting to represent the interests

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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. Any future change 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 will be revised in the near future 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. A calculation of our IAS 19 obligation is performed annually during our year-end closing process. As at December 31, 2011 unrecognized actuarial losses amounted to EUR 1 billion (post tax).

Another standard 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 will become effective for annual periods beginning on or after January 1, 2013.

*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. Tax risk is the risk associated with changes in tax laws, or the interpretation of tax laws or the introduction of new taxes or tax laws. 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.

Insurance products enjoy certain tax advantages, particularly in the US 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. In addition, the US Congress passed legislation in 2001 that provided for reductions in the estate tax and the possibility of permanent repeal of the estate tax continues to be discussed. This could have an impact on insurance products and sales in the US.

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 US or Dutch tax law affecting AEGON's products could have a material adverse effect on AEGON's business, 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

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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. 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 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 certain 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 and limitations placed on companies that received state support by the European Commission. 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, which worsened during 2011.

In Spain, AEGON currently has partnerships with a number of Spanish savings 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. If 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.

*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.

The experience suffered by AIG in the aftermath of the bankruptcy of Lehman Brothers in September 2008 is an example of this type of risk. AEGON's management believes that despite the attention paid by regulators in the US, the European Union and other countries where AEGON operates, systemic risk to the markets continues to exist, and dislocations caused by the interdependency of financial market participants continues to be a potential source of material adverse changes to AEGON's business, results of operations and financial condition.

*AEGON may be unable to 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 our 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 dependent on a number of factors, including prevailing market conditions and compensation packages offered by companies competing for the same talent. As a part of the governmental response in Europe and the US to the financial crisis in 2008, there have been various legislative initiatives that have sought to restrict the remuneration of personnel, in particular senior management, with a focus on performance-related remuneration and limiting severance payments. These restrictions, alone or in combination with the other factors described above, could adversely affect AEGON's ability to hire and retain qualified employees.

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*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. These reinsurance agreements 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 material adverse effect on AEGON's financial position and results of operations. Refer to Schedule IV in this Annual Report for a table showing life insurance in force amounts on a direct, assumed and ceded basis for 2009, 2010 and 2011.

In accordance with industry practices, AEGON reinsures a portion of its life insurance exposure with unaffiliated insurance companies under traditional indemnity reinsurance arrangements. In 2011, approximately 63% of our 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 are 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 divestment of Transamerica Reinsurance may expose AEGON to additional risks.*

AEGON divested Transamerica Reinsurance to SCOR SE in August 2011, as a result of which AEGON is exposed to certain risks including enhanced counterparty exposure risk to SCOR, to which AEGON retroceded Transamerica Reinsurance's liabilities and remaining collateral funding obligations.

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 we retroceded to them. A bankruptcy or insolvency or inability of SCOR to satisfy its obligations could have a material adverse effect on AEGON's financial position and results of operation. 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.

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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

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divert management's attention and other resources. Divestitures of existing operations, including a divestiture of Transamerica Reinsurance as described above, 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 business. 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 they could adversely affect AEGON's business, results of operations, 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 adverse 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 material 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 AEGON's intellectual property rights. Any resulting proceedings in which AEGON would have to enforce and protect our intellectual property, or defend itself against a 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 material adverse effect on AEGON's business, 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 material adverse effect on AEGON's business, 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 business 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

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businesses we 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 material 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 material 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 back-up and recovery systems and contingency plans are in place, AEGON cannot assure investors that interruptions, failures or breaches in security of these process 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 material adverse effect on AEGON's business, results of operations and financial condition.

*A computer system failure or security breach may disrupt AEGON's business, 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 business is 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 our 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 business, 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 our reputation, exposes AEGON to litigation, increase regulatory scrutiny and requires AEGON to incur significant technical, legal and other expenses.

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

The US 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 AEGON in the US 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 US, based upon the US federal securities laws.



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**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 cant shareholders, including Vereniging AEGON.

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

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

Potential litigation involving AEGON or the insurance industry in general.

Changes in financial estimates and recommendations by securities research analysts.

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

The performance of other companies in the insurance sector.

Regulatory developments in the Netherlands, the US, Canada, the UK and other countries in which AEGON operates.

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

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

General insurance market conditions.

The high and low prices of AEGON's common shares on Euronext Amsterdam were EUR 5.41 and EUR 4.04 respectively in 2010, and EUR 5.68 and EUR 2.68 respectively in 2011. The high and low sales prices of our common shares on the NYSE were USD 7.41 and USD 5.11 respectively in 2010, and USD 8.03 and USD 3.62 respectively in 2011. 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 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 that can be extended until 2014. Under the new agreement 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, 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, 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, 2011, AEGON 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 500,000,000 class A and 500,000,000 class B preferred shares), par value EUR 0.25 per share. All 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 1983 Merger Agreement between AEGON and Vereniging AEGON, as amended, in case of an issuance of shares by AEGON, Vereniging AEGON may

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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 2008, a total of 35,170,000 class B preferred shares were issued under these option rights. In 2009, Vereniging AEGON exercised its option rights to purchase in aggregate an additional 33,860,000 class B preferred shares at par value to offset dilution caused by AEGON's equity issue completed in August 2009. 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 addition, AEGON has 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, 2011 numbers of outstanding and voting shares, is reduced to approximately 22.40% of the votes exercisable in the General Meeting of Shareholders. However, this reduction in voting percentage is not applicable in all circumstances. In certain limited circumstances at the sole discretion of Vereniging AEGON (such as the acquisition of 15% of the voting shares, a tender offer for shares or a proposed business combination, each by any person or group of persons, whether individually or acting as a group, other than in a transaction approved by the Executive Board and Supervisory Board), Vereniging AEGON's voting rights for a limited period of 6 months will increase to a percentage that at December 31, 2011 amounts to 32.99%. 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 on the Supervisory Board and Executive Board.

Appointing an Executive Board or Supervisory Board member other than pursuant to Supervisory Board nomination; and

Suspending or removing an Executive Board or Supervisory Board member other than pursuant to a Supervisory Board proposal.  
*Currency fluctuations may adversely affect the trading prices of AEGON's common shares and the value of any cash distributions made.*

Because AEGON's common shares listed on 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

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common shares. In addition, AEGON declares cash dividends in euros, but pay cash dividends, if any, on our 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.

*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 basis for AEGON's capital and liquidity management is to secure a stable and strong capital adequacy for its businesses on various capital metrics to ensure the company is able to meet long-term 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 resources available to the group.

#### **GUIDING PRINCIPLES**

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

Ensure AEGON's business and operating units have strong capital adequacy.

Manage and allocate capital efficiently to maximize returns and support the strategy.

Maintain efficient capital structure through its capital base and leverage.

Ensure sufficient liquidity by strong liquidity risk policies for both business units and holding.

Ensure AEGON's continued access to international money and capital markets on competitive terms and thereby reduce the company's overall cost of capital.

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 manages and coordinates capital and liquidity management strategies and processes. The department acts as the working arm 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 uncertain economic and market conditions, AEGON intends to retain an adequate capital buffer 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—the United States, the Netherlands and the United Kingdom. To achieve this goal, AEGON has put a number of measures in place which continued over the past year:

Discontinuation of sales of executive non-qualified benefit plans and associated Bank-Owned and Corporate-Owned Life Insurance (BOLI-COLI) in the United States.

In the United States, AEGON is also shifting its focus from spread-based to fee-based products, expanding its pension business, running off its spread-based institutional business, as well as de-emphasizing fixed annuities.

The divestment of the life reinsurance business, Transamerica Reinsurance, in the United States.

The sale of our United Kingdom-based Guardian life and pension business.

AEGON has, in the meantime, continued to invest in growth markets in Asia, Latin America and Central & Eastern Europe.

#### IMPROVING RISK PROFILE

AEGON has taken measures to improve its risk-return profile and lessen its exposure to world financial markets, while in turn, lowering the company's overall capital requirements. These include, for instance, the sale of the company's life insurance activities in Taiwan and the run-off of AEGON's spread-based institutional business in the United States. In addition, the company has taken measures to decrease its exposure to equity markets by divesting part of its direct equity exposure, increasing the hedge of the variable annuity back book in the United States to 100% and increasing the hedge of the guarantees in the Netherlands to 90%.

#### 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 depends on the following factors:

Capital adequacy

Capital quality

Capital leverage

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**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

Relevant requirements for AA capital adequacy

Any additionally self-imposed internal requirements

At December 31, 2011, AEGON had an excess over and above its capital adequacy requirements of EUR 3.4 billion, a decrease from EUR 3.8 billion a year earlier. This decrease was mainly caused by the repurchase of the convertible core capital securities and investment in new business.

AEGON's Insurance Group Directive ratio – a common measure of capital adequacy in the European Union – was 195% at December 31, 2011, slightly down from 198% at the end of 2010. This was mainly driven by the repurchase of the convertible core capital securities.

**CAPITAL QUALITY**

AEGON's capital base consists of the following components:

Core capital, which comprises shareholders' equity (excluding the revaluation reserve)

Perpetual capital securities (including currency revaluations)

Dated subordinated and net senior debt

**CORE CAPITAL FROM THE DUTCH STATE**

Please refer to note 31 of the consolidated financial statements for information regarding convertible core capital securities.

**CAPITAL LEVERAGE**

AEGON places limits on the amount of non-core capital in its overall capital base. Currently, the company's aim is to ensure that core capital comprises at least 70% of the capital base, and that perpetual capital securities and dated subordinated and senior debt account for no more than 25% and 5% respectively.

At the end of 2011, AEGON's capital base consisted of 73.5% core capital and 19.5% perpetual capital securities. Dated subordinated and senior debt accounted for the remaining 7%. AEGON's goal is to further improve the quality of its capital base by increasing the proportion of core capital to at least 75% by the end of 2012. Group equity comprises core capital (including the revaluation reserves), and other equity securities. These include perpetual cumulative capital securities and junior perpetual capital securities, as well as other equity reserves. At the end of 2011, these equity securities totaled EUR 4.7 billion.

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At December 31, 2011, core capital amounted EUR 17.5 billion (December 31, 2010: EUR 17.9 billion) and group equity amounted EUR 22.2 billion (December 31, 2010: EUR 22.4 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 may also issue 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, 2011, AEGON had EUR 648 million outstanding under these programs.

AEGON maintains back-up credit facilities with international lenders to support outstanding amounts under these commercial paper programs. The company's principal arrangements are syndicated facilities consisting of a USD 3 billion back-up credit facility which matures in 2012. This facility has been replaced with a new EUR 2 billion revolving credit facility that AEGON N.V. signed at the beginning of 2012. There is an additional back-up facility for a total amount of USD 2,650 million. Of this amount, USD 650 million matures in 2012, 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 back-up facilities. AEGON N.V. has not drawn any amounts under any of its liquidity back-up 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.

In April 2011, AEGON sold EUR 1.5 billion Class A residential mortgage-backed securities to a broad group of institutional investors to finance a part of the existing Dutch mortgage portfolio of AEGON. The securities are rated AAA by Standard & Poor's and Aaa by Moody's Investor Service.



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**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 to pay dividends to AEGON N.V., if the subsidiary's capital position so allows. At AEGON N.V., liquidity is sourced from internal payments by operating companies and accessing capital and money markets.

Liquidity is coordinated centrally and managed both at AEGON N.V. and at country unit levels.

**STRESS TESTS**

Liquidity is measured and stress-tested consistently across the company, and a liquidity stress management plan is maintained at Corporate Treasury and at individual country units. Stress tests combine a severe surrender scenario with an impaired asset scenario. AEGON's liquidity policy requires that all operating units measure the period they can maintain a projected positive cash balance without needing to sell any noncash assets, while meeting all cash demands for a period of two years<sup>1</sup>.

**AEGON'S LIQUIDITY POSITION**

At December 31, 2011, AEGON N.V. held at group level a balance of EUR 1.5 billion in excess cash compared with EUR 1.7 billion as at the end of 2010.

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.

**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. In August 2011 the outlook was improved by both Standard & Poor's and Moody's to stable from negative.

**Ratings**

December 31, 2011

Agency	AEGON N.V.	AEGON USA	AEGON The Netherlands	AEGON UK
Standard & Poor's	A- Outlook: stable	AA-Outlook: stable	AA-Outlook: stable	A+ Outlook: stable
Moody's Investor Service	A3 Outlook: stable	A1 Outlook: stable		
Fitch Ratings	A- Outlook: stable	AA-Outlook: stable		

For a review of developments in the IFRS cash flows as reported in AEGON's IFRS cash flow statements, refer to note 29 of the consolidated financial statements.

<sup>1</sup> Where cash is defined as cash, cash equivalents plus highly liquid securities issued by governments or entities fully and explicitly guaranteed by governments in domestic denominations.

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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 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 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 business. 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 2011.

There are no indications to suggest that AEGON's risk management and control systems will not continue to function properly in 2012. 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 (IFRS) as issued by the International Accounting Standards Board and as adopted by the European Union (EU).

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

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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 21, 2012

**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, 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 113 and 114). 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 by 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 may be found on pages 122 to 126 of this Annual Report. With the full repurchase of capital securities from the Dutch State, no member of the Supervisory Board holds special approval rights for certain decisions of the Board.

#### **SUPERVISORY BOARD MEETINGS AND ACTIVITIES**

##### **ATTENDANCE**

In 2011, the Supervisory Board held a total of six regular meetings and several additional conference call meetings. No members of the Supervisory Board were frequently absent from the regular meetings. All regular meetings were either preceded or followed by so-called executive meetings. These are meetings of the Supervisory Board which are not attended by members of the Executive or Management Board.

In accordance with AEGON's Supervisory Board Rules, all regular meetings in 2011 were preceded by preparatory meetings, attended by the Chairman, 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 Supervisory Board's committees were usually held before the meetings of the full Supervisory Board. Members of AEGON's Executive and Management Boards attended all Supervisory Board meetings held in 2011. 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 auditor, attended the discussions on the company's annual results.

In 2011, discussions within AEGON's Supervisory Board focused on the following issues, among others:

AEGON's strategic priorities.

Budget and Capital Plan 2012, Medium Term Plan 2015.

Annual and quarterly results and the Embedded Value Report 2010.

Repurchase of capital securities from the Dutch State.

Risk management.

Capital position and Solvency II.

Executive remuneration.

Divestments and restructuring of businesses.

Governance and sustainability issues.

Legal and compliance issues.

**HIGHLIGHTS**

The past year was marked by the repurchase of the capital support AEGON received from the Dutch State in the height of the 2008 financial crisis. Complete repurchase was a key priority for the company and it ensured that AEGON could, from that moment on, fully focus on carrying out its strategy to deliver sustainable earnings growth with an improved risk-return profile. The repurchase was partly funded by an equity issuance announced and completed on February 24, 2011. AEGON has paid a total amount of EUR 4.1 billion to the

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Dutch State. 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. The Supervisory Board discussed at several occasions with management the repurchase, including the funding thereof. In meetings in February and June respectively, the Board approved both the equity issuance and the repurchase to the Dutch State. The Board recognizes the support of the Ministry of Finance and the Dutch Central Bank during this period of extreme economic turmoil and uncertainty that AEGON faced and successfully weathered. The Board is also grateful to AEGON's business partners and many valued customers for their continued confidence in the company.

The divestment of AEGON's reinsurance business (Transamerica Reinsurance) was another important accomplishment in 2011. The Board and management extensively discussed and reviewed the transaction which was announced in April and closed in August 2011. With this transaction, AEGON made further progress on sharpening its focus on its core businesses of life insurance, pensions and asset management, while improving its risk return profile. The move also underpinned AEGON's aim to achieve a broader geographical balance in its capital allocation. In addition, the divestiture supported AEGON's key priority of repurchasing the core capital securities issued to the Dutch State.

The Board also reviewed the sale of the Guardian life and pension business in the United Kingdom, which was completed in November 2011, and the significant restructuring of the UK and Dutch businesses.

A recurring topic in the full Board and the Risk Committee was the general economic environment and the developing euro crisis in particular. AEGON's capital position was a key point of focus for the Supervisory Board and its Risk Committee. In 2011, the company's capital position continued to be strong, with excess capital at EUR 3.4 billion on December 31, 2011.

**STRATEGY MEETING**

The Board met in March 2011 for its annual two-day strategy meeting. The Board and management extensively discussed the changing environment in which AEGON operates and what impact these changes could have on the business in the medium term. The Board agreed with management that developments in technology, social media and innovation would be key drivers for its business in the near to medium-term future. The Board also discussed regulatory developments, which could be an indicator of increasing protectionism. In this meeting, the Board also reviewed AEGON's sustainability strategy, which is aligned with our business strategy.

Given that this meeting was held in Turkey the Board had ample opportunity on this occasion to meet with senior managers from Hungary, Poland and Turkey, representing an important region for AEGON, and review their plans. During the meeting, the CEO's of these countries presented updates on their businesses and results. A particular focus was put on developments in distribution in these markets. The Supervisory Board also received frequent briefings during the year on developments in AEGON's other country and business units.

Finally, the Board received an update on the latest developments in Solvency II and AEGON's preparation for it, which was a topic that was revisited a number of times during the rest of the year.

**OTHER**

In June, the Supervisory Board discussed with management the preparation for the A&I conference in that month and further details on the four financial targets shared with the market earlier in the year.

On February 20, 2011, the Supervisory Board convened to discuss the results of the fourth quarter of 2010. In March 2011, the Supervisory Board discussed AEGON's audited annual results for 2010. The Board also reviewed and approved the company's annual accounts for 2010.

At meetings in May, August and November, the Supervisory Board reviewed AEGON's first, second and third quarter results, as well as disclosures on value of new business and embedded value. In December, the Board reviewed and approved the budget for 2012. The Board also approved the 2012 Capital Plan and authorized the Executive Board to provide for AEGON's funding needs as budgeted. Also in December, AEGON's Global Head of Human Resources provided an update on the results of the Global Employee Survey, succession planning and talent management. The latter two topics were discussed extensively in the Nominating Committee as well.

**APPOINTMENTS TO THE SUPERVISORY AND EXECUTIVE BOARDS**

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In February, the Supervisory Board decided that shareholders would be asked to approve the reappointment of Ms. K.M.H. Peijs, Mr. A. Burgmans and Mr. L.M. van Wijk for new terms of four years as members of the Supervisory Board. In addition, the Board agreed to propose to shareholders to reappoint CEO Alex Wynaendts for a new term of four years. These proposals were accepted by shareholders at their Annual General Meeting in May 2011.



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### **LEGAL AND COMPLIANCE**

During 2011, the Supervisory Board and the Audit Committee discussed 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 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).

### **EDUCATIONAL SESSION AND BOARD REVIEW**

The topic for the educational session in May 2011 was IFRS 4 Insurance Contracts. The Board discussed with specialists the consequences for AEGON of this new method of measuring the value of the assets and liabilities of an insurance contract.

In 2011, the Supervisory Board again carried out an extensive Board evaluation review on the basis of written questionnaires and interviews. The review assessed the collective performance of the Board and its committees. The review of the Chairman was carried out by the Vice Chairman, who collected input from all other Supervisory Board members. This year's assessment did not involve an external facilitator. The results were consolidated and reviewed in a meeting in the absence of management. The Board was overall positive over its performance. Minor improvements were recommended with regard to agenda setting and contents of the documents used in meetings. The Board also discussed topics that members wanted to put on the agenda for 2012. No transactions with a (potential) conflict of interest were reported by the members of the Board in 2011.

The performance of members of the Executive Board was discussed at Executive Meetings during the year.

### **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 AUDIT COMMITTEE**

The Audit Committee held seven meetings in 2011, one of which was a combined meeting with the Supervisory Board's Risk Committee. The meetings were attended by AEGON's Chief Financial Officer, the head of the Corporate Financial Center, the Corporate Risk Officer and the Internal Auditor. Representatives from Ernst & Young, AEGON's external auditor, also attended the majority of these meetings. Officials from AEGON's Group Risk and the Actuarial departments were present at select meetings of the Audit Committee. In 2011, discussions focused on the following topics: the quarterly results, the annual accounts and the audit process, AEGON's 2010 Embedded Value Report and annual VNB figures, actuarial analyses, accounting principles as defined by International Financial Reporting Standards (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 2011, tax matters and the application of information technology, as required by the Dutch Corporate Governance Code. During most meetings, closed sessions were held with the internal and external auditors in the absence of management.

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 2011 financial year. The Committee also confirmed that Shemaya Levy and 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 internal auditor attended the meetings of the Audit Committee during 2011 and provided quarterly updates on the activities of the internal audit function, among others providing details on 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.

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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 RISK COMMITTEE**

AEGON's Risk Committee convened six times in 2011, including an off-site meeting in the United States and a combined meeting with the Audit Committee. 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 in the developments of AEGON's general account.

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The Risk Committee assists the Supervisory Board and Audit Committee in overseeing the activities of AEGON's Enterprise Risk Management (ERM) framework. The Committee also advises the Executive 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 2011 were the quarterly Risk Dashboard and the Board Risk List. The Risk Committee discussed other topics such as AEGON's capital management, the sale of Transamerica Reinsurance, the euro crisis, Risk Tolerance statements, the Model Validation program. During its meeting in the United States, the Risk Committee received presentations by the AEGON Americas CEO, CFO, Chief Risk Officer and General Counsel. In addition, management of the Individual Savings and Retirement business presented on products, distribution and enterprise risk management.

**THE NOMINATING COMMITTEE**

AEGON's Nominating Committee held four meetings in 2011, and the CEO attended a portion of these meetings. The Nominating Committee discussed in the year 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 three reappointments to the Supervisory Board. The Nominating Committee established the opinion that the current composition of the Board could be better balanced in terms of geographic and gender diversity, and the committee aims to improve this situation in the short to medium term. The Nominating Committee also positively advised on the reappointment of Alex Wynaendts as member of the Executive Board at the shareholders' meeting on May 12, 2011. 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 senior management within the company worldwide. The committee on two occasions reviewed and discussed the initiatives taken by management with regard to talent management and international mobility as part of talent development.

**THE COMPENSATION COMMITTEE**

AEGON's Compensation Committee held five meetings in 2011, and the CEO attended a portion of these meetings. During the first part of the year, the committee discussed a proposal for an amended Executive Board Remuneration Policy, which was submitted to shareholders and approved at the shareholders' meeting on May 12, 2011. New regulations were promulgated by the EU: the Capital Requirements Directive 3 (CRD3) and the Guidelines on Remuneration Policies and Practices issued by the Committee of European Banking Supervisors. As a result, the Dutch regulator DNB updated the Regeling Beheerst Beloningsbeleid Wft 2011 (RBB) to implement CRD3. Subsequently, the Policy that was approved by shareholders in April 2010 was adjusted.

During other meetings, the committee extensively discussed and reviewed proposals of AEGON's Global Remuneration Framework and supporting documents. The Framework includes the Executive Board Remuneration Policy and policies for other senior management and Identified Staff of AEGON Group worldwide. AEGON's HR staff was in regular contact with DNB to discuss the scope of some requirements of the RBB.

Regarding 2010 short-term incentive compensation, the Committee established that on the basis of the 2010 Group results and the performance on the personal and strategic objectives, payout of variable compensation would be justified. In light of the developments on executive remuneration in the Netherlands, in particular of financial institutions, and taking into account that the company had not yet fully repurchase the capital securities, the Supervisory Board agreed with the proposal of the members of the Executive Board to waive entitlement to short-term variable compensation.

Other topics on the 2011 agenda of the Compensation Committee were the 2011 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.

**COMPOSITION OF THE SUPERVISORY BOARD**

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All members of the Supervisory Board are considered independent under the terms of the Dutch Corporate Governance Code, with the exception of Kornelis J. Storm. Mr. Storm is not regarded as independent within the definition of the Code since 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 February 2011, Ms. Cecelia Kempler resigned from the Supervisory Board due to health reasons. Ms. Kempler passed away in December. The members of the Supervisory Board are indebted to Ms. Kempler, as the Board benefitted significantly from her in-depth knowledge of AEGON's business and career-long involvement with leading industry organizations.

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Mr. Docters van Leeuwen, nominated by the Dutch State in 2008, stepped down on July 31, 2011. The Board expresses its gratitude to Mr. Docters van Leeuwen for his contributions to the Board's deliberations during the three years of his tenure.

The current terms of Mr. Robert J. Routs, Mr. Irving W. Bailey, Mr. Dirk P.M. Verbeek and Mr. Ben van der Veer will expire in 2012. On advice from the Nominating Committee, the Supervisory Board has decided to nominate these persons for reappointment as members of the Board for further terms of four years each by the General Meeting of Shareholders. Their biographies will be provided with the agenda for the General Meeting of Shareholders in May 2012.

### **EXECUTIVE BOARD**

There were no changes in the composition of AEGON's Executive Board. 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 2012, no member comes up for reappointment. The retirement schedule members of the Executive Board is included in the company's Executive Board Rules and posted on AEGON's corporate website, [www.aegon.com](http://www.aegon.com).

### **ANNUAL ACCOUNTS**

This Annual Report includes the annual accounts for 2011, 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**

AEGON continued to grow stronger in its business focus and resolve in 2011. Economic conditions necessitated bold actions in order for AEGON to remain a leader in the industry. The members of the Supervisory Board would like to thank both the Executive and Management Boards as well as the company's employees for their combined efforts in meeting the many challenges, and for their continued dedication to providing quality products and services to AEGON's valued customers around the world. Given the significant progress achieved in the course of 2011 and its continued strong financial position, the Supervisory Board remains confident that AEGON will indeed achieve its ambition to be the most recommended leader in its chosen markets in the coming years. The Board also acknowledges the importance of the long-term trust placed in AEGON by all of its customers, particularly during the severe economic turmoil of the past year.

The Hague, March 21, 2012

#### **Robert J. Routs**

Chairman of the Supervisory Board of AEGON N.V.

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**MEMBERS OF THE SUPERVISORY BOARD****ROBERT J. ROUTS**

Chairman of the Supervisory Board

Chairman of the Nominating Committee

Member of the Compensation Committee

(1946, Dutch)

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 April 2010. His current term as a member of the AEGON Supervisory Board ends in 2012. Mr. Routs is also Chairman of the Supervisory Board of Royal DSM N.V. and he is Vice-Chairman of the Supervisory Board of Royal KPN N.V. He also sits on the Board of Directors at Canadian Utilities Limited, A.P. Møller - Mærsk A/S, UPM (until March 30, 2012) and AECOM Technology Corporation.

**IRVING W. BAILEY, II**

Vice-Chairman of the Supervisory Board

Chairman of the Risk Committee

Member of the Compensation Committee

(1941, US citizen)

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 term will end in 2012. Mr. Bailey is also a member of the Board of Directors of Computer Sciences Corp. and Hospira, Inc. as well as a senior advisor to Chrysalis Ventures, Inc. (not listed).

**ANTONY BURGMANS**

Member of the Audit Committee

(1947, Dutch)

Antony Burgmans is a 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 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**

Chairman of the Audit Committee

Member of the Nominating Committee

(1947, French)

Shemaya Levy is a 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 Boards of TNT Express N.V. and Segula Technologies Group S.A. (not listed).

**KARLA M.H. PEIJS**

Member of the Compensation Committee

Member of the Nominating Committee

(1944, Dutch)

Karla M.H. Peijs is Queen's Commissioner for the Province of Zeeland in the Netherlands. Ms. 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. Ms. Peijs is also currently a member of the Supervisory Boards of Q-Park N.V. (not listed) and ANWB B.V. (not listed).

**KEES J. STORM**

Member of the Risk Committee

Member of the Nominating Committee

(1942, Dutch)

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 serves as Vice-Chairman at the Board of Directors of Anheuser-Busch InBev S.A., where he will become Chairman as of April 2012. He is also 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 Chairman of the Supervisory Board of Pon Holdings B.V. (not listed).

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**BEN VAN DER VEER**

Member of the Audit Committee

Member of the Risk Committee

(1951, Dutch)

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 2012. He is also a member of the Supervisory Board of TomTom N.V. and Reed Elsevier N.V. 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).

**DIRK P.M. VERBEEK**

Member of the Audit Committee

Member of the Risk Committee

(1950, Dutch)

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 2012. 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 advisor 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**

Chairman of the Compensation Committee

Member of the Nominating Committee

(1946, Dutch)

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., Chairman of the Governing Board of Skyteam and Board member of NOC\*NSF.



**Table of Contents****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 through aligning adequate objective 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 any discrimination on nationality, race, gender, religious, sexual orientation, and/or cultural beliefs, etc. 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 this.

In support of the above, AEGON has implemented a Global Remuneration Framework over the course of 2011. This Global Remuneration Framework (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 at a high level in remuneration policies and practices throughout the AEGON Group. The GRF is designed in accordance with 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 belongingsbeleid WFt 2011- Rbb) are prominent examples.

From the Global Remuneration Framework AEGON's Remuneration Policies are derived, among which is the Remuneration Policy for the Executive Board. They set out 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 and Audit - are governed by the AEGON Global Remuneration Framework 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 and 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 function and Compliance function are involved in the design and execution of the remuneration policies and practices.

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Under this Global Remuneration Framework 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. These are remuneration policies for (i) the Executive Board; (ii) material risk takers (Identified Staff <sup>1</sup>); and (iii) Control Staff <sup>2</sup>. 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 the qualification

<sup>1</sup> Staff whose professional activities may materially influence AEGON's business performance and risk profile.

<sup>2</sup> Senior Staff in Control Functions positions (Compliance, Risk and Audit) at Group or country / regional unit level.

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process of positions 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. With the involvement of Risk Management and Compliance existing remuneration policies have been amended, as from 2011, including deferral and holding arrangements, payment in instruments and specific ex-ante and ex-post measures.

In addition, going forward, the Risk Management and Compliance functions, together with the HR 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 to ensure sustainability of performance are considered ex-post measures.

AEGON has endeavored to seek an appropriate balance of ex-ante and ex-post adjustments to ensure effectiveness both on 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 to be 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 the 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 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 case of 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 2011**

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.

**FEES AND ENTITLEMENTS**

Members of the Supervisory Board 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 six regular Supervisory Board 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 six regular Supervisory Board meetings.

A committee fee for members on each of the Supervisory Board's Committees.

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An attendance fee for each committee meeting attended in person or through video and 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

<b>Supervisory Board</b>	<b>EUR / year</b>
Chairman	60,000
Vice-Chairman	50,000
Member	40,000

### Fee for membership of a

<b>Supervisory Board committee</b>	<b>EUR /year</b>
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

<b>Attendance fees</b>	<b>EUR</b>
Audit Committee	3,000
Other committees	1,250

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AEGON pays a higher fee to members of its Audit Committee because of the additional workload involved. 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 110 and 111.

**SUPERVISORY BOARD REMUNERATION REPORT 2011**

Members of AEGON's Supervisory Board received the following payments (in EUR) in 2011:

<b>Member</b>	<b>2011</b>	<b>2010</b>
Robert J. Routs (Chairman)	101,250	98,435
Irving W. Bailey II (Vice-Chairman)	92,500	95,750
Antony Burgmans	75,000	78,000
Arthur Docters van Leeuwen <sup>1</sup>	40,000	84,000
Dudley G. Eustace		37,815
Cecelia Kempler <sup>2</sup>	9,625	93,500
Shemaya Levy	96,000	100,250
Karla M. H. Peijs	79,250	75,000
Kornelis J. Storm	74,500	79,250
Ben van der Veer	95,250	91,096
Dirk P. M. Verbeek	92,250	88,000
Leo M. van Wijk	78,250	71,096
<b>TOTAL</b>	<b>833,875</b>	<b>992,192</b>

**EXECUTIVE BOARD REMUNERATION POLICY 2011****EXECUTIVE BOARD REMUNERATION**

The Executive Board of AEGON is remunerated on the basis of the principles described in AEGON's Global Remuneration Framework. 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.

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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 annual 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 is prepared in accordance with the Dutch Corporate Governance Code and the 2011 Decree on Sound Remuneration Policy by De Nederlandsche Bank (Regeling beheerst beloningsbeleid Wft 2011- Rbb). It was adopted at the annual 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<sup>3</sup> 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 advisor, Towers Watson. Towers Watson does not advise individual members of the Executive and Supervisory Boards. The Compensation Committee may recommend changes to the policies to the Supervisory Board. Any material changes in the Executive Board Remuneration Policy must also be referred to the General Meeting of Shareholders for adoption.

### **REVIEW OF THE REMUNERATION POLICY**

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

### **ENSURING PAY REMAINS COMPETITIVE**

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

Industry (preferably life insurance).

Size (companies with similar assets, revenue and market capitalization).

Geographic scope (preferably companies operating globally).

Location (companies based in Europe).

<sup>1</sup> Mr. Docters van Leeuwen stepped down from AEGON's Supervisory Board in July 2011.

<sup>2</sup> Ms. Kempler stepped down from AEGON's Supervisory Board in February 2011.

<sup>3</sup> 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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In 2011, 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 remuneration 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 desired market position needs to be addressed in accordance with rules and regulations as well as applicable codes.

As per 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 2011 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 performance indicators, regularly evaluated by experts in the company's Finance, Risk, Audit, Human Resources and Compliance departments.

The variable compensation is based on both company and individual performance. This performance is determined using a mix of financial and non-financial indicators. AEGON believes these indicators provide an accurate and reliable reflection of the company and individual performance. Performance is assessed by AEGON's Compensation Committee and validated by the Audit Committee.

Prior to 2011, the variable compensation was split in two distinct elements. A short term incentive based on performance indicator targets against a short term (one-year) performance period and a long-term incentive based on performance indicator targets against a long-term (three years) performance period. Starting 2011 the distinction between short-term and long-term performance period is no longer made. The 2011 performance period for variable compensation is one year.

At the beginning of each performance period, variable compensation is granted conditionally consisting of both cash and shares. The number of conditionally granted shares is calculated using the fair value of one AEGON share at the beginning of that financial year. 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.

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The allocated variable compensation consists of equal parts of cash and shares of which 40% will be paid out following the performance year, and 60% which will be deferred. This deferred portion will remain conditional until it vests. The deferred part will vest in equal parts (i.e. 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. Vested shares are restricted for a further period of three years (with the exception of shares sold to meet income tax obligations).

The payout of the variable compensation can be illustrated with an example as follows. Of every 1,000 variable compensation, 400 will be paid following the performance



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year. This part will be paid 50% in cash (=200) and 50% will be paid in shares ( $=200 / 4.727^1 = 42$  shares). The remaining 600 will be deferred. The deferred part will vest in three equal parts, following the end of the performance period. The deferred parts will be paid 50% in cash (=100) and 50% will be paid in shares ( $=100 / 4.727 = 21$  shares). For all shares there is an additional holding period of three years. The compensation schedule can be illustrated by the following overview.

**VARIABLE COMPENSATION SCHEDULE**

Performance year

**2011 VARIABLE COMPENSATION**

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%.

<b>Objectives</b>	<b>Maximum % of variable compensation</b>	<b>Performance indicator</b>
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 2011, group pre-tax return on economic required capital 2011
Group sustainability	15%	Objectives 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 incentive compensation if the threshold target is reached.

80% if the pre-determined performance targets are met.

Up to 100% if the targets are exceeded.

<sup>1</sup> The share price was set at EUR 4.727, being the share price at the beginning of performance year.

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### **RISK ADJUSTMENT METHODOLOGY (EX-ANTE)**

At the end of the performance period, but prior to attribution 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.

### **EX-POST ASSESSMENT AND DISCRETIONARY ADJUSTMENTS**

The Supervisory Board will apply an ex-post risk assessment to deferred payouts of variable compensation in order to determine whether conditionally awarded (i.e. unvested) variable compensation should become unconditional (i.e. 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.

#### **CLAW-BACK PROVISION**

In cases of incorrect data (including non-achievement of Performance Indicators on hindsight), material financial restatements <sup>1</sup>, or individual gross misconduct AEGON's Supervisory Board will have the right to re-claim variable compensation payments (in either cash and/or shares).

#### **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 reappointed for successive mandates also 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.

<sup>1</sup> Not resulting from mandatory restatements resulting from changes in IFRS and other applicable financial reporting regulations.

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**EXECUTIVE BOARD REMUNERATION REPORT 2011**

At the end of December 2011, 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 on May 12, 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 2011 no additional changes took place.

**FIXED COMPENSATION**

Fixed compensation paid in 2011 increased marginally as compared to 2010, in line with the general increase for all AEGON employees in the Netherlands.

**Fixed compensation****Executive Board members**

(in EUR)	2011	2010
Alexander R. Wynaendts CEO & Chairman EB	962,299	955,542
Jan J. Nooitgedagt CFO & Member EB	709,062	704,083

**VARIABLE COMPENSATION 2011**

Subject to adoption of the annual accounts at the annual General Meeting of Shareholders on May 16, 2012 variable compensation for Executive Board members is set in cash and shares, based on the company's and their personal performance. Targets for the performance indicators have been set in line with the variable compensation targets and 2011 company budgets. Actual performance is being measured over 2011. 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. In 2012, 40% of variable compensation related to performance year 2011 is payable. This will be split 50/50 in a cash payment and an allocation of shares. Mr. Wynaendts and Mr. Nooitgedagt are eligible to receive a cash payment of EUR 163,591 and EUR 106,359 respectively. However, in consultation with the Supervisory Board, the Executive Board has decided to forego the cash payment payable in 2012 over AEGON's performance during 2011 given that the company had not completed full repayment of capital support to the Dutch State during a part of the year.

The number of shares to be made available in 2012 is 34,607 and 22,501 for Mr. Wynaendts and Mr. Nooitgedagt respectively. To these shares a retention (holding) period is applicable for a further three years, before they are at the disposal of the Executive Board members (with the exception of shares sold to meet income tax obligations).

The remaining part (60%) of variable compensation over the performance year 2011 is to be paid out in future years, subject to ex-post assessments, that may result in downward adjustments and subject to the additional conditions have been met. In each of the years 2013, 2014 and 2015 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 ASSESSMENT ON ATTRIBUTION OF VARIABLE COMPENSATION 2010**

No variable compensation payable in 2011 has been reclaimed in 2011. Mr. Wynaendts and Mr. Nooitgedagt have waived their right to payout of variable compensation under the short-term incentive compensation plan 2010 which would have been payable in 2011. The amounts waived by Mr. Wynaendts and Mr. Nooitgedagt were EUR 317,000 and EUR 233,000 respectively.

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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 <sup>1</sup>.

AEGON's common shares are listed in Amsterdam, New York and London. 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<sup>2</sup> 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, 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, each share carries one vote. However, under certain circumstances, AEGON's largest shareholder, Vereniging AEGON, may cast 25/12 votes per preferred share <sup>3</sup>. 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, who is Chairman of the Executive Board and Chief Executive Officer, and Jan J. Nooitgedagt, who is 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.

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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.

- <sup>1</sup> For further details on how AEGON's corporate governance practices differ from those required of US companies under New York Stock Exchange standards, please refer to the NYSE Listing standards in the Governance section of AEGON's website at [www.aegon.com](http://www.aegon.com).
- <sup>2</sup> 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. It is expected that the law will be amended and that the threshold will be increased to 3% of the shares and that 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 unless the Dutch law is going to provide for such a threshold.
- <sup>3</sup> For further information, please refer to page 124 for a description of Special control rights.

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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.

**MANAGEMENT BOARD**

AEGON's Executive Board is assisted in its work by the company's Management Board, which has five members, including the members of the Executive Board<sup>1</sup>. During 2011, AEGON's Management Board was composed of Alexander R. Wynaendts, Jan J. Nooitgedagt, Mark Mullin, Marco B.A. Keim and Gábor Kepecs.

**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<sup>2</sup>. The company's Remuneration Policy for the Executive Board limits exit arrangements to a maximum of one year's fixed salary<sup>3</sup>.

**SUPERVISORY BOARD**

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

**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:

The Audit Committee

The Risk Committee

The Compensation Committee

The 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 2011, a total of 1,909,654,051 common shares and 321,752,000 preferred shares had been issued. These represented respectively 74.02% and 25.98% 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

<sup>1</sup> For further details, please see page 6.

<sup>2</sup> Employment contracts for members of AEGON's Executive Board are available on AEGON's website ([www.aegon.com](http://www.aegon.com)).

<sup>3</sup> See page 116 to 119 for the Remuneration Report Executive Board. The Remuneration Policy is also available on AEGON's website ([www.aegon.com](http://www.aegon.com)).

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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, 2011, Vereniging AEGON, AEGON's largest shareholder, held a total of 171,974,055 common shares; 211,680,000 class A preferred shares and 101,072,000 class B preferred shares.

In the case of new common shares being issued, Vereniging AEGON has the option, under the terms of the 1983 Merger Agreement<sup>1</sup>, to acquire additional class B preferred shares to prevent a dilution of its voting rights, unless, by exercising this option, the association increases its share of voting right to more than 33%.

**C. SPECIAL CONTROL RIGHTS**

Under the Preferred Shares Voting Rights Agreement<sup>2</sup>, Vereniging AEGON has voluntarily waived its right to cast 25/12 votes per preferred share, except in the event of a special cause.

These 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 32.99% 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 22.40% at December 31, 2011.

For more information on Vereniging AEGON, please refer to page 337-339 of the consolidated financial statements in this Annual Report, or the website of Vereniging AEGON ([www.vereningingaegon.com](http://www.vereningingaegon.com)).

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 3, 2012, US-based investment management firm Dodge & Cox owns over 195 million common shares.

**D. BOARD APPOINTMENTS**

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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

<sup>1</sup> The 1983 Merger Agreement, as amended, is published on AEGON's website ([www.aegon.com](http://www.aegon.com)).

<sup>2</sup> The Preferred Shares Voting Rights Agreement is published on AEGON's website ([www.aegon.com](http://www.aegon.com)).

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

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

**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<sup>1</sup>.

**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, still contains a more favorable severance payment arrangements 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.

**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

<sup>1</sup> The 1983 Merger Agreement, as amended is published on AEGON's website ([www.aegon.com](http://www.aegon.com)).

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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.

**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 ([www.aegon.com](http://www.aegon.com)).

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**DIFFERENCES DUTCH AND US COMPANY LAWS**

Dutch company law is different from US law in the following respects: AEGON, like other 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. 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.

**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 principal executive officer, principal financial officer, principal accounting officer or controller and persons performing similar functions.

In 2011, amendments were made to the Code of Conduct which became effective on January 1, 2012. These amendments were necessary to make an alignment with the current purpose and new Core Values and they also included AEGON's strategic framework and AEGON's new responsible investing approach. The new Code of Conduct also gives a clearer commitment to a customer-centric approach. No waivers were granted in respect of the Code of Conduct. The Code of Conduct is posted on our website [www.aegon.com](http://www.aegon.com).

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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 our 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, 2011. 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, 2011. 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, 2011, was audited by Ernst & Young, an independent registered public accounting firm, as stated in their report included under item C of this section of this Annual Report.



**C. ATTESTATION REPORT OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD OF AEGON N.V.

We have audited AEGON N.V.'s internal control over financial reporting as of December 31, 2011, 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. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and

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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, 2011, 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, 2011 and 2010, 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, 2011 of AEGON N.V., and our report dated March 21, 2012 expressed an unqualified opinion thereon.

The Hague, The Netherlands, March 21, 2012

**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, over 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	2011	2010	2009
Premium income	6	19,521	21,097	19,473
Investment income	7	8,167	8,762	8,681
Fee and commission income	8	1,465	1,744	1,593
Other revenues		6	5	4
<b>Total revenues</b>		<b>29,159</b>	<b>31,608</b>	<b>29,751</b>
Income from reinsurance ceded	9	2,775	1,869	1,721
Results from financial transactions	10	(187)	15,662	14,937
Other income	11	39	40	
<b>TOTAL INCOME</b>		<b>31,786</b>	<b>49,179</b>	<b>46,409</b>
Premiums to reinsurers	6	3,407	1,859	1,727
Policyholder claims and benefits	12	20,191	38,081	36,899
Profit sharing and rebates	13	94	83	117
Commissions and expenses	14	6,164	6,034	5,983
Impairment charges / (reversals)	15	483	701	1,369
Interest charges and related fees	16	491	426	412
Other charges	17	69	122	389
<b>TOTAL CHARGES</b>		<b>30,899</b>	<b>47,306</b>	<b>46,896</b>
<b>Income before share in profit / (loss) of associates and tax</b>		<b>887</b>	<b>1,873</b>	<b>(487)</b>
Share in profit / (loss) of associates		29	41	23
<b>Income / (loss) before tax</b>		<b>916</b>	<b>1,914</b>	<b>(464)</b>
Income tax	18	(44)	(154)	668
<b>NET INCOME / (LOSS)</b>		<b>872</b>	<b>1,760</b>	<b>204</b>
<b>Net income / (loss) attributable to:</b>				
Equity holders of AEGON N.V.		869	1,759	204
Non-controlling interests		3	1	
<b>Earnings and dividend per share (EUR per share)</b>	<b>19</b>			
Basic earnings per share		(0.06)	0.76	(0.16)
Diluted earnings per share		(0.06)	0.68	(0.16)
Dividend per common share	20	0.10		

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OF AEGON N.V.****FOR THE YEAR ENDED DECEMBER 31**

Amounts in EUR million	2011	2010	2009
<b>Net income</b>	<b>872</b>	<b>1,760</b>	<b>204</b>
<b>Other comprehensive income:</b>			
Gains / (losses) on revaluation of available-for-sale investments	3,113	3,873	7,860
(Gains) / losses transferred to the income statement on disposal and impairment of available-for-sale investments	(513)	(203)	640
Changes in revaluation reserve real estate held for own use	3	4	(1)
Changes in cash flow hedging reserve	1,058	373	(731)
Movement in foreign currency translation and net foreign investment hedging reserve	409	1,054	(209)
Equity movements of associates	(18)	(25)	27
Disposal of group assets		(22)	94
Aggregate tax effect of items recognized in other comprehensive income / (loss)	(1,167)	(1,409)	(2,315)
Other	4	(10)	(6)
<b>Other comprehensive income for the period</b>	<b>2,889</b>	<b>3,635</b>	<b>5,359</b>
<b>TOTAL COMPREHENSIVE INCOME / (LOSS)</b>	<b>3,761</b>	<b>5,395</b>	<b>5,563</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of AEGON N.V.	3,758	5,394	5,559
Non-controlling interests	3	1	4

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134 CONSOLIDATED FINANCIAL STATEMENTS OF AEGON N.V.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF AEGON N.V.****AS AT DECEMBER 31**

Amounts in EUR million	Note	2011	2010
<b>ASSETS</b>			
Intangible assets	21	3,285	4,359
Investments	22	144,079	143,188
Investments for account of policyholders	23	142,529	146,237
Derivatives	24	15,504	6,251
Investments in associates	25	742	733
Reinsurance assets	26	11,517	5,580
Defined benefit assets	41	303	352
Deferred tax assets	43	89	512
Deferred expenses and rebates	27	11,633	11,948
Other assets and receivables	28	7,792	7,831
Cash and cash equivalents	29	8,104	5,231
<b>TOTAL ASSETS</b>		<b>345,577</b>	<b>332,222</b>
<b>EQUITY AND LIABILITIES</b>			
Shareholders' equity	30	21,000	17,328
Convertible core capital securities	31		1,500
Other equity instruments	32	4,720	4,704
<b>Issued capital and reserves attributable to equity holders of AEGON N.V.</b>		<b>25,720</b>	<b>23,532</b>
Non-controlling interests		14	11
<b>GROUP EQUITY</b>		<b>25,734</b>	<b>23,543</b>
Trust pass-through securities	33	159	143
Subordinated borrowings	34	18	
Insurance contracts	35	105,175	100,506
Insurance contracts for account of policyholders	36	73,425	77,650
Investment contracts	37	20,847	23,237
Investment contracts for account of policyholders	38	71,433	69,527
Derivatives	24	12,728	5,971
Borrowings	39	10,141	8,518
Provisions	40	444	357
Defined benefit liabilities	41	2,184	2,152
Deferred revenue liabilities	42	104	82
Deferred tax liabilities	43	2,499	1,583
Other liabilities	44	19,501	18,537
Accruals	45	1,185	416
<b>TOTAL LIABILITIES</b>		<b>319,843</b>	<b>308,679</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>345,577</b>	<b>332,222</b>



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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 <sup>1</sup>	Non-controlling interests	Total
<b>At January 1, 2011</b>		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
<b>Other comprehensive income:</b>										
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
<b>TOTAL OTHER COMPREHENSIVE INCOME / (LOSS)</b>			<b>4</b>	<b>2,506</b>	<b>379</b>			<b>2,889</b>		<b>2,889</b>
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR 2011</b>			<b>873</b>	<b>2,506</b>	<b>379</b>			<b>3,758</b>	<b>3</b>	<b>3,761</b>
Shares issued		913						913		913
Repurchase of convertible core capital securities						(1,500)		(1,500)		(1,500)
Preferred dividend			(59)					(59)		(59)
Coupons on perpetual securities			(177)					(177)		(177)
			(750)					(750)		(750)

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Coupons and premiums on convertible core capital securities

Share options						16	16	16
Other			(13)				(13)	(13)
<b>AT DECEMBER 31, 2011</b>	<b>30, 31, 32</b>	<b>9,097</b>	<b>9,403</b>	<b>3,464</b>	<b>(964)</b>	<b>4,720</b>	<b>25,720</b>	<b>14 25,734</b>

<sup>1</sup> 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 <sup>1</sup>	Non-controlling interests	Total
<b>At January 1, 2010</b>		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
<b>Other comprehensive income:</b>										
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)
<b>TOTAL OTHER COMPREHENSIVE INCOME / (LOSS)</b>			<b>7</b>	<b>2,667</b>	<b>961</b>			<b>3,635</b>		<b>3,635</b>
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR 2010</b>			<b>1,766</b>	<b>2,667</b>	<b>961</b>			<b>5,394</b>	<b>1</b>	<b>5,395</b>
Repurchase of convertible core capital securities						(500)		(500)		(500)
Preferred dividend			(90)					(90)		(90)
Coupons on perpetual securities			(187)					(187)		(187)
Coupons and premiums on convertible core capital securities			(63)					(63)		(63)
Share options							(5)	(5)		(5)
<b>AT DECEMBER 31, 2010</b>	<b>30, 31, 32</b>	<b>8,184</b>	<b>9,529</b>	<b>958</b>	<b>(1,343)</b>	<b>1,500</b>	<b>4,704</b>	<b>23,532</b>	<b>11</b>	<b>23,543</b>

<sup>1</sup> 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, 2009**

Amounts in EUR million	Note	Share capital	Retained earnings	Revaluation reserves	Other reserves	Convertible core capital securities	Other equity instruments	Issued capital and reserves <sup>1</sup>	Non-controlling interests	Total
<b>At January 1, 2009</b>		7,347	8,201	(7,167)	(2,211)	3,000	4,699	13,869	6	13,875
Net income / (loss) recognized in the income statement			204					204		204
<b>Other comprehensive income:</b>										
Gains / (losses) on revaluation of available-for-sale investments				7,860				7,860		7,860
(Gains) / losses transferred to income statement on disposal and impairment of available for-sale-investments				640				640		640
Changes in revaluation reserve real estate held for own use				(1)				(1)		(1)
Changes in cash flow hedging reserve				(731)				(731)		(731)
Movements in foreign currency translation and net foreign investment hedging reserves					(209)			(209)		(209)
Equity movements of associates					27			27		27
Disposal of group assets				59	35			94		94
Aggregate tax effect of items recognized in other comprehensive income / (loss)				(2,369)	54			(2,315)		(2,315)
Other			(10)					(10)	4	(6)
<b>TOTAL OTHER COMPREHENSIVE INCOME / (LOSS)</b>			<b>(10)</b>	<b>5,458</b>	<b>(93)</b>			<b>5,355</b>	<b>4</b>	<b>5,359</b>
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR 2009</b>			<b>194</b>	<b>5,458</b>	<b>(93)</b>			<b>5,559</b>	<b>4</b>	<b>5,563</b>
Shares issued		837	(14)					823		823
Repurchase of convertible core capital securities						(1,000)		(1,000)		(1,000)
Treasury shares			175					175		175
Preferred dividend			(122)					(122)		(122)
Coupons on perpetual securities			(182)					(182)		(182)
Coupons and premium on convertible core capital securities			(148)					(148)		(148)
Share options							10	10		10
Other			(1)					(1)		(1)
<b>AT DECEMBER 31, 2009</b>	<b>30, 31, 32</b>	<b>8,184</b>	<b>8,103</b>	<b>(1,709)</b>	<b>(2,304)</b>	<b>2,000</b>	<b>4,709</b>	<b>18,983</b>	<b>10</b>	<b>18,993</b>

<sup>1</sup> 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	2011	2010	2009
<b>Income / (loss) before tax</b>		<b>916</b>	<b>1,914</b>	<b>(464)</b>
Results from financial transactions		187	(15,662)	(14,937)
Amortization and depreciation		1,690	1,637	1,716
Impairment losses		483	701	1,369
Income from associates		(29)	(41)	(23)
Release of cash flow hedging reserve		(18)	(8)	(117)
Other		(138)	(5)	262
<b>Adjustments of non-cash items</b>		<b>2,175</b>	<b>(13,378)</b>	<b>(11,730)</b>
Insurance and investment liabilities		(4,966)	(4,321)	(4,811)
Insurance and investment liabilities for account of policyholders		(154)	14,274	18,925
Accrued expenses and other liabilities		(421)	502	466
Accrued income and prepayments		(1,473)	(2,299)	(1,307)
<b>Changes in accruals</b>		<b>(7,014)</b>	<b>8,156</b>	<b>13,273</b>
Purchase of investments (other than money market investments)		(29,612)	(42,691)	(49,022)
Purchase of derivatives		(1,350)	(940)	(1,255)
Disposal of investments (other than money market investments)		34,924	45,446	50,875
Disposal of derivatives		1,599	1,452	1,474
Net purchase of investments for account of policyholders		(1,577)	(1,522)	(3,837)
Net change in cash collateral		2,180	3,003	(4,979)
Net purchase of money market investments		445	39	(1,821)
<b>Cash flow movements on operating items not reflected in income</b>		<b>6,609</b>	<b>4,787</b>	<b>(8,565)</b>
Tax paid		(375)	(274)	345
Other		(45)	58	136
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>2,266</b>	<b>1,263</b>	<b>(7,005)</b>
Purchase of individual intangible assets (other than VOBA and future servicing rights)		(18)	(20)	(10)
Purchase of equipment and real estate for own use		(72)	(116)	(202)
Acquisition of subsidiaries and associates, net of cash		(99)	(31)	(202)
Disposal of intangible asset		1	2	
Disposal of equipment		18	33	25
Disposal of subsidiaries and associates, net of cash		823	(158)	11
Dividend received from associates		3	14	53
Other		(3)	(2)	
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>653</b>	<b>(278)</b>	<b>(325)</b>

CONTINUATION &gt;

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**CONSOLIDATED CASH FLOW STATEMENT OF AEGON N.V.****FOR THE YEAR ENDED DECEMBER 31 (CONTINUATION)**

Amounts in EUR million	Note	2011	2010	2009
Issuance of share capital		913		837
Issuance and (purchase) of treasury shares				175
Proceeds from TRUPS <sup>1</sup> , subordinated loans and borrowings		5,627	7,551	6,926
Repurchase of convertible core capital securities		(1,500)	(500)	(1,000)
Repayment of TRUPS <sup>1</sup> , subordinated loans and borrowings		(4,342)	(6,577)	(4,529)
Dividends paid		(59)	(90)	(122)
Coupons and premium on convertible core capital securities		(750)	(63)	(273)
Coupons on perpetual securities		(237)	(251)	(244)
Other		(26)	49	(14)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>(374)</b>	<b>119</b>	<b>1,756</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS <sup>2</sup></b>		<b>2,545</b>	<b>1,104</b>	<b>(5,574)</b>
Net cash and cash equivalents at the beginning of the year		5,174	4,013	9,506
Effects of changes in exchange rate		107	57	81
<b>NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>29</b>	<b>7,826</b>	<b>5,174</b>	<b>4,013</b>

<sup>1</sup> Trust pass-through securities.

<sup>2</sup> Included in net increase / (decrease) in cash and cash equivalents are interest received (2011: EUR 6,631 million, 2010: EUR 8,167 million and 2009: EUR 7,778 million) dividends received (2011: EUR 760 million, 2010: EUR 635 million and 2009: EUR 816 million) and interest paid (2011: EUR 273 million, 2010: EUR 380 million and 2009: EUR 510 million).

The cash flow statement is prepared according to the indirect method.



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**EXCHANGE RATES****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	

**Exchange rates at December 31, 2010**

		EUR	USD	GBP	CAD	PLN	CNY	RON	HUF	CZK
1	EUR		1.3362	0.8608	1.3322	3.9750	8.8220	4.2620	277.9500	25.0610
1	USD	0.748		0.644	0.997	2.975	6.602	3.190	208.015	18.755
1	GBP	1.162	1.552		1.548	4.618	10.249	4.951	322.897	29.114
1	CAD	0.751	1.003	0.646		2.984	6.622	3.199	208.640	18.812
1	PLN	0.252	0.336	0.217	0.335		2.219	1.072	69.925	6.305
1	CNY	0.113	0.151	0.098	0.151	0.451		0.483	31.506	2.841
1	RON	0.235	0.314	0.202	0.313	0.933	2.070		65.216	5.880
100	HUF	0.360	0.481	0.310	0.479	1.430	3.174	1.533		9.016
100	CZK	3.990	5.332	3.435	5.316	15.861	35.202	17.007	1,109.094	

**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	

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**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

**Weighted average exchange rates 2009**

	EUR	USD	GBP	CAD	PLN	CNY	RON	HUF	CZK
1	EUR	1.4071	0.8903	1.5773	4.3248	9.4849	4.2347	280.2934	26.3343
1	USD	0.711	0.633	1.121	3.074	6.741	3.010	199.199	18.715
1	GBP	1.123	1.580	1.772	4.858	10.654	4.756	314.830	29.579
1	CAD	0.634	0.892	0.564	2.742	6.013	2.685	177.705	16.696
1	PLN	0.231	0.325	0.206	0.365	2.193	0.979	64.811	6.089
1	CNY	0.105	0.148	0.094	0.166	0.456	0.446	29.552	2.776
1	RON	0.236	0.332	0.210	0.372	1.021	2.240	66.190	6.219
100	HUF	0.357	0.502	0.318	0.563	1.543	3.384	1.511	9.395
100	CZK	3.797	5.343	3.381	5.990	16.423	36.017	16.081	1,064.366

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF AEGON N.V.**

**AMOUNTS IN EUR MILLION, UNLESS OTHERWISE STATED**

**1 GENERAL INFORMATION**

AEGON N.V., incorporated and domiciled in the Netherlands, is a public limited liability share 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. AEGON N.V. serves as the holding company for the AEGON Group and has listings of its common shares in Amsterdam, New York and London.

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 limited banking operations. Headquarters are located in The Hague, the Netherlands. The Group employs approximately 25,000 people worldwide.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1 BASIS OF PRESENTATION**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), with IFRS as issued by the International Accounting Standards Board (IASB) and with Part 9 of Book 2 of the Netherlands Civil Code. 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 2011 is provided below in paragraph 2.1.1.

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.

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 21, 2012. The financial statements are put to the Annual General Meeting of Shareholders on May 16, 2012 for adoption. The shareholders' meeting can decide not to adopt the financial statements but cannot amend them.

**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 2011, the following new standard issued by the IASB became mandatory:

Improvements to IFRS (May 2010).

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**Improvements to IFRS (May 2010)**

The IASB issued, in May 2010, a number of minor amendments to seven different standards and interpretations. These amendments, which are effective from January 1, 2011, deal with minor changes to the wordings used in the individual standards and seek to remove editorial and other inconsistencies in the literature. AEGON adopted all the relevant changes from the improvements project to its accounting policies. The improvements project did not result in any changes to the classification, measurement or presentation of any items in the financial statements, except for the amendment on IFRS 7 Financial Instruments: Disclosures which had impact on disclosures that AEGON has illustrated in note 4.

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, 2011 but are not currently relevant for the Group:

IAS 24 (revised) Related Party Disclosures.

IFRIC 14 (Amendment ) Prepayment of a minimum funding requirement.

IFRIC 19 Extinguishing financial liabilities with equity instrument.

IFRS 1 (amendment) First Time Adoption - Limited Exemption from Comparative IFRS 7 Disclosures for First Time Adopters.

Amendment to IAS 32 Classification of Rights Issues.

**2.1.2 FUTURE ADOPTION OF NEW IFRS ACCOUNTING STANDARDS**

The following standards, amendments to existing standards and interpretations, published prior to January 1, 2012, were not early adopted by the Group, but will be applied in future years:

IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities.

IFRS 9 Financial Instruments <sup>1</sup>.

IFRS 10 Consolidated Financial Statements <sup>1</sup>.

IFRS 11 Joint Arrangements <sup>1</sup>.

IFRS 12 Disclosure of Interests in Other Entities <sup>1</sup>.

IFRS 13 Fair Value Measurement <sup>1</sup>.

IAS 1 Financial Statement Presentation - Presentation of Items of Other Comprehensive Income<sup>1</sup>.

IAS 12 Income Taxes - Recovery of Tax Assets <sup>1</sup>.

IAS 19 Employee Benefits <sup>1</sup>.

IAS 27 Separate Financial Statements <sup>1</sup>.

IAS 28 Investments in Associates and Joint Ventures <sup>1</sup>.

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities <sup>1</sup>.

**IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements**

The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011 and will improve the disclosure of transfer transactions 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 expects the impact on its current disclosures on financial instruments to be considerable.

**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 better compare financial statements prepared in accordance with IFRS and US GAAP with regard to offsetting of financial assets and financial liabilities. The new disclosures will provide users of financial statements with information about the effect or potential effect of netting arrangements on an entity's financial position. AEGON is currently assessing the impact of this standard.

<sup>1</sup> Not yet endorsed by the European Union.

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144 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF AEGON N.V. / NOTE 2.1.2 - 2.2

**IFRS 9 Financial Instruments**

IFRS 9 Financial Instruments addresses classification and measurement of financial assets, is available for early adoption immediately but mandatory for accounting periods beginning on or after January 1, 2015. IFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 represents the first stage in the IASB's planned replacement of IAS 39. IFRS 9 is expected to have a significant impact on the Group's financial statements 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. AEGON is currently assessing the impact of this standard.

**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 is currently assessing the impact of this standard.

**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. AEGON is currently assessing the impact of this standard.

**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 is currently assessing the impact of this standard.

**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 12 Income Taxes - Recovery of tax assets**

The amended standard is effective for annual periods beginning on or after January 1, 2012. The amendment provides a practical solution to the difficult and subjective assessment whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property, by introducing a presumption that recovery of the carrying amount will, normally be through sale. AEGON does not expect any impact on its 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 remeasurements to be presented in other comprehensive income. And

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furthermore, they enhance 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. Based on the consolidated figures as per December 31, 2011, AEGON estimates the adverse impact on equity to be approximately EUR 1 billion (post tax).



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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 is currently assessing the impact of IFRS 11 and IFRS 12, but 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.

The following amendments to the existing standard and interpretation, published prior to January 1, 2012, were not early adopted by the Group as this amendments to existing standard and interpretation are not relevant for the Group:

IFRS 1 First Time Adoption - Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters.  
IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine.

**2.2 CHANGES IN PRESENTATION****A. CORRECTION OF IMMATERIAL ERRORS**

AEGON identified an immaterial error in AEGON's financial statements issued prior to 2008. This error is related to the value of AEGON's deferred tax and current tax balances in the Americas, resulting in an overstatement of Other assets and receivables, offset by an overstatement of Deferred tax liabilities and understatement of Other liabilities and a net understatement of equity in the comparative periods. AEGON assessed the qualitative and quantitative impact of this correction on previously issued financial statements and concluded that it was immaterial in all prior periods. AEGON has therefore made correcting adjustments to the opening balances of 2009 (increasing Group equity by EUR 115 million) in the current financial statements in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

This error had no impact on AEGON's income statement, including net income or earnings per share, reported in these periods. The net effect of the correcting adjustments, including the foreign exchange impact, on the individual financial statement line items of the consolidated financial statements for the periods presented are as follows:

<b>Consolidated statement of financial position</b>	Other assets and receivables	Deferred tax liabilities	Other liabilities	Shareholders equity	Group equity
December 31, 2010					
As previously reported	7,912	1,824	18,495	17,210	23,425
Increase / (decrease)	(81)	(241)	42	118	118

**AS CORRECTED**

**7,831**

**1,583**

**18,537**

**17,328**

**23,543**

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146 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF AEGON N.V. / NOTE 2.3

<b>Consolidated statement of changes in equity</b>	Retained earnings	Other reserves	Group equity
<b>January 1, 2011</b>			
As previously reported	9,421	(1,353)	23,425
Increase / (decrease)	108	10*	118
<b>AS CORRECTED</b>	<b>9,529</b>	<b>(1,343)</b>	<b>23,543</b>
<b>January 1, 2010</b>			
As previously reported	7,995	(2,306)	18,883
Increase / (decrease)	108	2*	110
<b>AS CORRECTED</b>	<b>8,103</b>	<b>(2,304)</b>	<b>18,993</b>
<b>January 1, 2009</b>			
As previously reported	8,093	(2,218)	13,760
Increase / (decrease)	108	7*	115
<b>AS CORRECTED</b>	<b>8,201</b>	<b>(2,211)</b>	<b>13,875</b>

\* Changes on impact on other reserves are the result of USD / EUR exchange rate movements.

**B. SEGMENT REPORTING**

In 2011, AEGON amended its segment reporting to align with changes implemented in the way AEGON manages its businesses. Refer to note 2.5 Segment reporting for details about this change. 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.

**2.3 BASIS OF CONSOLIDATION**

Business combinations that occurred before the adoption date of IFRS (January 1, 2004) have not been restated.

**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 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

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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.

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**2.4 FOREIGN EXCHANGE TRANSLATION**

**A. TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS**

The Group's consolidated financial statements are prepared in euros, which is also the Company's functional currency. The euro is also the currency of the primary economic environment in which the Company 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 initially recorded at the functional currency 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 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 UK: Covers businesses operating in the United Kingdom.

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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. In addition, AEGON presents:

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. Bank-Owned and Corporate-Owned Life Insurance (BOLI/COLI) business and life reinsurance business in AEGON Americas were put in run-off in 2011. Comparative figures have been revised as disclosed in this paragraph.

Earnings from the Company's associates in insurance companies in Spain, India, Brazil and Mexico are reported on an underlying earnings basis.

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**Non-IFRS measures**

This 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 note 5 to the consolidated financial statements. This non-IFRS measure is calculated by consolidating on a proportionate basis the revenues and expenses of AEGON's associated companies in Spain, India, Brazil and Mexico. AEGON believes that its non-IFRS measure provides meaningful information about the underlying operating results of AEGON's business including insight into the financial measures that senior management uses in managing the business.

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

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

**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. 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 c