

AEGON NV
Form 6-K
April 15, 2016
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Securities and Exchange Commission

Washington, D.C. 20549

Form 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 of 15d/16
of the Securities Exchange Act of 1934

April 2016

AEGON N.V.

Aegonplein 50
2591 TV THE HAGUE
The Netherlands

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Aegon's Supplemental Annual Report 2015, dated April 14, 2016, is included as appendix and incorporated herein by reference. This Supplemental Annual Report is based on Aegon's 2015 Annual Report on Form 20-F dated March 25, 2016 and has been enhanced with the impacts, to all periods reported, of voluntary accounting policy changes related to reinsurance transactions that are entered into as part of a plan to exit a business as well as insurance accounting for Aegon's business in the United Kingdom; the changes in the United Kingdom involve the aggregation level at which the liability adequacy test is carried out and the definition of when a substantially modified contract will be derecognized and changes to the segment reporting disclosures by aligning the disclosure with the current managerial view to geographical areas and underlying businesses.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AEGON N.V. (Registrant)

(Registrant)

Date: April 14, 2016

By /s/ J.H.P.M. van Rossum

J.H.P.M. van Rossum

Executive Vice President and
Corporate Controller

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2 Strategic information **Introduction**

Introduction

Filing

This document contains Aegon's Supplemental Annual Report 2015 (hereafter referred to as "Supplemental Annual Report"). This Supplemental Annual Report is based on Aegon's 2015 Annual Report on Form 20-F dated March 25, 2016 and has been enhanced with the impacts, to all periods reported, of:

- Voluntary accounting policy changes related to reinsurance transactions that are entered into as part of a plan to exit a business as well as insurance accounting for Aegon's business in the United Kingdom; the changes in the United Kingdom involve the aggregation level at which the liability adequacy test is carried out and the definition of when a substantially modified contract will be derecognized (hereafter together referred to as "voluntary accounting policy changes"); and
- Changes to the segment reporting disclosures by aligning the disclosure with the current managerial view to geographical areas and underlying businesses (hereafter referred to as "segment reporting changes").

The voluntary accounting policy changes and the segment reporting changes are effective January 1, 2016 and were announced on January 13, 2016 at Aegon's Analyst & Investor Conference. Compared to Aegon's 2015 Annual Report on Form 20-F, no changes have been processed other than the impact of the retrospective application of the voluntary accounting policy changes and the segment reporting changes.

Note 2.1.2 to the consolidated financial statements (pages 136-140) provides a comprehensive overview of the impact of the changes to Aegon's primary schedules of the financial statements.

This Supplemental Annual Report will be furnished with the United States Securities and Exchange Commission ("SEC") on Form 6-K.

About this report

This report is prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IFRS"), and with Part 9 of Book 2 of the Dutch Civil Code for the year ended December 31, 2015, and includes the impacts of the retrospective application of the voluntary accounting policy changes and segment reporting changes, all of which are adopted per January 1, 2016, for Aegon N.V. (the company) and its subsidiaries (collectively known as Aegon).

This report presents the Consolidated Financial Statements of Aegon (pages 128-309) and the Parent Company Financial Statements of Aegon (pages 311-325).

Presentation of certain information

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

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

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Aegon prepares its consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and with Part 9 of Book 2 of the Netherlands Civil Code for purposes of reporting with the SEC, including financial information contained in this Supplemental Annual Report. Aegon's accounting policies and its use of various options under IFRS are described in note 2 to the consolidated financial statements.

Other than for SEC reporting, Aegon prepares its Annual Accounts under International Financial Reporting Standards as adopted by the European Union, including the decisions Aegon made with regard to the options available under International Financial Reporting Standards as adopted by the EU (IFRS-EU). IFRS-EU differs from IFRS in respect of certain paragraphs in IAS 39 Financial Instruments: Recognition and Measurement regarding hedge accounting for portfolio hedges of interest rate risk. Under IFRS-EU, Aegon applies fair value hedge accounting for portfolio hedges of interest rate risk (fair value macro hedges) in accordance with the EU "carve out" version of IAS 39. Under

IFRS, hedge accounting for fair value macro hedges cannot be applied to mortgage loans and ineffectiveness arises whenever the revised estimate of the amount of cash flows in scheduled time buckets is either more or less than the original designated amount of that bucket.

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

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

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4 Strategic information [CEO letter](#)

CEO letter

2015 was a year in which we made significant progress in the execution of our strategy. Our operational and financial successes are ultimately the result of customers placing their trust in Aegon, and I am proud that we are helping millions of people achieve a lifetime of financial security.

Once again, one of the key highlights of the year was the very strong and profitable sales we generated across the Company, which are up by 24% on 2014. Moreover, I am pleased that we have seen a 12% year-on-year increase in sales over the last five years, and this success underlines the continued progress Aegon has made to connect with customers in new ways – including through our new and innovative digital propositions.

While we had strong results in terms of sales, it was a challenging year from an earnings perspective and I am disappointed that our results – in particular those in the US – did not meet our expectations. The main cause of this decline in earnings was the adverse effect from model updates and assumption changes. These included the impact of changes in customer behavior, the effect of which was exacerbated by the low interest rate environment. We have taken actions to mitigate this adverse effect and remain committed to generating attractive returns.

Adapting to change

The global economic climate continues to present challenges for the insurance sector. Credit conditions worsened in 2015 as world oil prices reached their lowest point in over a decade. While the gradual upturn in the US economy was a positive sign, the economic growth outlook in the US remains mixed and below that of the pre-crisis level. Similarly, although measures to stimulate the eurozone economy had a positive effect on the outlook for the region, conditions for insurers became more challenging as interest rates dropped to historic lows. In this challenging environment Aegon remains well positioned for the future. The transformation in our business over the last five years, from one reliant largely on spread businesses to one focused on fee and technical income, makes us a stronger and more resilient franchise going forward.

Transforming our business

2015 was the final year of a five-year strategy cycle at the Company. As pleasing as it was to not only meet, but exceed, our targets for operational free cash flows and fee-based earnings, I am disappointed that we did not achieve our targets for return on equity and earnings growth. In January 2016, we updated the market on our strategy and the steps we are taking to continue to improve our operational performance. Central to this is the announcement that we will further reduce our expenses by EUR 200 million over the next three years. In parallel, we will focus on developing a life-long relationship with our customers so that we can serve their financial needs at all the major financial junctures in their lives; rather than on a one-off basis. In order to accomplish this, we need to get much closer to our customers and connect with them how and when they wish. To this end, we will step up our work to provide guidance and advice to customers and accelerate our investments in digital solutions.

Focusing on value creation

We continued to make progress in the optimization of our portfolio, allocating capital to those businesses that create value and growth in order to deliver on our financial targets and strategy. 2015 saw the divestment of a number of non-core activities, including our life insurance business in Canada, Clark Consulting and our joint venture with La Mondiale in France, freeing up close to a billion euros of capital. In terms of reinvesting our capital, two transactions that we secured are particularly exciting: first, the creation of a strategic partnership with La Banque Postale Asset Management, the fifth largest asset manager in France with over 10 million customers; and second, the acquisition of Mercer's record keeping business, which makes Aegon one of the top five in the US pension administration market, with approximately 5 million plan participants. Both of these deals illustrate how we are reaching new customers by enhancing our distribution networks and teaming up with market leaders.

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Navigating a complex regulatory landscape

While regulation of our industry is changing rapidly and compliance costs are rising, with the right business model these changes represent a clear opportunity. Indeed, Aegon has the added competitive advantage of knowing how to operate in rapidly changing markets due to its global presence.

Preparations for the European Union Solvency II Directive were a considerable undertaking throughout the year. Gaining approval for Aegon's internal model in the Netherlands and the United Kingdom in December was a significant achievement, and our strong capital position was reflected in the fact that all our major business units are above their respective target levels. I am pleased that our estimated group Solvency II ratio of 160% is in the upper end of our target range, meaning we are in a strong position to return capital to our shareholders. Our strong capital position enabled us to announce a share buyback of EUR 400 million, and to increase the dividend yet again this year by 9% in line with our dividend policy of having a sustainable and growing dividend.

In November, Aegon was designated as one of a group of nine Global Systemically Important Insurers (G-SII) by the Financial Stability Board (FSB). We are engaging with supervisors with regard to the G-SII Framework, and while some implications of G-SII designation are not clear, we are making progress on the plans we need to develop.

Our communities and our employees

Although this report provides a comprehensive overview of Aegon's financial activities, we take the impact we have on the communities in which we operate, wider society and the environment very seriously. For this reason, we are pleased to also publish an annual review, which is available on Aegon.com. This explains our social, economic and environmental performance and impacts, together with outlining how we create value for our stakeholders.

I am proud to work alongside over 31,500 talented colleagues who are dedicated to making a difference and who share my passion for our purpose *to help people achieve a lifetime of financial security*. On behalf of the Management Board I would like to express my sincere thanks for all their hard work and commitment. Furthermore, I would like to thank Aegon's many shareholders for placing their trust in the company. Without their support and investment, we would not be able to deliver on the promises we make to our 30 million customers around the world.

Looking to the future

Aegon is, I believe, well positioned to take advantage of the many opportunities in our markets by connecting with ever more customers and meeting their needs in a smooth and seamless way across their lifetimes. This gives me confidence that Aegon will achieve its strategic and financial objectives, and also create long-term value for customers and therefore shareholders alike.

Thank you for your support and interest in our company.

Alex Wynaendts

Chief Executive Officer and Chairman of the Executive Board of Aegon N.V.

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6 Strategic information **Composition of the Executive Board and the Management Board**

Composition of the Executive Board and the Management Board

Alex Wynaendts (1960, Dutch)

Chief Executive Officer

Chairman of the Executive Board

Chairman of the Management Board

Alex Wynaendts began his career in 1984 with ABN AMRO Bank, working in Amsterdam and London in the Dutch bank's capital markets, asset management, corporate finance and private banking operations. In 1997, Mr. Wynaendts joined Aegon as Senior Vice President for Group Business Development. He was appointed as a member of the Executive Board in 2003, overseeing the Company's international growth strategy. In April 2007, Mr. Wynaendts was named Aegon's Chief Operating Officer, and has been CEO and Chairman of the Executive Board and Management Board since April 2008. Mr. Wynaendts was reappointed as member of the Executive Board at the Annual General Meeting of Shareholders of Aegon N.V. on May 20, 2015. His third and final term of office will end in 2019.

Adrian Grace (1963, British)

Chief Executive Officer of Aegon UK

Member of the Management Board

Adrian Grace began his career with Leeds Permanent Building Society in 1979, before joining Mercantile Credit in 1984. In 2001, Mr. Grace joined Sage Group PLC as Managing Director of the Small Business Division. In 2004, he moved to Barclays Insurance as Chief Executive, before joining HBOS in 2007 as Managing Director of Commercial Business within the Corporate Division. In 2009, he joined Aegon UK as Group Business Development Director and in April 2011 became the Chief Executive Officer. Mr. Grace has been a member of Aegon's Management Board since February 2012.

Darryl Button (1969, Canadian)

Chief Financial Officer

Member of the Executive Board

Member of the Management Board

Darryl Button began his career at Mutual Life Insurance Co. of Canada, joining Aegon in 1999 as Director of Product Development and Risk Management at Aegon USA's Institutional Markets business unit. He was appointed Corporate Actuary of Aegon USA in 2002 and became CFO of Aegon Americas in 2005. From 2008 to 2011, Mr. Button also took on the responsibilities of Chairman and executive management of Aegon's Canadian operations, before joining Aegon's Corporate Center in 2012 as Executive Vice President and Head of the Corporate Financial Center. In 2013, Mr. Button was appointed as CFO and as a member of the Executive Board of Aegon. He is also a member of the Management Board.

Tom Grondin (1969, Canadian)¹

Chief Risk Officer of Aegon N.V.

Member of the Management Board

Tom Grondin was appointed Chief Risk Officer of Aegon N.V. in 2003 and as a member of Aegon's Management Board in January 2013. His current responsibilities include managing Aegon's Risk, Actuarial, Compliance and Risk Structuring and Transfer functions. He joined Aegon USA's Institutional Markets business unit in 2000, where he was Chief Actuary. Prior to joining Aegon, he was a consultant at Tillinghast-Towers Perrin, and an asset liability manager at Manulife Financial.

¹ Tom Grondin was appointed as Chief Financial Officer, Aegon Asia, effective January 1, 2016.

Allegra van Hövell-Patrizi joined Aegon on January 1, 2016 as Group Chief Risk Officer, and member of the Management Board.

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Marco Keim (1962, Dutch)

Chief Executive Officer of Aegon the Netherlands

Member of the Management Board

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

Mark Mullin (1963, American)

Chief Executive Officer of Aegon Americas

Member of the Management Board

Mark Mullin has spent more than 20 years with Aegon in various investment and business 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. He was named President of Aegon Americas in 2009, and became President and CEO of Aegon Americas and a member of the Management Board in 2010.

Gábor Kepecs (1954, Hungarian)

Chief Executive Officer of Aegon Central & Eastern Europe

Member of the Management Board

Gábor Kepecs began his career with the Hungarian government before joining former state-owned insurance company Állami Biztosító. He was appointed CEO in 1990, two years before Állami Biztosító was privatized and acquired by Aegon. Mr. Kepecs was the CEO of Aegon Hungary from 1992 to 2009, during which time he 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 2008.

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8 Strategic information [Aegon's strategy](#)

Aegon's strategy

Achievements since 2011

In 2011, Aegon embarked on a strategic direction based on the following objectives: to get closer to customers by addressing their financial needs across the various stages of their lives; to leverage technology to improve service and customer experience, while also reducing expenses in order to remain competitive; and to focus on protection and accumulation needs in emerging markets, and on accumulation and post-retirement needs in developed markets.

Since this time, the profile of the Company has been transformed by refocusing the Group on fee business. Key accomplishments include: divesting non-core businesses, such as Transamerica's Reinsurance business, a number of joint ventures in Spain, La Mondiale in France, and the Company's Canadian life insurance business; creating a successful asset management business; significantly reducing expenses, while investing in new digital business models, e.g. Knab in the Netherlands and Aegon's retirement platform in the UK; and increasing the number of customers that place their trust in Aegon to 30 million.

Key drivers for change

Going forward, it is necessary to constantly anticipate changes in Aegon's business environment. This environment is being shaped by a number of trends:

- ↳ Low interest rates, which may persist for a longer period than anticipated;
- ↳ The shift from state and corporate benefits to individuals taking responsibility for their own privately-funded plans;
- ↳ Reduced accessibility to traditional financial advice for the middle market and mass-affluent customer segments;
- ↳ Increased competition due to the blurring of boundaries between insurers, banks, asset managers, distributors, and other (new) non-traditional entrants into the financial services industry following regulatory and technology developments;
- ↳ Shifting consumer demand towards digital first, multi-channel access, and personalized offerings;
- ↳ Increasing customer expectations for greater transparency, simplicity, and superior service; and
- ↳ A regulatory environment that increases complexity across all lines of business and puts pressure on returns.

Aegon's ambition

Aegon's purpose *to help people achieve a lifetime of financial security* forms the basis of the Company's strategy. The central focus of the strategy is to further change the Company by shifting from a product-based company to a customer need-driven one. This means serving diverse and evolving needs across the customer life cycle (right time, right solution); aligning Aegon's brand promise with being a trusted partner for financial solutions that are relevant, simple, rewarding, and convenient; and developing long-term customer relationships by providing guidance and advice, and identifying additional financial security needs at every stage of customers lives.

The aim of Aegon's strategy is that the Company be a truly international enterprise with a common culture across its businesses of working together; that Aegon's respective businesses learn from each other and replicate best practices to benefit customers; that it recognizes and addresses opportunities in rapidly changing markets in a timely and nimble way; and that it attracts, develops, and retains the best people who share its values and are committed to its purpose.

In order to do so, Aegon will focus on reducing complexity, eliminating duplication, improving accuracy, and increasing automation to realize cost efficiencies, allowing investments in its transformation to a digitally enabled, customer-centric company. Furthermore, the Company will focus on driving scale and establishing strong market positions in its current footprint, and strictly adhering to comprehensive standards that support the efficient use of capital by all businesses. The different market segments, the different geographies, and the different starting positions of Aegon's businesses nonetheless mean that they will experience different paths to meet the same goals. Expertise and knowledge available in Aegon's established markets will be utilized to position its businesses in emerging markets.

In summary, it is Aegon's ambition to be regarded as *a trusted partner for financial solutions at every stage of life* in all its markets. That means: being recognized by its customers, business partners, and society as a company that puts the interests of its customers first in all that it does; and being regarded as an employer of choice by employees, engaging and enabling them to succeed. In addition, the Company will strive to generate the returns, earnings, and dividends that fulfil shareholders' expectations.

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Aegon's strategic objectives

Aegon believes that it will achieve its ambition of becoming a trusted partner for financial solutions at every stage of life if it realizes the following strategic objectives:

- ⌚ Serving customers' need for financial security throughout their lifetimes by providing digitally-enabled, omni-channel, accessible solutions and superior customer experience (**Loyal Customers**);
- ⌚ Delivering excellent service to customers at competitive cost levels by increasing scale and improving quality, efficiency, and accuracy of processes with technology (**Operational Excellence**);
- ⌚ Valuing and supporting Aegon employees as the Company's greatest asset by engaging and enabling them with the tools, training, and culture needed to exceed customers' expectations (**Empowered Employees**); and
- ⌚ Ensuring that the Company always meets its long-term commitments to stakeholders by delivering sustainable financial results and maintaining a strong and stable balance sheet (**Optimized Portfolio**);

To realize these objectives, Aegon needs to be more focused and more forward-looking, and it needs to accelerate and improve the quality of execution.

Acquisitions & divestments

Acquisitions can accelerate the implementation of Aegon's strategy, provide it with access to new technologies and provide the scale needed in markets in which it is already active. Aegon is selective when determining which businesses it would like to acquire, generally targeting acquisitions that fit the Company's mission of securing the financial future of its customers, and that are aligned with its four strategic objectives. The Company uses several financial criteria for determining the attractiveness of acquisitions including: return on capital, internal rate of return, capital generation, and capital fungibility. Similar strategic and financial criteria are applied when considering the potential divestment of existing activities.

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10 Business overview **History and development of Aegon**

Business overview

History and development of Aegon

Aegon is an international life insurance, pensions and asset management group. Its listed holding company, Aegon N.V., is a public limited liability company with its statutory seat and head office in the Netherlands.

Aegon's history dates back over 170 years. 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 is headquartered in the Netherlands and through its subsidiaries it employs over 31,500 people worldwide. Aegon's common shares are listed on stock exchanges in Amsterdam (Euronext) and New York (NYSE). Aegon's main operating units are separate legal entities and operate under the laws of their respective countries. The shares of these legal entities are directly or indirectly held by three intermediate holding companies incorporated under Dutch law: Aegon Europe Holding B.V., the holding company for all European activities; Aegon International B.V., which serves as a holding company for the Aegon Group companies of all non-European countries; and Aegon Asset Management Holding B.V., the holding company for some of its asset management entities.

The Company fosters an entrepreneurial spirit within its businesses and encourages the innovation of products and services, with the focus always on helping people achieve a lifetime of financial security. Aegon uses a multi-brand, multichannel distribution approach to meet its customers' needs.

Aegon has the following reportable operating segments: the Americas, which includes the United States, Mexico and Brazil; the Netherlands; the United Kingdom; Central & Eastern Europe; Spain & Portugal; Asia and Aegon Asset Management.

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Selected financial data

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

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

significant judgment are described in the notes to the financial statements.

A summary of historical financial data is provided in the table below. It is important to read this summary in conjunction with the consolidated financial statements and related notes (see pages 128-309) of this Supplemental Annual Report.

Selected consolidated income statement information

In EUR million (except per share amount)

Amounts based upon IFRS

	2015 ¹⁾	2014 ¹⁾	2013 ¹⁾	2012 ¹⁾	2011 ¹⁾
Premium income	22,925	19,864	19,939	19,049	19,521
Investment income	8,525	8,148	7,909	8,413	8,167
Total revenues ²⁾	33,902	30,157	29,805	29,327	29,159
Income/ (loss) before tax	(514)	916	1,236	2,024	1,036
Net income/ (loss)	(431)	766	1,003	1,628	937
Earnings per common share					
Basic	(0.27)	0.29	0.37	0.72	(0.03)
Diluted	(0.27)	0.29	0.37	0.72	(0.03)

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Earnings per common share B

Basic	(0.01)	0.01	0.01	-	-
Diluted	(0.01)	0.01	0.01	-	-

¹ Amounts have been restated for the voluntary changes in accounting policies for deferred cost of reinsurance and insurance accounting in the UK. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

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

Selected consolidated balance sheet information

In million EUR (except per share amount)

Amounts based upon IFRS

	2015 ¹⁾	2014 ¹⁾	2013 ¹⁾	2012 ¹⁾	2011 ¹⁾
Total assets	415,415	424,112	351,523	362,663	342,731
Insurance and investment contracts	343,558	321,384	283,234	277,596	272,105
Borrowings including subordinated and trust pass-through securities	13,361	15,049	12,009	13,416	9,377
Shareholders' equity	22,441	23,847	17,589	20,913	17,424

¹ Amounts have been restated for the voluntary changes in accounting policies for deferred cost of reinsurance and insurance accounting in the UK. Refer to note 2.1.2 Voluntary changes in accounting policies for details about these changes.

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12 Business overview [Selected financial data](#)

Number of common shares

In thousands	2015	2014	2013	2012	2011
Balance at January 1	2,145,948	2,131,459	1,972,030	1,909,654	1,736,049
Share issuance	-	-	120,713	-	173,605
Stock dividends	1,089	14,489	38,716	62,376	-
Balance at end of period	2,147,037	2,145,948	2,131,459	1,972,030	1,909,654

Number of common shares B

In thousands	2015	2014	2013	2012	2011
Balance at January 1	581,326	579,005	-	-	-
Share issuance	3,696	2,320	579,005	-	-
Balance at end of period	585,022	581,326	579,005	-	-

Dividends

Aegon declared interim and final dividends on common shares for the years 2011 through 2015 in the amounts set forth in the following table. The 2015 interim dividend amounted to EUR 0.12 per common share. The interim dividend was paid in cash or stock at the election of the shareholder. The interim dividend was payable as of September 18, 2015. At the General Meeting of Shareholders on May 20, 2016, the Supervisory Board will, absent unforeseen circumstances, propose a final dividend of EUR 0.13 per common share (at each shareholders option in

cash or in stock), which will bring the total dividend for 2015 to EUR 0.25. Proposed final dividend for the year and proposed total dividend 2015 per common share B are EUR 0.00325 and EUR 0.00625 respectively. Dividends in US dollars are calculated based on the foreign exchange reference rate as published each working day at 14:15 hours by the European Central Bank on the business day following the announcement of the interim dividend or on the business day following the General Meeting of Shareholders approving the relevant final dividend.

Year	EUR per common share ¹⁾			USD per common share ¹⁾		
	Interim	Final	Total	Interim	Final	Total
2011	-	0.10	0.10	-	0.13	0.13
2012	0.10	0.11	0.21	0.12	0.14	0.26

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2013	0.11	0.11	0.22	0.15	0.15	0.30
2014	0.11	0.12	0.23	0.15	0.13	0.28
2015	0.12	0.13 ²⁾	0.25	0.13		

¹ Paid at each shareholder's option in cash or in stock.

² Proposed.

From May 2003 to May 2013, Aegon had common shares and class A and class B preferred shares. The annual dividend on Aegon's class A and class B preferred shares was calculated on the basis of the paid-in capital on the preferred shares using a rate equal to the European Central Bank's fixed interest percentage for basic refinancing transactions plus 1.75%, as determined on Euronext Amsterdam's first working day of the financial year to which the dividend relates. Apart from this,

no other dividend was paid on the preferred shares. This resulted in a rate of 2.75% for the year 2012. Applying this rate to the weighted average paid-in capital of its preferred shares during 2012, the total amount of annual dividends Aegon made in 2013 on its preferred shares for the year 2012 was EUR 59 million.

In addition, Aegon paid a 2013 interim dividend on the preferred shares of EUR 24 million, covering the period from January 1, 2013 until the cancellation of all preferred shares in May 2013.

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Exchange rates

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

As of March 9, 2016, the USD exchange rate was EUR 1 = USD 1.0997.

The high and low exchange rates for the US dollar per euro for each of the last six months through February 2016 are set forth below:

Closing rates	Sept. 2015	Oct. 2015	Nov. 2015	Dec. 2015	Jan. 2016	Feb. 2016
High (USD per EUR)	1.1358	1.1473	1.1026	1.1025	1.0964	1.1362
Low (USD per EUR)	1.1104	1.0963	1.0562	1.0573	1.0743	1.0868

The average exchange rates for the US dollar per euro for the five years ended December 31, 2015, calculated by using the average of the exchange rates on the last day of each month during the period, are set forth below:

Year ended December 31,	Average rate ¹⁾
2011	1.4002
2012	1.2909
2013	1.3303
2014	1.3210
2015	1.1032

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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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14 Business overview **Business lines**

Business lines

Americas

United States - Life & Protection

Life insurance

Products offering protection against mortality, morbidity and longevity risks, including traditional and universal life, in addition to endowment, term, and whole life insurance products.

Accident and health insurance

Products offering supplemental health, accidental death and dismemberment insurance, critical illness, cancer treatment, credit/disability, income protection, travel and long-term care insurance.

United States - Investments & Retirement

Products and services include variable and fixed annuities, retirement plans (including ancillary services), mutual funds and stable value solutions.

Latin America

Brazil: Life and critical illness insurance; private and company pensions; pension scheme administration; and investment funds.

Mexico: Individual life, group life, and health insurance; and saving plans.

Europe

The Netherlands

Life: Products with mortality, morbidity, and longevity risks, including traditional and universal life, in addition to employer, endowment, term, whole life insurance products; mortgages; annuity products; and banking products, including saving deposits.

Pensions: Individual and group pensions usually sponsored by, or obtained via, an employer. Administration-only services are offered to company and industry pension funds.

Non-life: General insurance, consisting mainly of automotive, liability, disability, household insurance, and fire protection.

Distribution: Independent distribution channel, offering both life and non-life insurance solutions.

United Kingdom

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Life: Immediate annuities, individual protection products, such as term insurance, critical illness, income protection and international/offshore bonds.

Pensions: Individual pensions, including self-invested personal pensions and drawdown products, such as guaranteed income drawdown products; group pensions, sponsored by, or obtained via, an employer. Also includes the tied-agent distribution business.

Central & Eastern Europe

Activities in the Czech Republic, Hungary, Poland, Romania, Slovakia, Turkey, and Ukraine. Includes life insurance, individual and group pension products, savings and investments, in addition to general insurance.

Spain & Portugal

Distribution partnerships with Santander in Spain & Portugal and with Liberbank in Spain. Includes life insurance, accident and health insurance, general insurance and investment products.

Asia

High net worth businesses in Hong Kong and Singapore

Life insurance marketed to high-net-worth individuals in Hong Kong and Singapore.

Aegon Direct & Affinity Marketing Services

Full range of direct insurance solution from product design, customer analytics insights, marketing campaign design and multi-channel product distribution to policy administration and claims management.

Strategic partnerships

Joint ventures in China and India offering (term) life insurance and savings products, and in Japan offering variable annuities.

Aegon Asset Management

Americas

Investment products covering third-party customers, insurance-linked solutions, and Aegon's own insurance companies.

The Netherlands

Investment products covering third-party customers, insurance-linked solutions, and Aegon's own insurance companies in addition to manager selection and tailored advice on balance sheet solutions for the pension market.

United Kingdom

Fixed income, equities, real estate and multi-asset solutions to Aegon's own insurance companies as well as external UK and international customers.

Rest of World

Asset management activities in Central & Eastern Europe and Spain & Portugal.

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Strategic partnerships

In China, Aegon Asset Management owns 49% of Aegon Industrial Fund Management Company, a Shanghai-based asset manager.

In France, Aegon Asset Management has strategic partnership with La Banque Postale Asset Management of which it owns a 25% stake.

Table of Contents16 Business overview **Results of operations** Worldwide**Results of operations****Results 2015 worldwide****Underlying earnings geographically**
Amounts in EUR millions
Net underlying earnings

Tax on underlying earnings

Underlying earnings before tax geographically

Americas

Europe

Asia

Asset Management

Holding and other activities

Underlying earnings before tax

Fair value items

Gains / (losses) on investments

Net impairments

Other income / (charges)

2015	2014	%
1,431	1,416	1%
358	449	(20%)
1,200	1,134	6%
559	771	(27%)
20	(17)	-
170	115	48%
(161)	(138)	(17%)
1,789	1,865	(4%)
(500)	(1,366)	63%
346	697	(50%)
49	(34)	-
(2,254)	(240)	-
88	6	-

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Run-off businesses			
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	(482)	927	-
Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	33	10	-
Income tax	51	(161)	-
Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	(33)	(10)	-
Net income	(431)	766	-
Commissions and expenses	6,916	5,865	18%
of which operating expenses	3,734	3,312	13%

This Supplemental 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 in addition to in note 5 Segment information of the consolidated financial statements. This non-IFRS measure is calculated by consolidating on a proportionate basis the revenues and expenses of Aegon's joint ventures in the Netherlands, Mexico, Spain, Portugal, China and Japan and Aegon's associates in India, Brazil, the Netherlands, United Kingdom and Mexico.

The table also includes the non-IFRS financial measure: net underlying earnings. This is the after-tax equivalent of underlying earnings before tax. The reconciliation of net underlying earnings to the most comparable IFRS measure is presented in the table above. Aegon believes that its non-IFRS measure provides meaningful information about the underlying operating results of Aegon's businesses, including insight into the financial measures that senior management uses in managing the businesses.

Aegon's senior management is compensated based in part on Aegon's results against targets using the non-IFRS measures presented in this report. While many other insurers in Aegon's peer group present substantially similar non-IFRS measures, the non-IFRS measures presented in this document may nevertheless differ from the non-IFRS measures presented by other insurers. There is no standardized meaning to these measures under IFRS or any other recognized set of accounting standards and readers are cautioned to consider carefully the different ways in which Aegon and its peers present similar information before making a comparison. Aegon believes the non-IFRS measures present within this report, when read together with Aegon's reported IFRS financial statements, provide meaningful supplemental information for the investing public. This enables them to evaluate Aegon's businesses after eliminating the impact of current IFRS accounting policies for financial instruments and insurance contracts, which embed a number of accounting policy alternatives that companies may select in presenting their results (as companies may use different local generally accepted accounting principles (GAAPs)), and this may make the comparability difficult between time periods.

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New life sales

Amounts in EUR millions

	2015	2014	%
Americas	599	552	9%
Europe	1,172	1,379	(15%)
Asia	173	114	52%
Total recurring plus 1/10 single	1,944	2,045	(5%)

Gross deposits (on and off balance)

Amounts in EUR millions

	2015	2014	%
Americas	36,999	31,849	16%
Europe	6,075	3,716	63%
Asia	408	526	(22%)
Asset Management	33,722	19,340	74%
Total gross deposits	77,205	55,431	39%

**Worldwide
revenues
geographically
2015**

Amounts in EUR millions	Americas	The Nether- lands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Asia	Asset Manage- ment	Holding, other activities and elimina- tions	Segment total	Associates and Joint Ventures elimina- tions	Consoli- dated
Total life insurance gross premiums	7,046	2,240	8,465	477	174	1,713	-	(102)	20,013	(431)	19,583
Accident and health insurance premiums	2,266	234	47	1	64	105	-	-	2,717	(14)	2,703
General insurance premiums	-	473	-	164	80	-	-	2	720	(80)	640

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Total gross premiums	9,312	2,947	8,512	642	317	1,819	-	(100)	23,450	(524)	22,925
Investment income	3,680	2,277	2,331	45	41	194	7	2	8,576	(51)	8,525
Fees and commission income	1,704	351	98	39	13	62	650	(284)	2,633	(195)	2,438
Other revenue	9	-	-	-	2	-	-	7	19	(5)	14
Total revenues	14,705	5,575	10,941	726	373	2,076	657	(375)	34,677	(775)	33,902
Number of employees, including agent employees	12,701	4,503	2,478	2,470	534	7,163	1,382	299	31,530		

Underlying earnings before tax by line of business

Amounts in EUR millions

	2015	2014	%
Life	757	652	16%
Individual Savings & Retirement	544	657	(17%)
Pensions	440	518	(15%)
Non-life	17	46	(62%)
Distribution	22	15	50%
Asset management	170	115	48%
Other	(161)	(138)	(17%)
Underlying earnings before tax	1,789	1,865	(4%)

Table of Contents18 Business overview **Results of operations** Worldwide**Results 2015 worldwide**

Aegon's net loss in 2015 amounted to EUR 431 million. Underlying earnings before tax declined to EUR 1,789 million, primarily impacted by lower earnings in the United Kingdom from the write down of deferred policy acquisition costs related to the restructuring of the organization. Results in 2015 were impacted by a loss of EUR 500 million on fair value items, which was driven by accounting losses on hedging programs and the impact of assumption changes. Realized gains of EUR 346 million mainly related to normal trading in the investment portfolio. Other charges amounted to EUR 2,254 million, mainly driven by the write down of deferred policy acquisition costs in the United Kingdom related to the restructuring of the organization, the loss on the divestment of the Canadian life insurance activities and the impact of model updates.

Net income

The net loss amounted to EUR 431 million, which was the result of the write down of deferred policy acquisition costs in the United Kingdom related to the restructuring of the organization, the loss on the divestment of the Canadian life insurance activities and the impact of model updates.

Underlying earnings before tax

Aegon's underlying earnings before tax in 2015 declined compared with 2014 to EUR 1,789 million. This was driven by the write down of deferred policy acquisition costs in the United Kingdom related to upgrading customers to the retirement platform, the recurring impact of the actuarial assumption changes and model updates implemented in the third quarters of 2014 and 2015 and adverse claims experience in the United States.

- ⌚ Underlying earnings before tax from the Americas increased by 6% to EUR 1,200 million in 2015. The impact of the stronger US dollar more than offset adverse claims experience and the impact on recurring earnings of the actuarial assumption changes and model updates implemented in the third quarters of 2014 and 2015.
- ⌚ In Europe, the underlying loss before tax declined to EUR 559 million in 2015, as a result of the adverse impact the write down of deferred policy acquisition costs in the United Kingdom related to upgrading customers to the retirement platform.
- ⌚ Underlying earnings before tax from Asia increased to EUR 20 million in 2015 as one-time charges in 2014 from assumption changes and model updates did not recur.
- ⌚ Asset Management underlying earnings before tax were up 48% to EUR 170 million, driven by the positive impact of higher performance fees and third-party assets under management.
- ⌚ Total holding costs increased 17% compared with 2014 to EUR 161 million in 2015. This was mainly as a result of higher net interest costs following a debt issuance to refinance a perpetual security for which the cost was previously accounted for directly through shareholders' equity and a tax gain received in 2014.

Fair value items

The results from fair value items amounted to a loss of EUR 500 million. The loss was mainly driven by adverse results on hedging programs in the United States (EUR 521 million), the positive impact of assumption changes (EUR 101 million), and the underperformance of alternative investments in the United States (EUR 221 million). Included in the loss on hedging programs in the United States is the loss on fair value hedges without accounting match in the Americas (EUR 402 million). This was mainly driven by the loss on equity and interest rate hedges, which were set up to protect Aegon's capital position. Underperformance of fair

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value investments was primarily driven by investments related to the energy sector and hedge funds in the United States.

Realized gains on investments

Realized gains on investments amounted to EUR 346 million, and were primarily related to a rebalancing of the fixed income portfolio in the Netherlands and the United Kingdom in preparation for the introduction of Solvency II.

Impairment charges

Net recoveries totaled to EUR 49 million in 2015. In the United States, gross impairments were more than offset by recoveries mostly related to investments in previously impaired subprime residential mortgage-backed securities.

Other charges

Other charges amounted to EUR 2,254 million. These were mostly caused by the write down of deferred policy acquisition costs in the United Kingdom related to the restructuring of the organization (EUR 1,274 million), the loss on the divestment of the Canadian life insurance activities (EUR 751 million) and charges related to model updates (EUR 205 million).

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Run-off businesses

The results of run-off businesses improved to EUR 88 million, as the 2014 result included a negative impact from model updates of EUR 32 million.

Income tax

Income tax amounted to a benefit of EUR 51 million. The effective tax rate on underlying earnings and total income for 2015 was 20% and 11%, respectively. This was mostly driven by tax credits related to solar energy investments in the United States.

Commissions and expenses

Commissions and expenses increased by 18% in 2015 compared with 2014 to EUR 6.9 billion, which was mainly caused by the adverse impact of the accounting changes. Operating expenses increased by 13% in 2015 compared with 2014 to EUR 3.7 billion. Adverse currency movements and higher defined benefit expenses in the Netherlands more than offset lower project and transformation costs in the UK and the positive impact of the divestment of the Canadian life insurance activities.

Production

Compared with 2014, Aegon's total sales in 2015 increased by 24% to EUR 10.7 billion. This was a result of higher gross deposits, partly driven by favorable currency movements. In 2015, compared with 2014, gross deposits were up 39% to EUR 77.2 billion, driven by higher pensions and mutual fund deposits in the United States, production from online bank Knab in the Netherlands, and sales in Aegon Asset Management. Net deposits, excluding run-off businesses, increased by 85% to EUR 18.4 billion compared to 2014, mostly due to higher gross deposits and the de-recognition of movements in stable value solutions balances. New life sales declined by 5% compared with 2014 to EUR 1.9 billion, mostly driven by lower universal life production in the United States, fewer pension buy-out sales in the Netherlands, and a lower demand for traditional pension products in the United Kingdom. New premium production for accident & health life and general insurance increased by 3% compared with 2014 to EUR 1.0 billion, as the stronger US dollar more than offset a lower contribution from portfolio acquisitions and several product exits.

Capital management

During 2015, shareholders' equity decreased by EUR 1.4 billion to EUR 22.4 billion, as retained earnings and favorable currency exchange rates were more than offset by the book loss on the sale of the Canadian life insurance activities and higher interest rates, which resulted in lower revaluation reserves. During the year, the revaluation reserves decreased by EUR 1.8 billion to EUR 6.5 billion. Aegon's shareholders' equity, excluding

revaluation reserves and defined benefit plan remeasurements, amounted to EUR 17.5 billion on December 31, 2015, or 8.27 per common share. The gross leverage ratio improved to 28.4% on December 31, 2015, compared with the end of 2014, which was mostly as a result of earnings generated during the year. The negative impact on the gross leverage ratio of the book loss on the sale of the Canadian life insurance activities was offset by the redemption of the USD 500 million senior bond, which matured on December 8, 2015. Excess capital in the holding increased from EUR 1.2 billion at the end of 2014 to EUR 1.4 billion on December 31, 2015, as dividends from business units and proceeds from divestments were partly offset by the impact of cash used for deleveraging, dividends to shareholders, interest payments and operating expenses.

During 2015, Aegon's Insurance Group Directive (IGD) ratio increased from 208% at the end of 2014 to 220% on December 31, 2015. The increase reflects positive retained earnings during the year, in addition to the impact of divestments. On March 3, 2015, Aegon completed the sale of its 35% share in La Mondiale Participations to La Mondiale for EUR 350 million. Furthermore, on July 31, 2015, Aegon completed the sale of its Canadian operations to Wilton Re for CAD 600 million (EUR 428 million). The capital in excess of the S&P AA threshold in the United States decreased from USD 1.1 billion at the end of 2014 to USD 0.2 billion on December 31, 2015, as dividends paid to the holding were offset by earnings, while the RBC ratio in the United States decreased from 540% at year-end 2014 to ~460% on December 31, 2015. The decrease in the United States primarily reflected market conditions and the impact of assumption changes and model updates implemented during the third quarter. In the Netherlands, the IGD ratio, excluding Aegon Bank, increased from 215% on December 31, 2014, to ~240% at the end of 2015 due to earnings generated during the year. The Pillar I ratio in the United Kingdom, including the with-profit fund, increased from 140% at the end of 2014 to ~165% at the end of 2015 due to earnings and changes to longevity assumptions in the fourth quarter.

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On November 24, 2015, Aegon successfully placed its inaugural EUR 750 million Conditional Pass-Through Covered Bond. The placement enabled Aegon to further diversify its funding sources and to attract new external long-term funding. The net proceeds were used to refinance part of the existing Dutch mortgage portfolio of Aegon.

Dividends from and capital contributions to business units

Aegon received EUR 1.1 billion of dividends from its business units during 2015, almost all of which from the Americas. Aegon spent EUR 0.3 billion on capital contributions and acquisitions in Asia, Central & Eastern Europe, Asset Management and Variable Annuities Europe.

Table of Contents20 Business overview **Results of operations** **Worldwide****Results 2014 worldwide****Underlying earnings geographically**

Amounts in EUR millions

2014 2013 %

Net underlying earnings**1,416 1,531 (8%)**

Tax on underlying earnings

449 437 3%

Underlying earnings before tax geographically

Americas

1,134 1,314 (14%)

Europe

771 637 21%

Asia

(17) 34 -

Asset Management

115 95 21%

Holding and other activities

(138) (113) (27%)

Underlying earnings before tax**1,865 1,968 (5%)**

Fair value items

(1,366) (1,118) (22%)

Gains / (losses) on investments

697 500 39%

Net impairments

(34) (122) 72%
(240) (52) -

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Other income / (charges)

Run-off businesses	6	68	(92%)
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Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	927	1,244	(25%)
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Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	10	8	33%
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Income tax	(161)	(240)	33%
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Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax	(10)	(8)	(33%)
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Net income	766	1,003	(24%)
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Commissions and expenses	5,865	5,826	1%
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of which operating expenses	3,312	3,273	1%
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New life sales

Amounts in EUR millions	2014	2013	%
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Americas	552	464	19%
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Europe	1,379	1,381	0%
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Asia	114	67	71%
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Total recurring plus 1/10 single	2,045	1,911	7%
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Gross deposits (on and off balance)

Amounts in EUR millions	2014	2013	%
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Americas	31,849	28,424	12%
	3,716	2,300	62%

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Europe

Asia	526	587	(10%)
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Asset Management	19,340	13,018	49%
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Total gross deposits	55,431	44,330	25%
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Worldwide revenues geographically 2014	Central & Spain						Holding, other activities and		Associates and Joint Ventures		Consoli- dated
	Americas	The Nether- lands	United Kingdom	Eastern Europe	& Portugal	Asia	Manage- ment	elimina- tions	Segment total	elimina- tions	
Amounts in EUR millions											
Total life insurance gross premiums	6,461	3,982	5,057	524	196	1,097	-	(70)	17,246	(351)	16,896
Accident and health insurance premiums	1,874	233	56	1	60	102	-	-	2,326	(11)	2,316
General insurance premiums	-	501	-	152	72	-	-	-	725	(72)	653
Total gross premiums	8,334	4,716	5,113	678	328	1,199	-	(70)	20,298	(433)	19,864
Investment income	3,312	2,568	2,077	54	49	124	4	2	8,191	(42)	8,148
Fees and commission income	1,485	324	94	41	8	53	475	(243)	2,237	(100)	2,137
Other revenue	2	-	-	-	2	-	-	5	10	(3)	7
Total revenues	13,134	7,608	7,284	773	387	1,376	479	(306)	30,735	(578)	30,157
Number of employees, including agent employees	12,865	4,426	2,644	2,495	433	4,189	1,276	274	28,602		
Underlying earnings before tax by line of business											
Amounts in EUR millions									2014	2013	%
Life									652	1,003	(35%)
									657	483	36%

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Individual Savings & Retirement

Pensions	518	475	9%
Non-life	46	12	-
Distribution	15	16	(8%)
Asset management	115	95	21%
Other	(138)	(115)	(24%)
Underlying earnings before tax	1,865	1,968	(5%)

Table of Contents22 Business overview **Results of operations** Worldwide**Results 2014 worldwide**

Aegon's net income in 2014 amounted to EUR 766 million. Underlying earnings before tax declined to EUR 1.9 billion. Net income in 2014 was impacted by a loss of EUR 1.4 billion on fair value items, which was mainly driven by accounting losses on hedging programs and the impact of assumption changes and model updates, and other charges of EUR 240 million. These losses were partly offset by realized gains of EUR 697 million.

Net income

Net income declined to EUR 766 million as lower underlying earnings before tax, higher other charges and higher losses on fair value items more than offset higher realized gains and lower net impairments.

Underlying earnings before tax

Aegon's underlying earnings before tax in 2014 decreased 5% compared with 2013 to EUR 1,865 million. The benefit of business growth and favorable equity markets was more than offset by the impact of charges for actuarial assumption changes and model updates, and unfavorable mortality in the Americas.

- ⌚ Underlying earnings before tax from the Americas decreased 14% to EUR 1,134 million in 2014. Growth in variable annuities and pensions was more than offset by the impact of a charge for actuarial assumption changes and model updates, unfavorable mortality in the life business and the impact of lower interest rates.
- ⌚ In Europe, underlying earnings before tax increased 21% to EUR 771 million in 2014, primarily driven by higher investment income, improved margins on savings, a EUR 45 million employee benefit reserve release resulting from legislation changes, all in the Netherlands, and improved persistency in the United Kingdom.
- ⌚ The underlying loss before tax from Aegon's operations in Asia amounted to EUR 17 million in 2014. The decrease in underlying earnings before tax compared to 2013 was primarily the result of a charge from model updates in 2014 of EUR 29 million in the high net worth businesses. In addition, 2013 included a gain of EUR 23 million related to actuarial assumption changes and model updates.
- ⌚ Asset Management underlying earnings before tax were up 21% to EUR 115 million, driven by the positive impact of higher third-party assets under management.
- ⌚ Total holding costs increased 27% to EUR 138 million in 2014 compared with 2013. This was mainly as a result of higher net interest costs following a debt issuance to refinance a perpetual security for which the cost was previously accounted for directly through shareholders' equity.

Fair value items

The results from fair value items amounted to a loss of EUR 1,366 million. The loss was mainly driven by adverse results on hedging programs in the United States (EUR 301 million), adverse fair value movements on interest rate hedges and longevity hedges in the Netherlands (EUR 180 million), the adverse impact of assumption changes and model updates (EUR 123 million), and the underperformance of alternative investments in the United States (EUR 90 million).

Included in the loss on hedging programs in the United States is the loss on fair value hedges without accounting match in the Americas (EUR 251 million), mainly driven by the loss on equity hedges, which were set up to protect Aegon's capital position, as a result of the strong US equity market performance in 2014.

Underperformance of fair value investments was primarily driven by investments related to the energy sector in the United States, and credit spread tightening in the Netherlands.

Realized gains on investments

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Realized gains on investments amounted to EUR 697 million and were primarily related to a rebalancing of the fixed income portfolio in the Netherlands and the United Kingdom, and the divestment of a private equity investment in the Netherlands.

Impairment charges

Net impairments improved by EUR 88 million to EUR 34 million in 2014. In the United States, gross impairments were more than offset by recoveries mostly related to investments in subprime residential mortgage-backed securities.

Other charges

Other charges amounted to EUR 240 million. These were mostly due to a charge in the Netherlands (EUR 95 million) related to the agreement with the harbor workers' former pension fund Optas, a provision taken for the closed block of European direct marketing activities (EUR 36 million), a provision for the implementation of the fee cap on pensions in the United Kingdom (EUR 35 million), a provision for the modification of unit-linked policies in Poland (EUR 23 million), and a change in the valuation of fixed assets in Aegon's Canadian business in anticipation of its divestment (EUR 15 million).

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Run-off businesses

The results of run-off businesses declined to EUR 6 million, mainly driven by a negative impact from model updates of EUR 32 million.

Income tax

Income tax amounted to EUR 161 million. The effective tax rate on underlying earnings for 2014 was 24%. The effective tax rate on total income was 17%. This was mostly driven by the combined effects of negative fair value items taxed at nominal rates, the reversal of the tax charge in Americas in 2013 related to hedging losses, tax credits and tax exempt items.

Commissions and expenses

Commissions and expenses increased slightly in 2014 compared with 2013 to EUR 5.9 billion. Operating expenses increased 1% in 2014 compared with 2013 to EUR 3.3 billion. This was mainly the result of an employee benefit reserve release in the Netherlands (EUR 45 million) which was more than offset by a provision and expenses related to implementing the upcoming fee cap on pensions in the United Kingdom, and higher expenses to support growth in the United States and the Netherlands.

Production

Compared with 2013, Aegon's total sales, in 2014, increased 20% to EUR 8.6 billion. This was a result of higher gross deposits, new life sales and production of accident and health and general insurance. In 2014, compared with 2013, gross deposits increased 25% to EUR 55.4 billion, driven by pensions, variable annuities and mutual funds in the United States, production from online bank Knab in the Netherlands, and Aegon Asset Management. Net deposits, excluding run-off businesses, decreased 7% to EUR 9.9 billion compared to 2013, mostly due to a reduction in stable value solutions balances of approximately EUR 3.0 billion and a one-time transfer of pension assets to the Polish government due to legislative changes. New life sales increased 7% compared with 2013 to EUR 2.0 billion, mostly driven by higher universal life production in the United States and Asia, and higher pension production in the Netherlands.

Capital management

In 2014, shareholders' equity increased EUR 6.3 billion compared with December 31, 2013 to EUR 23.8 billion. This was driven by lower interest rates, which resulted in higher revaluation reserves, and favorable currency exchange rates. During the year, the revaluation reserves increased by EUR 5.3 billion to EUR 8.3 billion. Aegon's shareholders' equity, excluding revaluation reserves and defined benefit plan remeasurements, amounted to EUR 17.2 billion on December 31, 2014.

The gross leverage ratio improved to 28.9% on December 31, 2014 compared to the end of 2013, which was mostly as a result of deleveraging. Excess capital in the holding decreased to EUR 1.2 billion on December 31, 2014 compared to 2013 (EUR 2.2 billion), as dividends from business units were more than offset by the impact of cash used for deleveraging, interest payments and operating expenses.

Shareholders' equity per common share, excluding revaluation reserves and defined benefit plan remeasurements, amounted to EUR 8.13 on December 31, 2014.

On December 31, 2014, Aegon's Insurance Group Directive (IGD) ratio stood at 208%. The capital in excess of the S&P AA threshold in the United States remained stable at USD 1.1 billion, as dividends paid to the holding were offset by earnings. The RBC ratio in the United States was ~540% at year-end 2014. In the Netherlands, the IGD ratio, excluding Aegon Bank, was ~215%. The Pillar I ratio in the United Kingdom, including the with-profit fund, was approximately 140% at the end of 2014 reflecting the negative impact of de-risking of the asset portfolio in preparation for Solvency II.

Effective as of March 15, 2014, Aegon redeemed junior perpetual capital securities with a coupon of 6.875% and a principal amount of USD 550 million. Effective as of June 15, 2014, Aegon redeemed perpetual capital securities with a coupon of 7.25% issued in 2007 and with a principal amount of USD 1,050 million, equal to approximately EUR 780 million. This transaction was largely financed by the issuance of EUR 700 million subordinated notes with a coupon of 4% on April 25.

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On October 16, 2014, Aegon announced the sale of its Canadian operations to Wilton Re for CAD 600 million (EUR 423 million). This transaction will result in a book loss of EUR 0.8 billion at closing and is expected to close in the first half of 2015, subject to regulatory approval.

On November 24, 2014, Aegon announced the sale of its 35% share in La Mondiale Participations to La Mondiale for EUR 350 million, in line with IFRS book value. The proceeds will increase the group's IGD solvency ratio by approximately 5 percentage points. This transaction was closed on March 3, 2015.

Dividends from and capital contributions to business units

Aegon received EUR 1.1 billion of dividends from its business units during 2014, almost all of which from the Americas. Capital contributions of EUR 0.1 billion were paid to Aegon's businesses in Central & Eastern Europe and Asia.

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	Amounts in USD millions			Amounts in EUR millions		
	2015	2014	%	2015	2014	%
Net underlying earnings	1,045	1,082	(3%)	941	814	16%
Tax on underlying earnings	287	424	(32%)	259	320	(19%)
Underlying earnings before tax by business						
Life	213	(13)	-	192	(10)	-
Accident & Health	140	212	(34%)	126	160	(21%)
Retirement plans	261	272	(4%)	235	205	15%
Mutual funds	50	47	6%	45	35	26%
Variable annuities	501	671	(25%)	452	505	(11%)
Fixed annuities	66	172	(62%)	59	130	(54%)
Stable Value Solutions	101	109	(8%)	91	82	11%
Canada	-	30	-	-	23	-
Latin America	1	5	(72%)	1	4	(67%)
	1,332	1,506	(12%)	1,200	1,134	6%

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Underlying earnings before tax						
Fair value items	(654)	(661)	1%	(589)	(497)	(18%)
Gains / (losses) on investments	(83)	113	-	(74)	85	-
Net impairments	79	27	189%	71	21	-
Other income / (charges)	(1,041)	(69)	-	(938)	(52)	-
Run-off businesses	98	8	-	88	6	-
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	(268)	925	-	(241)	696	-
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	5	4	39%	5	3	66%
Income tax	7	(129)	-	6	(97)	-
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(5)	(4)	(39%)	(5)	(3)	(66%)
Net income	(261)	796	-	(235)	599	-
Life insurance gross premiums	7,821	8,585	(9%)	7,046	6,461	9%
Accident and health insurance premiums	2,515	2,490	1%	2,266	1,874	21%
Total gross premiums	10,336	11,074	(7%)	9,312	8,334	12%
Investment income	4,085	4,401	(7%)	3,680	3,312	11%
Fees and commission income	1,891	1,974	(4%)	1,704	1,485	15%
Other revenues	11	3	-	9	2	-
Total revenues	16,322	17,453	(6%)	14,705	13,134	12%
Commissions and expenses	4,489	4,410	2%	4,044	3,319	22%
of which operating expenses	1,843	1,871	(2%)	1,660	1,408	18%

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New life sales	Amounts in USD millions			Amounts in EUR millions		
	2015	2014	%	2015	2014	%
Life	622	615	1%	561	463	21%
Canada	-	75	-	-	56	-
Latin America	42	43	(2%)	38	33	17%
Total recurring plus 1/10 single	665	733	(9%)	599	552	9%

	Amounts in USD millions			Amounts in EUR millions		
	2015	2014	%	2015	2014	%
New premium production accident and health insurance	1,003	1,193	(16%)	904	898	1%

Gross deposits (on and off balance)	Amounts in USD millions			Amounts in EUR millions		
	2015	2014	%	2015	2014	%
Life	7	9	(20%)	6	7	(4%)
Retirement plans	27,833	26,736	4%	25,075	20,121	25%
Mutual funds	5,084	4,879	4%	4,580	3,672	25%
Variable annuities	7,857	10,235	(23%)	7,079	7,702	(8%)
Fixed annuities	276	323	(15%)	249	243	2%
	-	121	-	-	91	-

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Canada						
Latin America	12	18	(35%)	10	14	(22%)
Total gross deposits	41,069	42,321	(3%)	36,999	31,849	16%

	Weighted average rate		Closing rate as of	
Exchange rates				
Per 1 EUR	2015	2014	December 31, 2015	December 31, 2014
USD	1.1100	1.3288	1.0863	1.2101
CAD	1.4173	1.4667	1.5090	1.4015

Table of Contents26 Business overview **Results of operations** Americas**Results 2015 Americas**

The net loss in 2015 was USD 261 million, primarily the result of the book loss on the divestment of Canada of USD 837 million. Underlying earnings before tax decreased to USD 1.3 billion compared with 2014. This was mainly driven by adverse claims experience and the impact on recurring earnings of the actuarial assumption changes and model updates implemented in the third quarters of 2014 and 2015. Gross deposits and new life sales declined to USD 41.1 billion and USD 665 million respectively, due to product adjustments to improve profitability, while new premium production for accident & health insurance was down to USD 1.0 billion.

Net loss

The net loss amounted to USD 261 million in 2015, primarily the result of the book loss on the divestment of Aegon's Canadian life insurance business of USD 837 million. Results on fair value items amounted to a loss of USD 654 million, which was primarily related to the impact on hedging programs as a result of lower interest rates and higher equity markets. Earnings from run-off businesses amounted to USD 98 million. Realized losses on investments amounted to USD 83 million, and were mainly related to investments in emerging markets and the energy sector. Net impairments improved compared with 2014 to a benefit of USD 79 million as recoveries, which were mostly related to investments in subprime residential mortgage-backed securities, more than offset gross impairments. Other charges were USD 1.0 billion, and were primarily related to the divestment of Aegon's Canadian business and model updates.

Underlying earnings before tax

Underlying earnings before tax in 2015 decreased by 12% to USD 1.3 billion compared with 2014. This was mainly driven by adverse claims experience and the impact on recurring earnings of the actuarial assumption changes and model updates implemented in the third quarters of 2014 and 2015. The earnings impact of the updates in 2015 was primarily caused by long-term care.

- ↳ Underlying earnings before tax from Life increased to USD 213 million compared with USD (13) million in 2014. This is due to lower one-time charges for assumption changes more than offsetting unfavorable mortality, the impact of lower interest rates and the impact on recurring earnings of the actuarial assumption changes and model updates implemented in the third quarters of 2014 and 2015.
- ↳ Accident & Health underlying earnings before tax declined by 34% to USD 140 million compared with 2014, which was mainly the result of adverse morbidity and charges for actuarial assumption changes.
- ↳ Underlying earnings before tax from Mutual Funds increased by 6% to USD 50 million compared with 2014, mainly driven by favorable markets.
- ↳ Retirement Plans underlying earnings before tax were down 4% to USD 261 million in 2015 compared with 2014, primarily driven by lower general account pension liabilities and margin pressure arising from the competitive environment on fees.
- ↳ Underlying earnings before tax from Variable Annuities declined by 25% to USD 501 million compared with 2014 as a result of the negative impact from actuarial assumption changes of USD 2 million in 2015, while 2014 included a benefit of USD 174 million.
- ↳ Fixed Annuity underlying earnings before tax were down 62% to USD 66 million compared with 2014. Underlying earnings before tax from fixed annuities were adversely impacted by assumption changes of USD 65 million and the decline of balances as a result of deemphasizing the business.
- ↳ Underlying earnings before tax from Stable Value Solutions amounted to USD 101 million compared with USD 109 million in 2014 due to lower account balances from net outflows.
- ↳ Latin America contributed USD 1 million to underlying earnings in 2015.

Commissions and expenses

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Commissions and expenses increased by 2% in 2015 to USD 4.5 billion compared with 2014. Operating expenses decreased by 2% in 2015 to USD 1.8 billion compared with 2014, and this was mainly driven by the divestment of Canada.

Production

Gross deposits declined by 3% in 2015 to USD 41.1 billion compared with 2014. Higher gross deposits in retirement plans were more than offset by lower gross deposits in variable annuities. Gross deposits in retirement plans increased by 4% to USD 27.8 billion due to higher recurring deposits. Variable annuity gross deposits were down by 23% to USD 7.9 billion compared with 2014, mainly driven by product adjustments implemented in the first quarter of 2015 in response to the low interest rate environment.

New life sales declined by 9% in 2015 to USD 665 million compared with 2014, as growth in indexed universal life was more than offset by the divestment of Canada, the withdrawal of the universal life secondary guarantee product due to the low interest rate environment, and lower term life sales. New premium production for accident & health insurance was down 16% to USD 1.0 billion, mainly resulting from a lower contribution from portfolio acquisitions and several product exits.

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Results 2014 Americas

	Amounts in USD millions			Amounts in EUR millions		
	2014	2013	%	2014	2013	%
Net underlying earnings	1,082	1,280	(15%)	814	965	(16%)
Tax on underlying earnings	424	463	(8%)	320	349	9%
Underlying earnings before tax by business						
Life insurance	(13)	469	-	(10)	353	-
Accident & health insurance	212	254	(16%)	160	191	(16%)
Retirement plans	272	239	14%	205	180	13%
Mutual funds	47	33	43%	35	25	42%
Variable annuities	671	414	62%	505	312	62%
Fixed annuities	172	215	(20%)	130	162	(20%)
Stable value solutions	109	110	(1%)	82	83	(1%)
Canada	30	4	-	23	3	-
Latin America	5	9	(45%)	4	7	(46%)

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Underlying earnings before tax	1,506	1,744	(14%)	1,134	1,314	(14%)
Fair value items	(661)	(1,300)	49%	(497)	(980)	49%
Gains / (losses) on investments	113	145	(22%)	85	110	(22%)
Net impairments	27	(58)	-	21	(44)	-
Other income / (charges)	(69)	95	-	(52)	72	-
Run-off businesses	8	91	(92%)	6	68	(92%)
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	925	717	29%	696	540	29%
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	<i>4</i>	<i>4</i>	<i>(9%)</i>	<i>3</i>	<i>3</i>	<i>(9%)</i>
Income tax	(129)	(158)	18%	(97)	(119)	18%
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	<i>(4)</i>	<i>(4)</i>	<i>9%</i>	<i>(3)</i>	<i>(3)</i>	<i>9%</i>
Net income	796	560	42%	599	422	42%
Life insurance gross premiums	8,585	8,212	5%	6,461	6,187	4%
Accident and health insurance premiums	2,490	2,372	5%	1,874	1,787	5%
Total gross premiums	11,074	10,584	5%	8,334	7,975	5%
Investment income	4,401	4,473	(2%)	3,312	3,370	(2%)
Fees and commission income	1,974	1,689	17%	1,485	1,273	17%
Other revenues	3	6	(44%)	2	4	(44%)
Total revenues	17,453	16,752	4%	13,134	12,622	4%
Commissions and expenses	4,410	4,332	2%	3,319	3,264	2%
	1,871	1,911	(2%)	1,408	1,440	(2%)

of which operating expenses

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New life sales	Amounts in USD millions			Amounts in EUR millions		
	2014	2013	%	2014	2013	%
Life	615	505	22%	463	380	22%
Canada	75	68	9%	56	51	9%
Latin America	43	42	3%	33	32	3%
Total recurring plus 1/10 single	733	615	19%	552	464	19%
	Amounts in USD millions			Amounts in EUR millions		
	2014	2013	%	2014	2013	%
New premium production accident and health insurance	1,193	902	32%	898	680	32%
Gross deposits (on and off balance)	Amounts in USD millions			Amounts in EUR millions		
	2014	2013	%	2014	2013	%
Life	9	11	(20%)	7	8	(20%)
Retirement plans	26,736	21,238	26%	20,121	16,002	26%
Mutual funds	4,879	4,301	13%	3,672	3,241	13%
Variable annuities	10,235	8,496	20%	7,702	6,402	20%
Fixed annuities	323	552	(41%)	243	416	(41%)
Stable value solutions	-	2,984	-	-	2,248	-

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Canada	121	125	(3%)	91	94	(3%)
Latin America	18	18	(2%)	14	14	(2%)
Total gross deposits	42,321	37,725	12%	31,849	28,424	12%

Exchange rates

Per 1 EUR
USD

CAD

Weighted average rate		Closing rate as of	
		December 31,	December 31,
	2014	2014	2013
	1.3288	1.2101	1.3780
	1.4667	1.4015	1.4641

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Results 2014 Americas

Net income in 2014 increased to USD 796 million. Underlying earnings before tax decreased to USD 1.5 billion compared with 2013. This was mainly because higher earnings from variable annuities and pensions were more than offset by lower earnings in Life & Protection, mostly due to the impact of assumption changes and model updates, and unfavorable mortality. New life sales increased to USD 733 million due to higher sales of universal life products. Gross deposits were 12% higher compared with 2013 driven by variable annuities and retirement plans.

Net income

Net income increased to USD 796 million in 2014 compared with 2013. Lower underlying earnings before tax, higher other charges and lower income before tax from run-off business were more than offset by lower losses from fair value items and net reversals of impairments. Results on fair value items amounted to a loss of USD 661 million, which was primarily related to the impact on hedging programs as a result of lower interest rates and higher equity markets. Realized gains on investments amounted to USD 113 million. Net impairments improved compared with 2013 to a benefit of USD 27 million as recoveries, mostly related to investments in subprime residential mortgage-backed securities, more than offset gross impairments. Other charges were USD 69 million, and were primarily related to a provision for the closed block of European direct marketing activities and a write down of fixed assets in Aegon's Canadian business in anticipation of the sale, subject to regulatory approval.

Underlying earnings before tax

Underlying earnings before tax in 2014 decreased 14% to USD 1,506 million compared with 2013. Higher underlying earnings before tax in variable annuities and pensions as a result of higher balances due to business growth and favorable markets were more than offset by lower underlying earnings before tax from Life & Protection and fixed annuities.

- ❧ Underlying earnings before tax from Life amounted to a loss of USD 13 million compared with a profit of USD 469 million in 2013. Growth of the business was more than offset by the negative impact of assumption changes and model updates (USD 400 million), unfavorable mortality and the impact of lower interest rates. The actuarial assumption updates were primarily related to updated mortality assumptions for the older ages. The model updates were primarily related to changes to modeled premium persistency.
- ❧ Accident & Health underlying earnings before tax were down 16% to USD 212 million compared with 2013 as a result of adverse claim experience and actuarial assumption changes.
- ❧ Underlying earnings before tax from Mutual Funds increased 43% to USD 47 million compared with 2013, primarily driven by higher net inflows and favorable markets.
- ❧ Retirement Plans underlying earnings before tax increased 14% to USD 272 million in 2014 compared with 2013, mainly driven by higher balances as a result of business growth and favorable markets.
- ❧ Underlying earnings before tax from Variable Annuities were up 62% to USD 671 million compared with 2013, resulting from the positive impact from actuarial assumption changes and model update of USD 174 million. Excluding this benefit, underlying earnings before tax were up due to higher fee income from higher account balances.
- ❧ Fixed Annuity underlying earnings before tax were down 20% to USD 172 million compared with 2013. Underlying earnings before tax from fixed annuities were adversely impacted by assumption changes amounting to USD 39 million the decline of balances as a result of deemphasizing the business.
- ❧ Underlying earnings before tax from Stable Value Solutions remained flat at USD 109 million compared with 2013.

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- ⓘ In Canada, underlying earnings amounted to USD 30 million in 2014, compared with USD 4 million in 2013. This was primarily driven by the adverse impact from actuarial assumption changes and model refinements recorded in 2013.
- ⓘ In Latin America underlying earnings before tax were down to USD 5 million.

Commissions and expenses

Commissions and expenses increased by 2% in 2014 to USD 4,410 million compared with 2013. Operating expenses decreased 2% in 2014 to USD 1,871 million compared with 2013, mainly as the benefit of lower restructuring costs more than offset higher expenses driven by growth of the business.

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Production

New life sales increased 19% in 2014 to USD 733 million compared with 2013 mostly as a result of higher universal life sales. New premium production for accident & health insurance increased 32% in 2014 to USD 1,193 million compared with 2013. This was mostly driven by expanded distribution and higher supplemental health sales due to the Affordable Care Act.

Gross deposits increased 12% in 2014 to USD 42.3 billion compared with 2013. Gross deposits in variable annuities, retail mutual funds and retirement plans were all higher in 2014. Variable annuity gross deposits were up 20% to USD 10.2 billion compared with 2013, mainly due to continued focus on key distribution partners and distribution expansion through alternative channels. In 2014, retirement plan gross deposits were also higher compared with 2013, driven by plan takeovers and the focus on retirement readiness by growing customer participation and contributions.

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Overview of Americas

Aegon Americas comprises Aegon USA, which operates under the Transamerica brand, together with operations in Brazil and Mexico.

Aegon USA

Aegon USA is one of the leading¹ life insurance organizations in the United States, and the largest of Aegon's operating units worldwide. It administers millions of policies and employs around 12,000 people. Most of Aegon USA's companies operate under the Transamerica brand, one of the best-known names in the United States for financial services (i.e. banks and businesses engaged in issuing, administering and selling insurance products, mutual funds, and other securities). Its companies have existed since the mid-19th century, and its main offices are in Cedar Rapids, Iowa, and Baltimore, Maryland with additional offices located throughout the United States.

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

Like other Aegon companies, Aegon USA uses a variety of distribution channels to help customers access its products and services as best suits their needs. Aegon USA distributes products and services through a number of channels, including agents, banks, investment advisers, registered representatives of broker-dealers, the internet, and direct and worksite marketing.

Aegon Brazil

In 2009, Aegon acquired a 50% interest in Mongeral Aegon Seguros e Previdência S.A., Brazil's fourth largest independent (i.e. non-bank affiliated) life insurer. As of December 31, 2015, Aegon Brazil had around 500 employees.

To further capture growth prospects in Brazil, on November 6, 2014, Mongeral Aegon and Bancoob (Banco Cooperativo do Brasil) signed an agreement to establish a new life insurance and pensions company dedicated to providing life insurance and pension products and services to the Sicoob system. Sicoob is the largest cooperative financial system in the country, with over 3 million associates and 2,340 points of service. Bancoob is a private commercial bank owned by the credit cooperative entities affiliated with the Sicoob system. This agreement represents a key expansion of distribution for Mongeral Aegon, which already serves over 2 million customers nationwide through over 4,000 broker partners. The venture is still subject to final regulatory approval from SUSEP (Superintendência de Seguros Privados).

Aegon Mexico

In 2006, Aegon acquired a 49% interest in Seguros Argos S.A. de C.V., a Mexican life insurance company. In 2013, Aegon entered into a joint venture with Administradora Akaan S.A. de C.V. to create Akaan-Aegon S.A.P.I. de C.V. and explore financial service opportunities. This organization is in the start-up phase and will initially focus on third-party asset management. As of December 31, 2015, Aegon Mexico had around 40 employees.

Aegon Canada

On July 31, 2015, Aegon completed the sale of its Canadian life insurance business to Wilton Re following regulatory approval. The agreement to sell Aegon's Canadian life insurance was announced on October 16, 2014. Based in Toronto, Aegon Canada offered a range of insurance products and financial services, primarily through its Transamerica Life Canada and Canadian Premier Life subsidiaries. Aegon maintains an insurance agency operating in Canada as World Financial Group Insurance Agency of Canada Inc., in addition to an affiliated securities dealer.

Organizational structure

Aegon USA

Aegon USA was founded in 1989, when Aegon brought all of its operating companies in the United States together under a single financial services holding company: Aegon USA, LLC. As of December 31, 2015, Aegon USA, LLC was merged into Transamerica Corporation, which is the holding company for the US operations. Business is conducted through its various subsidiaries. The use of the term Aegon USA throughout this document refers to the operating subsidiaries in the United States, through which Aegon USA conducts business. Aegon USA has operating licenses in every US state, in addition to the District of Columbia, Puerto Rico, the Virgin Islands and Guam.

Aegon USA's primary insurance subsidiaries are:

- Transamerica Life Insurance Company;
- Transamerica Financial Life Insurance Company;
- Transamerica Advisors Life Insurance Company;
- Transamerica Premier Life Insurance Company; and
- Transamerica Casualty Insurance Company.

In 2015, Aegon USA was organized into two divisions each operating through one or more of the Aegon USA life insurance companies:

- Life & Protection (L&P); and
- Investments & Retirement (I&R).

1 Source: A.M. Best.

2 Source: BrandPower Analysis.

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

Overview of sales and distribution channels

Aegon USA

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

- Affinity groups;
- Banks;
- Benefit consulting firms;
- Direct- to-consumer;
- Independent and career agents;
- Independent marketing organizations;
- Institutional partners;
- Registered representatives of regional and independent broker-dealers;
- Registered investment advisers;
- Third-party administrators;
- Wirehouses; and
- Worksite.

In general, Aegon USA companies are focused on particular products or market segments, ranging from lower income to high-net-worth individuals, and from small to large institutions.

Overview of business lines

Aegon USA

Life & Protection

Life & Protection (L&P) offers a comprehensive portfolio of protection solutions to customers in a broad range of market segments. Consumers may choose to purchase through independent distributors, sales associates with an exclusive relationship to Transamerica, through the worksite, or directly from Aegon USA's subsidiaries.

Products

Products offered include term life insurance, universal life, variable universal life, indexed universal life and whole life insurance, in addition to supplemental health, long-term care insurance, and specialty coverage.

Term life insurance

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

Universal life insurance

Universal life insurance is flexible permanent life insurance that offers death benefit protection together with the potential for cash value accumulation. The frequency and amount of premiums, in addition to the death benefit, can be adjusted as a policyholder's circumstances change. A version of this product has

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secondary guarantees, which guarantee continuation of the life insurance if the customer consistently pays an agreed minimum amount of premium each year. Transamerica withdrew its universal life secondary guarantees product in early 2015, in response to the low and volatile interest rate environment.

Variable universal life insurance

Variable universal life insurance is cash-value life insurance that offers both a death benefit and an investment feature. The premium amount for variable universal life insurance is flexible and, within contract limits, may be changed by the consumer as needed, although these changes can result in a change in the coverage amount. The investment feature usually includes sub-accounts, which function like mutual funds and can provide exposure to stocks and bonds. This exposure offers the possibility of an increased (or decreased) rate of return over a universal life or permanent insurance policy.

Indexed universal life insurance

Indexed Universal Life (IUL) insurance provides permanent death benefit protection and cash value accumulation with flexible premium payments. What distinguishes it from other types of cash value insurance is the way interest earnings are credited. Net premiums may be allocated to either a fixed account or indexed accounts. Indexed accounts credit interest based in part on the performance of one or more major stock market indices. The credited interest is based on the index, but with a floor and a cap. IUL offers both market-paced growth potential in the indexed accounts and downside protection. It is an appealing alternative to regular Universal Life for which interest is credited at a fixed rate and Variable Universal Life, in which the cash value is directly exposed to ups and downs of the market.

Whole life insurance

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

Supplemental health

Supplemental health insurance products include accidental death, accident, cancer, critical illness, disability, hospital indemnity, Medicare Supplement, Medicare Part D prescription drug, and retiree medical.

A number of these products provide insureds with lump sum or specified income payments if hospitalized or diagnosed with a critical illness. Others pay benefits for specific medical expenses

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and treatments, or cover deductibles, co-payments and co-insurance amounts not covered by other health insurance. In addition, L&P offers stop-loss insurance to employers to protect against catastrophic losses under self-funded health plans.

Long-term care insurance

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

Life & Protection sales and distribution

The L&P division is organized by distribution channel to better align with customers' needs. It is supported by a shared services platform. Each channel has primary target market segments on which it focuses. The L&P distribution channels fall into four main categories: independent, partner, worksite and direct-to-consumer.

Independent

This channel offers life insurance (term life, universal life, variable and indexed universal life and whole life), long-term care and supplemental health products and services through approximately 65,000 independent brokerage distributors and financial institutions that target the affluent, emerging affluent and middle markets. These products are designed for family protection, business needs, and estate and legacy planning.

Partner

Through exclusive relationships with over 35,000 sales associates, this channel provides the same life and health products as the independent distribution channel, with a focus on the middle and emerging affluent markets.

Worksite

The L&P division is also active in the employee benefits market. It offers life and supplemental health insurance products through employers, labor unions and trade associations. The comprehensive portfolio includes universal life, whole life and term life insurance, in addition to accident, critical illness, cancer, hospital indemnity, supplemental medical expense, short-term disability, vision, and dental policies.

Direct-to-consumer

Transamerica Direct targets consumers in the mass affluent, emerging mass affluent and middle markets both directly and via affinity endorsements to provide them with easy access to insurance, investment and retirement solutions.

Investments & Retirement

Investments & Retirement (I&R) offers a wide range of solutions to serve customers to and through retirement: first, as they accumulate assets; and second, as they manage assets to generate retirement income. The division administers these products, and distributes them through a variety of channels, including wirehouse firms, banks, broker-dealers, consultants, insurance agents, registered investment advisors, independent financial planners, and direct-to-consumer.

Investments & Retirement products

I&R products and services include mutual funds, variable and fixed annuities, retirement plans (including ancillary services) and stable value solutions.

Mutual funds

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I&R provides a wide range of specialized mutual funds for all market conditions, including asset allocation, US equity, global/ international equity, alternative investments, hybrid allocation, fixed income and target date funds. Funds are offered through Transamerica Asset Management (TAM), a sub-advised or manager of managers mutual fund platform. Sub-advisers can include both those affiliated or not affiliated with Transamerica.

Variable annuities

For new sales, I&R currently offers several different variable annuity products to meet a range of investor needs. I&R also offers guaranteed living benefits, often referred to as riders.

Variable annuities allow the holder to accumulate assets for retirement on a tax-deferred basis and to participate in equity or bond market performance, in addition to receiving one of many payout options designed to help meet the policyholder's need for income in retirement. Variable annuity payments can vary based on investment performance. Guaranteed living benefits (GLBs) are generally optional guarantees that can be embedded into variable annuity products. GLBs are intended to provide a significant measure of protection against market risk while the annuitant is alive. I&R offers different forms of GLBs, such as guaranteeing an income stream for life and/or guaranteeing principal protection.

Fixed annuities

Fixed annuities allow investors to make a lump-sum payment or a series of payments and receive income in the form of periodic payments that can begin immediately or after a period of time. I&R introduced a new fixed-indexed annuity in 2015. A fixed-indexed annuity may credit interest using an annual point-to-point crediting method based, in part, on the percentage change in the value of the selected index account option(s) at the start and end of the crediting period. A fixed account option is also available. Transamerica is not actively marketing new sales of fixed deferred annuities; current sales primarily represent annuitizations and additional premium on existing contracts.

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Retirement plan services

I&R provides comprehensive and customized retirement plan services to employers across the entire spectrum of defined benefit, defined contribution and non-qualified deferred compensation plans. I&R also offers services to individuals rolling over funds from other qualified retirement funds or Individual Retirement Accounts (IRAs).

Retirement plan services are offered by Transamerica Retirement Solutions, which provides plans across all market segments, including administration, recordkeeping and investment services to employers of all sizes, also in addition to partnering with plan advisors and third-party administrators to serve their customers. On December 31, 2015, Aegon closed the acquisition of Mercer's US defined contribution administration business. As a result of the acquisition, Transamerica Retirement Solutions is now a top ten defined contribution record-keeper based on plan participants and assets¹.

Transamerica Retirement Solutions provides plan sponsors with access to a wide array of investment options. Depending on the product chosen by the plan sponsor, the Company can offer unrestricted access to the entire universe of publicly-available investments. The Company also offers a product for smaller plans with an array of hundreds of investment choices from more than 40 investment management companies.

Transamerica Retirement Solutions provides tools to help plan participants monitor their retirement accounts and engage in behavior to stay on track toward a funded retirement. The Company also offers Managed Advice[®], an option that plan sponsors can make available to participants that provides investment and savings advice.

For individual plan participants who are in transition due to a job loss or change or planned retirement, Transamerica Retirement Solutions offers Personal Retirement Services (PRS) through a team of experienced registered representatives and registered investment advisers. Solutions include IRAs, advisory services, annuities and access to other financial products and resources.

Transamerica Stable Value Solutions

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

Investments & Retirement sales and distribution

I&R distributes its retirement plan, mutual fund and annuity products primarily on a wholesale basis through third-party intermediaries such as broker-dealers, wirehouses, consultants, insurance agents, and registered investment advisors. A subset of those firms that represent a significant portion of I&R sales are managed by the I&R Business Development Group.

I&R has three main wholesaling teams: retirement, mutual fund, and annuities. The retirement team is broken down into two segments: Emerging Markets, which focuses on the USD 20 million and below asset segment; and Institutional Markets, which focuses on the USD 20 million and over asset segment. The annuity wholesaling team is divided into groups by distribution channel (i.e., independent broker-dealers, banks and wirehouses). The mutual fund wholesaling group is split into two teams, one that concentrates on retail advisors and one that focuses on institutional and platform opportunities. In total, I&R has a team of more than 400 sales and business development professionals who are focused on distributing Transamerica products.

I&R also serves customers directly through two businesses: PRS, as described above, and Your Financial Life (YFL). YFL offers guidance and resources for retirement planning (including financial articles and tools, and Transamerica certified financial planners), together with access to annuity, mutual fund and IRA rollover products. YFL is marketed directly to customers, primarily through digital channels.

Latin America

Aegon's business in Latin America comprises a 50% interest in Mongeral Aegon Seguros e Previdência S.A., a Brazilian independent life insurer, and a 49% interest in Seguros Argos S.A. de C.V., a Mexican life insurance company. Mongeral Aegon's insurance activities include pension product distribution, individual and group life insurance products, and administrative services. Seguros Argos's primary product is a 20-year term life insurance product. Both insurance companies

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distribute their products in the worksite market. Aegon is also a 50% owner of a joint venture with Administradora Akaan S.A. de C.V. to create Akaan-Aegon S.A.P.I. de C.V. to explore financial service opportunities. This organization is in the start-up process and will initially focus on third-party asset management.

Run-off businesses

Institutional spread-based business

This business was put into run-off in 2009. The primary products included Guaranteed Investment Contracts (GICs), Funding Agreements (FAs), and medium-term notes (MTNs). GICs were generally issued to tax qualified plans, while FAs and MTNs were typically issued to non-tax qualified institutional investors.

1 Plansponsor, 2015.

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Guaranteed investment contracts and funding agreements

GICs and FAs are spread-based products issued on a fixed-rate or floating-rate basis. They provide the customer with a guarantee of principal and a specified rate of return. Practically all of the liabilities represented by the fixed-rate contracts were effectively converted to a floating-rate via swap agreements when the contracts were issued. Contracts issued in foreign currencies were converted at issuance to US dollars through swap agreements when the contracts were issued to eliminate currency risk.

Medium-term notes

Before 2009, Aegon USA utilized consolidated special purpose entities to issue MTNs that are backed by FAs. The proceeds of each note series were used to purchase an FA from an Aegon insurance company, which was used to secure that particular series of notes. The payment terms of any particular series substantially matched the payment terms of the FA that secured that series.

Structured settlement annuities

Structured settlement annuities are a form of immediate annuity purchased as a result of a lawsuit or claim. New sales of structured settlement annuities were discontinued in 2003, although Aegon USA continues to administer the closed block of business.

Bank- and corporate-owned life insurance

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

On July 10, 2015, Aegon announced an agreement with Greenspoint Capital and The Newport Group to sell Clark Consulting, its BOLI distribution and servicing unit, for USD 177.5 million. The transaction closed on September 2, 2015. Clark Consulting was a distinct entity within the BOLI/COLI insurance business that will continue to be in run-off.

Life reinsurance

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

Competition

The US marketplace is highly competitive. Aegon USA's competitors include other large insurance carriers, in addition to certain banks, securities brokerage firms, investment advisors,

and other financial intermediaries marketing insurance products, annuities and mutual funds. Aegon USA leverages long-term relationships with many institutions to offer them product lines such as variable annuities, life insurance, mutual funds, and defined contribution pension plans.

The Life & Protection division faces competition from a variety of carriers. In individual life insurance, leading competitors include Lincoln National, Prudential Financial, MetLife, Pacific Life, and John Hancock. In long-term care insurance, Transamerica competes primarily with Genworth and John Hancock. In supplemental health, Transamerica competes with a wide range of companies and company types based on the nature of the coverage.

The Investment & Retirement division also faces competition from a variety of carriers. It maintains an effective wholesaling force, and focuses on strategic business relationships and products with competitive features, benefits and pricing.

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Aegon USA's primary competitors in the variable annuity market are AIG, Jackson National, Lincoln National, MetLife, Nationwide, and Prudential Financial.

The top five competitors in the mutual fund market are American Funds, Fidelity, Vanguard, PIMCO, and T. Rowe Price.

In the institutional segment of the defined contribution market, Aegon USA's main competitors are Fidelity, Empower Retirement, Prudential Financial, Mass Mutual, Principal Financial, Charles Schwab, T. Rowe Price, and Vanguard. Aegon USA's main competitors in the defined benefit segment are Mass Mutual, New York Life, Principal Financial, and Prudential Financial. In the emerging market segment and the multiple employer plan segment, Aegon USA's main competitors are American Funds, Fidelity, Voya Financial, John Hancock, and Principal Financial.

Regulation and supervision

Aegon USA

Aegon USA's insurance companies and the business they conduct in the US are regulated primarily at a US state level, with some activities, products and services also subject to federal regulation.

State Insurance Regulation

Aegon USA's largest insurance companies are domiciled in the State of Iowa, and the Iowa Insurance Division exercises principal regulatory jurisdiction over those companies. This regulation includes implementation and enforcement of standards of solvency, adequacy of reserves and capital, and reinsurance.

The Aegon USA insurance companies are licensed as insurers in Iowa and are also licensed and regulated in each US state and jurisdiction in which they conduct insurance business. The extent of such regulation varies, but has a shared purpose in terms of

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the protection of policy and contract holders. The insurance regulators in each state carry out their mission by providing oversight in the broad areas of market conduct and financial solvency regulation.

In the areas of licensing and market conduct, states grant or revoke licenses to transact insurance business, regulate trade and marketing practices, approve policy forms and certain premium rates, review and approve products and rates prior to sale, address consumer complaints, and perform market conduct examinations on both a regular and targeted basis.

In the area of financial regulation, state regulators implement and supervise statutory reserve and capital requirements, including minimum risk-based capital solvency standards. Insurance companies are also subject to extensive reporting, investment limitations, and required approval of significant transactions in each state in which they are licensed. State regulators, by law, conduct extensive financial examinations every three to five years.

State regulators have the authority to impose a variety of punitive measures, including revoking licenses, for failure to comply with applicable regulations. All state insurance regulators are members of the National Association of Insurance Commissioners (NAIC), a non-regulatory association that works to achieve uniformity and efficiency of insurance regulation across the United States and US jurisdictions.

Recent regulatory enhancements that have been or are being implemented in states, include increased reporting of holding company activities, increased transparency and uniformity for certain captive reinsurance transactions and requirements for companies to conduct an Own Risk and Solvency Assessment (ORSA). In 2014, the NAIC adopted a regulatory framework impacting captives used for term and universal life with secondary guarantee products (Actuarial Guideline 48), which became effective on January 1, 2015. Additionally, principle-based reserving is expected to come into force in 2017. Actuarial Guideline 49 adds new rules for illustrations of indexed universal life insurance, with changes to the maximum illustration rate effective as of September 1, 2015, and other sections effective as of March 1, 2016.

Emerging state issues that may impact Aegon USA include consideration of changes to accounting and actuarial requirements for variable annuities (VA), which may reduce insurers' needs and abilities to use variable annuity captives, and initiatives to develop group capital requirements for certain Internationally Active Insurance Groups (IAIGs). Aegon USA uses reinsurance and VA captives in part for reserve requirements and to hedge risk. Given that proposals related to VA captive reinsurance arrangements are still being formulated, it is too early to assess their possible impact on Aegon USA's operations. Aegon USA is prepared to comply with new regulations.

Federal Regulation of Financial Services and Health Insurance

Although the insurance business is primarily regulated at the state level, many federal laws and initiatives impact the insurance sector in such areas as the regulation of financial services, derivatives, retirement plans, securities products, health care, taxes and privacy. Regulation of financial services has increased as result of the Dodd Frank Act, which also created the Federal Insurance Office (FIO) and the Office of Financial Research (OFR). The FIO is authorized to review the insurance market in the US and make recommendations to Congress, and the OFR conducts research in financial services, including insurance, in support of such oversight. In addition, the FIO is authorized to establish US insurance policy in international matters. Finally, the Federal Reserve Board also has authority to establish capital standards for systemically significant insurers and to participate in the establishment of international insurance capital standards. In the area of privacy, there has been increased scrutiny at a state, federal and international level following a number of high-profile data breaches of financial services and other companies. As a result, Congress and federal regulators are considering options to combat data breaches and cyber-threats, in addition to those already imposed by the Gramm-Leach-Bliley Act and other federal law and regulations.

In addition to financial services products, many supplemental health insurance products offered by Aegon USA, such as Medicare Supplement products, are subject to both federal and state regulation as health insurance. The Patient Protection and Affordable Care Act (PPACA), enacted in 2011, significantly changed the regulation of health insurance and the delivery of health care in the United States, including in certain respects, the regulation and delivery of supplemental health insurance products. Following decisions by the US Supreme Court to uphold critical provisions of PPACA, continued federal regulation of certain health insurance products should be expected.

Solvency II

As of January 1, 2016, under the new Solvency II requirements, the activities of Aegon Americas have been consolidated into the Aegon Group Solvency II results through deduction and aggregation using available and required capital as per the local capital regimes. The US regulatory regimes were granted provisional equivalence on December 7, 2015. The combined Solvency II position of the activities of Aegon Americas on December 31, 2015, is estimated to be ~160%.

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Securities Regulation

A number of Aegon USA subsidiaries are subject to regulation under the federal securities laws administered by the SEC and aspects of states' securities and other laws. Variable insurance policies, certain annuity contracts and registered investment companies (funds) offered by Aegon USA are subject to regulation under the federal securities laws administered by the SEC and aspects of states' securities laws. Certain separate accounts of Aegon USA insurers that offer variable life insurance

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and certain annuities and interests under these annuity and insurance policies are registered and subject to SEC regulation. The distribution and sale of these and other securities by affiliate and non-affiliate broker-dealers is regulated by the SEC and the Financial Industry Regulatory Authority (FINRA). A number of Aegon USA companies are also registered as investment advisors and subject to SEC regulation.

Aegon USA also owns or manages other investment vehicles that are exempt from registration but may be subject to other requirements of those laws, such as anti-fraud provisions and the terms of applicable exemptions.

In accordance with Dodd-Frank Act requirements, in January 2011 the SEC studied and recommended a harmonized standard of care for broker-dealers, investment advisors and persons associated with firms that provide personalized investment advice. Broker-dealers are currently subject to requirements to make suitable recommendations, while investment advisors are regulated as fiduciaries, required to put customer interests above their own. The SEC intends to propose regulations imposing a harmonized standard of care, and has announced that the proposed regulations will be published in the fall of 2016. In addition, in accordance with Dodd-Frank Act requirements, the SEC intends to enhance its regulatory and examination oversight of registered investment advisers, but has not provided any timeframe for such a proposal. Finally, the SEC has reformed the regulation of institutional money market funds by requiring those funds to price and transact their shares at a market value floating net asset value per share (NAV). The SEC has also provided money market fund boards with the discretion to stem heavy redemptions by, among other tools, imposing liquidity fees and gates in the fund's best interests. The SEC has set a two-year period for compliance. The impact of these requirements and any future regulations regarding investment advisors, money market funds, or other investment products, including proposed rules designed to enhance the regulation of the use of derivatives by registered investment companies, is still under review and cannot be predicted at this time.

The financial services industry continues to operate under heightened scrutiny and increased regulation in various jurisdictions. Such scrutiny and regulations have included matters relating to producer and other compensation arrangements, suitability of sales (especially to seniors), misleading sales practices, unclaimed property reporting, revenue sharing, investment management and valuation issues involving mutual funds and life insurance separate accounts and their underlying funds. Aegon USA, like other businesses in the financial services industry, is routinely examined and receives requests for

information from the SEC, FINRA, state regulators and others in connection with examinations and investigations of its own companies and third-party or unaffiliated insurers, broker-dealers, investment advisers, investment companies and service providers relating to certain 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 continues to cooperate with these regulatory agencies. In certain instances, Aegon USA modified business practices in response to those inquiries or findings. Certain Aegon USA companies have paid, or have 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.

Regulation of Workforce Retirement Plans and IRAs

Aegon USA administers and provides investment and insurance services and products used to fund defined contribution plans, such as 401(k) plans, defined benefit plans, IRAs, 529 plans and other savings vehicles. Aegon USA also provides plans used to administer benefits distributed on termination of defined benefit plans. These products and services are subject to the Employee Retirement Income Security Act (ERISA) and the federal Internal Revenue Code of 1986, as amended (the Code) for which the Department of Labor (DOL) and the US Treasury Department (Treasury) have regulatory jurisdiction, respectively.

The DOL recently proposed a conflicts of interest rule that significantly expands the scope of activities that are classified as fiduciary investment advice and that are subject to a best interest standard. The rule, if promulgated in the manner proposed, would impact the delivery of products and services to workforce retirement plans and participants in those plans and in IRAs, especially concerning sales and services to small business plans and sales of variable annuities. Legislation and regulation is also being considered that would facilitate the use of multiple employer plans (MEPs), of which Aegon USA is a leading provider. In addition, both the Treasury and the DOL have published, in final and proposed forms respectively, guidance to facilitate the offering of guaranteed lifetime income products. Finally, many states have sought to open their plans to non-government workers who do not have access to an employer retirement savings plan. Any proposals that impact the current business models or fees and services to employer plans or IRAs will impact the Aegon USA companies that provide administration and investment services and products to private workforce plans. The likelihood that these legislative proposals will be passed or the regulatory guidance finalized cannot be predicted at this time.

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Tax Treatment of Insurance Companies and their Products and Plans

Although the insurance business is regulated at a state level, the US federal tax treatment of life insurers, life insurance, pension and annuity products is governed by the US federal tax code. Provisions that increase the taxation of life insurers, as well as remove or decrease the value of tax incentives for life insurance, pensions and annuity products considered alone and relative to other investment vehicles have been proposed in the Executive Administration's Fiscal Year 2016 budget for the US federal government and set forth in discussion drafts and whitepapers on comprehensive federal tax reform legislation. These initiatives also contemplate international tax reform, including proposals that would limit the ability of companies to deduct interest expense on financing provided by a non-US affiliate. Executive Administration budget proposals, legislative proposals and discussion drafts must be enacted by Congress before they become law. The risk of tax law changes is heightened when additional revenue is sought to reduce the federal deficit or to pay for other tax law changes, such as lower tax rates. In addition, tax reform initiatives of the type contemplated by discussion drafts of comprehensive federal tax reform legislation further increase the risk of both increased taxation of life insurers and of decreased tax incentives for short- and long-term savings products. These changes, if enacted, would have a direct impact on the cost and competitiveness of life insurance, annuity and pension products sold to ensure Americans' financial and retirement security.

Asset liability management

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

The key investment strategy for traditional general account insurance is asset liability management (ALM), 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 ALM, and Aegon USA's investment personnel are highly skilled and experienced in these investments.

Aegon USA manages its 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. The primary method for analyzing interest rate sensitivity is the economic capital risk measure. Under this measure, the sensitivity of assets relative to liabilities is calculated in a market consistent manner and presented as the risk of loss in a 1 in 200-year event. Another methodology used to analyze risk is cash flow testing. Cash flow testing analysis is performed using computer simulations, which model assets and liabilities under projected interest rate scenarios and commonly used stress-test interest rate scenarios. Cash flow testing is run using defined scenarios and is a real world simulation. It takes various forms of management action into account such as reinvestment and sales decisions, together with spreads and defaults on Aegon's assets, which is not the case in a market consistent framework.

Based on the results of these risk measures, an investment portfolio is constructed to best match the cash flow and interest sensitivity of the underlying liabilities, while trying to maximize the spread between the yield on the portfolio assets and the rate credited on the policy liabilities. ALM is a continual process. Results from the economic framework and scenario testing are analyzed on an ongoing basis and portfolios are adjusted accordingly. Decisions are made based on minimizing the amount of interest rate risk capital, while maximizing expected returns. These decisions are built into portfolio benchmarks in terms of duration and asset mix targets, and also in exploring hedging opportunities. On the liability side, Aegon USA has some offsetting risks, whereby some liabilities perform better in rising interest rate environments, while others tend to perform well in falling interest rate environments. The amount of offset may vary depending on the absolute level of interest rates, together with 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 with the risk reduction they offer.

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Reinsurance ceded

Ceding reinsurance does not remove Aegon's liability as the primary insurer. Aegon could incur losses should reinsurance companies not be able to meet their obligations.

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 up to USD 15 million.

Aegon USA remains contingently liable with respect to the amounts ceded should the reinsurance company not be able to meet its obligations. To minimize its exposure to such defaults, Aegon USA regularly monitors the creditworthiness of its reinsurers, and where appropriate, arranges additional protection

through letters of credit or trust agreements. For certain agreements, funds are withheld for investment by the ceding company. Aegon USA has experienced no material reinsurance recoverability problems in recent years.

Aegon USA reinsures part of its life insurance exposure with third-party reinsurers under both quota-share and excess-of-loss (traditional indemnity) reinsurance treaties. Aegon USA's reinsurance strategy is consistent with typical industry practice.

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

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As disclosed in note 2.4 Segment reporting to the consolidated financial statements, Aegon changed its segment reporting.

This segment reporting is 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. For Europe, the underlying businesses (the Netherlands, United Kingdom including VA Europe, Central & Eastern Europe and Spain & Portugal) are separate operating segments which under IFRS 8 cannot be aggregated, therefore further details will be provided for these operating segments in this section.

Management is of the opinion that presenting the information for the entire Europe area is beneficial to the users of the financial information as it aligns to how Aegon management is looking at the information following convergence in Europe from a regulatory standpoint (introduction of Solvency II per January 1, 2016) and financial markets perspective.

The following tables comprise the reconciliation of the operating segments within Europe for the year 2015, 2014 and 2013 and cover the main IFRS measures (Net income / (loss), Total revenues and Commission and expenses):

**Income statement -
Underlying earnings**

Amounts in EUR million

2015

	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Europe
Net underlying earnings	419	31	26	6	482
Tax on underlying earnings	118	(58)	10	7	77
Underlying earnings before tax	537	(27)	37	12	559
Fair value items	175	(25)	-	-	150
Realized gains / (losses) on investments	306	103	2	-	411
Impairment charges	(25)	-	(2)	-	(27)
Impairment reversals	5	-	-	-	5
Other income / (charges)	(22)	(1,247)	(2)	17	(1,254)
Run-off businesses	-	-	-	-	-
Income / (loss) before tax	977	(1,196)	35	29	(156)
Income tax (expense) / benefit	(223)	268	(11)	(7)	27
Net income / (loss)	753	(928)	24	22	(129)

Revenues**2015**

Life insurance gross premiums	2,240	8,465	477	174	11,356
Accident and health insurance	234	47	1	64	345
General insurance	473	-	164	80	717
Total gross premiums	2,947	8,512	642	317	12,419
Investment income	2,277	2,331	45	41	4,693
Fee and commission income	351	98	39	13	501
Other revenues	-	-	-	2	2

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Total revenues	5,575	10,941	726	373	17,615
Commissions and expenses	1,053	907	264	144	2,368
of which operating expenses	831	398	143	70	1,442

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**Income statement -
Underlying earnings**

Amounts in EUR million	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Europe
2014					
Net underlying earnings	423	144	48	23	638
Tax on underlying earnings	135	(19)	12	5	133
Underlying earnings before tax	558	125	60	28	771
Fair value items	(766)	(31)	8	-	(789)
Realized gains / (losses) on investments	431	164	9	2	606
Impairment charges	(19)	-	(42)	-	(61)
Impairment reversals	7	-	-	-	7
Other income / (charges)	(113)	(49)	(26)	(1)	(189)
Run-off businesses	-	-	-	-	-
Income / (loss) before tax	99	209	9	28	345
Income tax (expense) / benefit	(37)	(35)	-	(7)	(79)
Net income / (loss)	62	173	9	22	266
Revenues					-
2014					-
Life insurance gross premiums	3,982	5,057	524	196	9,759
Accident and health insurance	233	56	1	60	351
General insurance	501	-	152	72	725
Total gross premiums	4,716	5,113	678	328	10,835
Investment income	2,568	2,077	54	49	4,748
Fee and commission income	324	94	41	8	467
Other revenues	-	-	-	2	2
Total revenues	7,608	7,284	773	387	16,052
Commissions and expenses	977	821	258	120	2,176
of which operating expenses	726	476	138	60	1,400

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Underlying earnings**

Amounts in EUR million	The Netherlands	United Kingdom	Central & Eastern Europe	Spain & Portugal	Europe
2013					
Net underlying earnings	352	145	46	28	571
Tax on underlying earnings	102	(51)	11	5	68
Underlying earnings before tax	454	94	57	33	638
Fair value items	(41)	(21)	1	-	(61)
Realized gains / (losses) on investments	342	48	1	1	392
Impairment charges	(39)	(31)	(17)	-	(87)
Impairment reversals	8	-	-	-	8
Other income / (charges)	(36)	(46)	(210)	174	(118)
Run-off businesses	-	-	-	-	-
Income / (loss) before tax	688	44	(168)	208	772
Income tax (expense) / benefit	(166)	33	24	(5)	(114)
Net income / (loss)	522	77	(144)	203	658
Revenues					-
2013					-
Life insurance gross premiums	3,515	6,537	517	223	10,792
Accident and health insurance	243	-	1	62	306
General insurance	487	-	150	44	681
Total gross premiums	4,245	6,537	668	329	11,779
Investment income	2,310	2,057	57	68	4,492
Fee and commission income	328	129	49	9	515
Other revenues	-	(1)	-	2	1
Total revenues	6,883	8,722	774	408	16,787
Commissions and expenses	990	810	298	90	2,188
of which operating expenses	732	430	140	47	1,349

The results of operations Europe for 2015 and 2014 that are based on the figures of the separate operating segments are further disclosed on the following pages.

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Results 2015 Europe

Amounts in EUR million	2015	2014	%
Net underlying earnings	482	638	(25%)
Tax on underlying earnings	77	133	(42%)
Underlying earnings before tax by business / country			
The Netherlands	537	558	(4%)
United Kingdom	(27)	125	-
Central & Eastern Europe	37	60	(39%)
Spain and Portugal ¹⁾	12	28	(56%)
Underlying earnings before tax	559	771	(27%)
Fair value items	150	(789)	-
Gains / (losses) on investments	411	606	(32%)
Net impairments	(22)	(54)	58%
Other income / (charges)	(1,254)	(189)	-
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	(156)	345	-
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	6	2	-
Income tax	27	(79)	-
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(6)	(2)	-
Net income	(129)	266	-
Life insurance gross premiums	11,356	9,759	16%
Accident and health insurance premiums	345	351	(2%)
General insurance premiums	717	725	(1%)
Total gross premiums	12,419	10,835	15%
Investment income	4,693	4,748	(1%)
Fees and commission income	501	467	7%
Other revenues	2	2	(20%)
Total revenues	17,615	16,052	10%
Commissions and expenses	2,368	2,175	9%
of which operating expenses	1,442	1,401	3%

¹ Underlying earnings before tax in 2014 include EUR 19 million of Aegon's stake in La Mondiale Participations (France).

New life sales

Amounts in EUR million	2015	2014	%
The Netherlands	130	251	(48%)
United Kingdom	911	972	(6%)
Central & Eastern Europe	91	107	(15%)
Spain & Portugal	39	49	(20%)
Total recurring plus 1/10 single	1,172	1,379	(15%)

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Amounts in EUR million	2015	2014	%
New premium production accident and health insurance	28	21	31%
New premium production general insurance	84	72	17%

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Gross deposits (on and off balance)

	2015	2014	%
The Netherlands	5,137	2,781	85%
United Kingdom	683	665	3%
Central & Eastern Europe	227	215	5%
Spain & Portugal	29	55	(47%)
Total gross deposits	6,075	3,716	63%

Exchange rates

	Weighted average rate	
	2015	2014
Per 1 EUR		
Pound sterling	0.7256	0.8061
Czech koruna	27.2662	27.5153
Hungarian forint	309.3147	308.3758
Polish zloty	4.1819	4.1839
Romanian leu	4.4428	4.4429
Turkish Lira	3.0206	2.9060
Ukrainian Hryvnia	24.1414	15.8120

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Results 2015 Europe

The net loss in 2015 was EUR 129 million, primarily due to a charge of EUR 1,274 million related to the write down of deferred policy acquisition costs in the United Kingdom related to the restructuring of the organization. Underlying earnings before tax decreased to EUR 559 million, mainly driven by the United Kingdom, compared with a profit of EUR 771 million in 2014. Gross deposits increased to EUR 6.1 billion primarily as a result of higher bank deposits in the Netherlands. New life sales declined to EUR 1.2 billion mainly due to the absence of large pension buyouts in the Netherlands. New premium production for general and accident & health insurance increased to EUR 112 million.

Net income

The net loss in 2015 was EUR 129 million, primarily due to other charges of EUR 1,254 million mainly related to the write down of deferred policy acquisition costs in the United Kingdom related to the restructuring of the organization. Results on fair value items improved to EUR 150 million driven mainly by results of interest rate hedging in the Netherlands. Realized gains on investments amounted to EUR 411 million, and were mainly related to normal trading in the investment portfolio in the Netherlands. Net impairments improved to a loss of EUR 22 million.

Net income for the Netherlands

Net income from Aegon's businesses in the Netherlands amounted to EUR 753 million in 2015. Realized gains on investments totalled EUR 306 million, and were mainly the result of portfolio rebalancing in the low rate environment. Results on fair value items amounted to a gain of EUR 175 million, driven by a positive impact of rising credit spreads and interest rates. Impairment charges amounted to EUR 20 million and were primarily related to the consumer loan portfolio. Other charges of EUR 22 million included a EUR 11 million charge for the restructuring of the non-life business.

Net income for the United Kingdom

Net income in 2015 from Aegon's business in the United Kingdom amounted to a loss of GBP 674 million in 2015. This loss was primarily driven by a charge of GBP 924 million related to the write down of deferred policy acquisition costs related to the restructuring of the organization. Realized gains on investments totaled GBP 75 million, and were mainly the result of selective de-risking of the asset portfolio to improve Aegon's capital position in preparation for Solvency II. Results on fair value items amounted to a loss of GBP 18 million as a result of unrealized losses on equity hedges to protect the capital position. Other charges of GBP 905 million were mainly due to the write down of deferred policy acquisition costs related to the restructuring of the organization.

Net income for Central & Eastern Europe

Net income from Aegon's businesses in Central & Eastern Europe improved by EUR 15 million mainly as a result of lower impairments recorded in Hungary.

Net income for Spain & Portugal

Net income in Spain & Portugal remained level at EUR 22 million.

Underlying earnings before tax

Underlying earnings before tax in 2015 decreased 27% compared with 2014 to EUR 559 million. This was mainly driven by the write down of deferred policy acquisition costs in the United Kingdom related to upgrading customers to the retirement platform.

Underlying earnings before tax for the Netherlands

Underlying earnings before tax for the Netherlands in 2015 decreased by 4% to EUR 537 million, as 2014 included an employee pension-related reserve release of EUR 45 million. On a comparable basis, underlying earnings before tax increased by 5%, as lower funding costs, higher earnings from mortgages and a mortality provision release more than offset lower non-life results.

- ⌚ Underlying earnings before tax from Life & Savings amounted to EUR 325 million in 2015. Higher investment income, primarily generated by profitable mortgage production, and lower funding costs were more than offset by the non-recurrence of an employee benefit reserve release and the transfer of part of the mortgage portfolio to the Pension business.
- ⌚ Underlying earnings before tax from Pensions increased by 9% to EUR 212 million compared with 2014. Higher earnings from mortgages and favorable mortality more than offset the non-recurrence of an employee benefit reserve release and lower investment income resulting from rebalancing the fixed income portfolio.
- ⌚ The loss from the Non-life business amounted to EUR 21 million in 2015. This was driven by a continuation of the high level of claims in the proxy channel and commercial lines, which Aegon agreed in January 2016 to sell to Allianz.
- ⌚ Underlying earnings before tax from the Distribution business increased to EUR 22 million in 2015, compared with EUR 15 million in 2014. The increase was mainly driven by cost savings.

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Underlying earnings before tax for the United Kingdom Underlying earnings before tax in the United Kingdom amounted to a loss of GBP 20 million. This was mainly driven by the write down of deferred policy acquisition costs in the United Kingdom related to upgrading customers to the retirement platform.

- ↳ Underlying earnings before tax from Life decreased by 26% to GBP 59 million compared with 2014. This was mostly due to lower investment income as a result of selective de-risking of the asset portfolio to improve Aegon's capital position in preparation of Solvency II.
- ↳ Underlying earnings before tax from Pensions amounted to a loss of GBP 78 million in 2015. This was mainly driven by the write down of deferred policy acquisition costs in the United Kingdom related to upgrading customers to the retirement platform.

Underlying earnings before tax for Central & Eastern Europe

Underlying earnings before tax from Central & Eastern Europe decreased to EUR 37 million in 2015 compared with EUR 60 million in 2014. This decrease was primarily driven by the negative impact of higher surrenders in Poland following product changes and adverse claim experience due to storms in Hungary.

Underlying earnings before tax for Spain & Portugal

Underlying earnings before tax from Spain & Portugal decreased from EUR 28 million in 2014 to EUR 12 million in 2015. Underlying earnings before tax in 2014 include EUR 19 million of Aegon's stake in La Mondiale Participations (France) which was divested by Aegon in 2015. Excluding this divestment, earnings increased driven by growth of Aegon's joint ventures with Santander in Spain.

Commissions and expenses

Commissions and expenses increased by 9% compared with 2014 to EUR 2.4 billion in 2015. Operating expenses increased by 3% in 2015 to EUR 1,442 million, mainly the result of currency movements.

Commissions and expenses for the Netherlands

Commissions and expenses increased in 2015 to EUR 1,053 million. Operating expenses were up to EUR 831 million in 2015 compared with 2014 due to a charge related to the non-life business, the release of the employee benefit reserve booked in 2014, and the higher employee benefit expenses, which resulted from the low interest rate environment.

Commissions and expenses for the United Kingdom

Commissions and expenses decreased by 1% in 2015 to GBP 658 million compared with 2014. Operating expenses decreased by 25% in 2015 to GBP 289 million compared with 2014, mainly due to lower business transformation costs and the non-recurrence of a provision for the implementation of the pension fee cap.

Commissions and expenses for Central & Eastern Europe

Commissions and expenses increased by 2% in 2015 to EUR 264 million compared with 2014. Operating expenses were up 4% to EUR 143 million in 2015, compared with 2014, mainly due to higher marketing expenses support growth.

Commissions and expenses for Spain & Portugal

Commissions and expenses increased by 20% in 2015 to EUR 144 million compared with 2014. Operating expenses increased by 17% in 2015 to EUR 70 million compared with 2014, mainly due to support growth of Aegon's joint ventures with Santander in Spain and Portugal.

Production

Gross deposits increased by 63% in 2015 to EUR 6.1 billion. The strong increase compared with 2014 was primarily driven by the growth of Knab, Aegon's online bank and by the defined contribution pension business (PPI) in the Netherlands.

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New life sales declined by 15% in 2015 to EUR 1,172 million. The decline compared with 2014 was mainly the result of the absence of large pension buyouts in the Netherlands and lower group pensions sales in the United Kingdom driven by lower demand for traditional pension products. New premium production for general and accident & health insurance increased to EUR 112 million.

Production for the Netherlands

Gross deposits almost doubled in 2015 to EUR 5.1 billion compared with 2014, mainly driven by the growth of Knab, Aegon's online bank in the Netherlands, and by the PPI business. New life sales amounted to EUR 130 million, which was a result of the absence of large pension buyouts. Individual life sales remained stable at EUR 32 million, while pension sales decreased to EUR 98 million.

Premium production for accident & health was stable in 2015 compared to 2014 at EUR 9 million. General insurance production increased to EUR 29 million.

Production for the United Kingdom

New life sales decreased by 16% in 2015 to GBP 661 million compared with 2014. This was mostly the result of lower group pensions sales driven by lower demand for traditional pension products. Gross deposits of GBP 495 million in 2015 were mainly driven by the addition of new customers as the platform gained additional traction in the market.

Production for Central & Eastern Europe

In Central & Eastern Europe, new life sales in 2015 declined by 15% to EUR 91 million. Sales growth in Turkey was more than offset by lower sales in Poland resulting from changes in the product offering.

For general insurance business there were higher sales amounting to EUR 36 million in Central & Eastern Europe.

Production for Spain & Portugal

New life sales in Spain & Portugal declined by 20% in 2015 compared with 2014 to EUR 39 million due to a lower sales contribution from banc assurance joint ventures in Spain. For accident & health and general insurance business there were strong. Sales in Spain & Portugal totalling EUR 19 million for general insurance and EUR 19 million for accident & health.

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Results 2014 Europe

Amounts in EUR million	2014	2013	%
Net underlying earnings	638	570	12%
Tax on underlying earnings	133	68	96%
Underlying earnings before tax by business / country			
Netherlands	558	454	23%
United Kingdom	125	94	34%
Central & Eastern Europe	60	57	5%
Spain & France	28	33	(16%)
Underlying earnings before tax	771	637	21%
Fair value items	(789)	(62)	-
Gains / (losses) on investments	606	393	54%
Net impairments	(54)	(80)	33%
Other income / (charges)	(189)	(117)	(61%)
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	345	772	(55%)
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	2	8	(76%)
Income tax	(79)	(114)	31%
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(2)	(8)	76%
Net income	266	658	(60%)
Life insurance gross premiums	9,759	10,792	(10%)
Accident and health insurance premiums	351	306	15%
General insurance premiums	725	681	6%
Total gross premiums	10,835	11,778	(8%)
Investment income	4,748	4,493	6%
Fees and commission income	467	515	(9%)
Other revenues	2	1	82%
Total revenues	16,052	16,787	(4%)
Commissions and expenses	2,175	2,187	(1%)
of which operating expenses	1,401	1,349	4%
New life sales			
Amounts in EUR million	2014	2013	%
The Netherlands	251	206	22%
United Kingdom	972	1,014	(4%)
Central & Eastern Europe	107	108	0%
Spain & Portugal	49	54	(8%)
Total recurring plus 1/10 single	1,379	1,381	0%

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Amounts in EUR million	2014	2013	%
New premium production accident and health insurance	21	30	(28%)
New premium production general insurance	72	61	17%

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Gross deposits (on and off balance)	2014	2013	%
The Netherlands	2,781	1,338	108%
United Kingdom	665	705	(6%)
Central & Eastern Europe	215	248	(13%)
Spain & Portugal	55	9	-
Total gross deposits	3,716	2,300	62%

Exchange rates	Weighted average rate	
Per 1 EUR	2014	2013
Pound sterling	0.8061	0.8484
Czech koruna	27.5153	25.9238
Hungarian forint	308.3758	296.3309
Polish zloty	4.1839	4.1940
Romanian leu	4.4429	4.4167
Turkish Lira	2.9060	2.5305
Ukrainian Hryvnia	15.8120	10.8249

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Results 2014 Europe

Net income in 2014 decreased to EUR 266 million. Underlying earnings before tax increased 21% to EUR 771 million in 2014. This was driven by higher underlying earnings in the Netherlands, the United Kingdom and Central & Eastern Europe, partly offset by lower underlying earnings in Spain & France. New life sales remained stable at EUR 1.4 billion. Gross deposits were 62% higher compared with 2013 driven by bank deposits in the Netherlands.

Net income

Net income decreased to EUR 266 million, mainly driven by losses on fair value items. Results on fair value items amounted to a loss of EUR 789 million, which were primarily related to hedging programs and model updates. Realized gains on investments amounted to EUR 606 million, and were mainly the result of the sale of a private equity investment and repositioning the fixed income portfolio in anticipation of Solvency II. Impairments improved compared with 2013 to a loss of EUR 54 million. Other charges amounted to EUR 189 million, and were related to the Optas agreement in the Netherlands and business transformation costs and implementation of the pension fee cap in the United Kingdom.

Net income for the Netherlands

Net income from Aegon's businesses in the Netherlands amounted to EUR 62 million. Realized gains on investments totalled EUR 431 million, and were mainly the result of the sale of a private equity investment and repositioning the fixed income portfolio in anticipation of Solvency II. Results on fair value items amounted to a loss of EUR 776 million, primarily related to model updates and hedging programs. Impairment charges totalled EUR 12 million driven by lower mortgage arrears. Other charges of EUR 113 million were mostly due to a EUR 95 million provision for the Optas agreement.

Net income for the United Kingdom

Net income from Aegon's business in the United Kingdom amounted to GBP 140 million in 2014, which was driven by higher underlying earnings before tax, realized gains and lower impairments. Realized gains on investments totaled GBP 132 million, and were mainly the result of selective de-risking of the asset portfolio in preparation for Solvency II. Results on fair value items amounted to a loss of GBP 25 million. Impairments charges were nil for the year. Other charges of GBP 40 million were mostly due to business transformation costs, and provision and expenses for the implementation of the upcoming pension fee cap.

Net income for Central & Eastern Europe

Net income for Central & Eastern Europe improved to EUR 9 million in 2014 due to non-recurring Other charges of EUR (210) million affecting 2013. Other charges in 2013 mainly reflects the write off of intangible assets related to Aegon's Polish pension fund business following a partial nationalization of these pension funds by the Polish government.

Net income for Spain & France

Net income in Spain & France decreased to EUR 22 million in 2014 due to non-recurring Other income of EUR 174 million recorded in 2013 following the sale of the joint ventures in Spain

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with Unnim and CAM. The exit from these joint ventures resulted in gains of EUR 102 million and EUR 74 million respectively.

Underlying earnings before tax

Underlying earnings before tax increased 21% to EUR 771 million in 2014. This was driven by higher underlying earnings in the Netherlands, the United Kingdom and Central & Eastern Europe, partly offset by lower underlying earnings in Spain & France.

Underlying earnings before tax for the Netherlands

Underlying earnings before tax in 2014 increased 23% to EUR 558 million compared with 2013. Higher underlying earnings before tax in Life & Savings and Non-life more than offset lower underlying earnings before tax from Pensions.

- ⌚ Underlying earnings before tax from Life & Savings increased 36% to EUR 336 million compared with 2013, and were mostly a result of higher investment income, primarily generated by mortgage production, and improved margins on savings. An employee benefit reserve release resulting from legislation changes accounted for EUR 20 million of the increase.
- ⌚ Underlying earnings before tax from Pensions decreased 6% to EUR 195 million compared with 2013. The positive impact of growth of the business and an employee benefit reserve release resulting from legislation changes of EUR 14 million was more than offset by lower investment income, mostly due to a reduced mortgage allocation to the investment portfolio.
- ⌚ Non-life underlying earnings before tax improved to EUR 13 million in 2014, including the impact of an employee benefit reserve release resulting from legislation changes of EUR 11 million. Management actions taken to improve the profitability of the disability segment and the proxy channel in the general insurance business showed positive results, but are yet to have the desired impact. For this reason, Aegon expects to discontinue additional contracts in the proxy channel in 2015.
- ⌚ Underlying earnings before tax from the Distribution business amounted to EUR 15 million in 2014. The decrease compared with 2013 was mainly driven by lower margins, as a result of the competitive market environment.

Underlying earnings before tax for the United Kingdom

Underlying earnings before tax in the United Kingdom increased 27% to GBP 101 million compared with 2013. Higher underlying earnings before tax in Pensions more than offset lower underlying earnings before tax from the Life business.

- ⌚ Underlying earnings before tax from Life decreased 9% to GBP 79 million compared with 2013. This was mostly due to lower investment income as a result of selective de-risking of the asset portfolio backing annuities in preparation for Solvency II.

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- Underlying earnings before tax from Pensions increased to GBP 22 million in 2014 compared with a loss of GBP 7 million in 2013. This increase was mostly driven by improved persistency following the introduction of the Retail Distribution Review (RDR).

Underlying earnings before tax for Central & Eastern Europe

Underlying earnings before tax from Central & Eastern Europe increased to EUR 60 million in 2014 compared with EUR 57 million in 2013. This increase was primarily driven by higher underlying earnings before tax in Hungary, which more than offset the negative impact of higher surrenders in Poland following product changes.

Underlying earnings before tax for Spain & France

Underlying earnings before tax from Spain & France decreased 16% in 2014 to EUR 28 million compared with 2013. Positive results from the joint venture with Banco Santander in Spain were more than offset by the impact of the divestment of partnerships and continuing investments in order to grow the business.

Commissions and expenses

Commissions and expenses remained stable in 2014 compared with 2013 at EUR 2.2 billion. Operating expenses increased 4% in 2014 to EUR 1.4 billion as mainly the result of growth of the business. An employee benefit reserve release resulting from legislation changes in the Netherlands of EUR 45 million was partly offset by a provision of EUR 38 million related to the fee cap on pension business in the United Kingdom.

Commissions and expenses for the Netherlands

Commissions and expenses decreased slightly in 2014 to EUR 977 million compared with 2013. Operating expenses decreased to EUR 726 million in 2014 compared with 2013, mainly the result of a EUR 45 million employee benefit reserve release resulting from legislation changes. Excluding this release, operating expenses increased 5%.

Commissions and expenses for the United Kingdom

Commissions and expenses decreased by 4% in 2014 to GBP 662 million compared with 2013. Operating expenses increased by 5% in 2014 to GBP 384 million compared with 2013, mainly the result of provision and expenses of GBP 26 million for the upcoming fee cap on pension business. Excluding this provision, operating expenses were flat compared with 2013.

Commissions and expenses for Central & Eastern Europe

Commissions and expenses decreased by 13% in 2014 to EUR 258 million compared with 2013, mainly due to the non-recurrence of the impairments of deferred acquisition costs related to the Polish pension business. Operating expenses were down 1% to EUR 138 million in 2014, compared with 2013.

Commissions and expenses for Spain & Portugal

Commissions and expenses increased by 33% in 2014 to EUR 120 million compared with 2013. Operating expenses increased by 28% in 2014 to EUR 60 million compared with 2013, mainly as a result of the joint ventures with Santander in Spain, and higher marketing and sales expenses to support growth.

Production

Gross deposits increased 62% to EUR 3.7 billion in 2014. The strong increase compared with 2013 was primarily driven by the growth of Knab, Aegon's online bank in the Netherlands. New life sales remained stable in 2014 compared with 2013 at EUR 1.4 billion. Growth in the Netherlands as a result of a single large new pension contract for Dutch mineworkers was offset by declines in the United Kingdom as a result of lower group pension sales following the implementation of the RDR in 2013 and the divestment of partnerships in Spain. New premium production for general and accident & health insurance amounted to EUR 93 million.

Production for the Netherlands

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New life sales increased 22% in 2014 compared with 2013 to EUR 251 million. Individual life sales declined 18% in 2014 to EUR 33 million compared with 2013, as the ongoing shift to banksparen products more than offset higher term sales related to new mortgage production. Pensions sales increased 31% in 2014 to EUR 218 million compared with 2013, mainly the result of a single large new contract for Dutch mineworkers. Production of mortgages in 2014 amounted to EUR 4.8 billion (2013: EUR 3.2 billion), of which EUR 2.1 billion was related to third-party investor demand (2013: EUR 0.5 billion). Premium production for accident & health amounted to EUR 9 million in 2014 down from EUR 24 million in 2013. General insurance production was flat in 2014 compared with 2013 at EUR 26 million. Production was negatively impacted by the continued focus on improving profitability. Gross deposits more than doubled in 2014 to EUR 2.8 billion compared with 2013 driven by the growth of Knab, Aegon's online bank in the Netherlands.

Production for the United Kingdom

New life sales decreased 9% in 2014 to GBP 783 million compared with 2013, which was mostly the result of lower group pensions sales following the implementation of the RDR in 2013. Platform assets reached GBP 2.7 billion by the end of 2014, more than doubling compared with the end of 2013. Gross deposits of GBP 536 million in 2014 were mainly driven by the addition of new customers as the platform gained additional traction in the market.

Production for Central & Eastern Europe

In Central & Eastern Europe, new life sales in 2014 remained stable at EUR 107 million. This was mostly the result of higher sales in Turkey, Hungary and the Czech Republic, due to improved distribution productivity and growth of the tied-agent network, which were offset by adverse currency movements and lower sales in Poland. Accident & health and general insurance businesses for Central & Eastern Europe remained stable at EUR 25 million.

Production for Spain & Portugal

New life sales in Spain & France declined 9% in 2014 to EUR 49 million compared with 2013, as the sales contribution from the joint venture with Santander was offset by the loss of sales driven by the divestment of partnerships. Accident & health and general insurance businesses for Spain & France increased to EUR 28 million, as a result of higher general insurance and accident & health sales.

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Overview of the Netherlands

Aegon has operated in the Netherlands for more than 170 years, and is the country's leading provider of life insurance and pensions¹, with approximately 4,500 employees. Aegon the Netherlands is headquartered in The Hague, has offices in Leeuwarden and Groningen, and owns the Unirobe Meeùs Group, one of the largest intermediaries in the Netherlands².

Organizational structure

Aegon the Netherlands operates through a number of brands, including TKP Pensioen, Optas and Unirobe Meeùs. Aegon itself is one of the most widely recognized brands in the Dutch financial services sector³.

Aegon the Netherlands' primary subsidiaries are:

- Aegon Bank N.V.;
- Aegon Levensverzekering N.V.;
- Aegon Schadeverzekering N.V.;
- Aegon Spaarkas N.V.;
- Optas Pensioenen N.V.;
- Aegon Hypotheken B.V.;
- TKP Pensioen B.V.;
- Unirobe Meeùs Groep B.V.;
- Aegon PPI B.V.; and
- Stichting CAPPITAL Premiepensioeninstelling.

Aegon the Netherlands has four lines of business:

- Life & Savings;
- Pensions;
- Non-life; and
- Distribution.

Overview of sales and distribution channels

Like other Aegon companies, Aegon NL uses a variety of distribution channels to help customers access its products and services as best suits their needs. In general, all business lines use the intermediary channel, which focuses on independent agents and retail sales organizations in the Netherlands. The Pensions business line includes sales and account management, which serves large corporations and financial institutions, such as company and industry pension funds. Aegon Bank uses the direct channel, primarily for savings, and Aegon Schadeverzekering has strategic partnerships for the sale of its products, and uses an online channel. Furthermore, Aegon the Netherlands has made significant investments in its direct online channel, including the proprietary brands Knab, Kroodle and onna-onna.

Knab was launched in 2012 by Aegon Bank, to help people better understand their finances. Knab enables its customers to make their own choices regarding their personal financial situation and thereby achieve their financial goals. The online bank reflects Aegon's purpose by offering its customers an insight and overview of their finances through its unique financial planning tools. It alerts them to opportunities relevant to their personal situation. Furthermore, Knab offers a wide range of banking products, with a focus on wealth accumulation and payment services.

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In 2013, Aegon the Netherlands launched Kroodle, one of the world's first insurance companies to operate primarily through Facebook. It enables customers in the Netherlands to purchase insurance and manage their accounts through their Facebook profile.

Launched in 2008, onna-onna is a non-life brand that offers motor, travel, home and liability insurance, focusing on female customers.

In early 2015, Aegon launched its own advice channel, in response to growing customer demand for direct services. While the distribution landscape is becoming increasingly multi-channel, Aegon will continue to distribute the largest part of its portfolio through intermediaries.

Overview of business lines

Life & Savings

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

Products

Endowment insurance

Endowment insurance includes several products that accumulate a cash value. Premiums are paid at inception or over the term of the contract.

1 Verzekerd van cijfers 2014, Verbond van Verzekeraars.

2 AM Jaarcijfers.

3 Metrixlab brandtrackers.

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

Minimum interest guarantees exist for all generations of accumulation products written, except for universal life products, for which premiums are invested solely in equity funds. Older generation products contain a 4% guarantee. In 1999 the guarantee for new products decreased to 3%; and in 2013 the guarantee decreased to 0%.

Various profit-sharing arrangements exist. Bonuses are either paid in cash (usually for a pension, as described later) or used to increase the sum insured. A common form of profit sharing is to set bonus levels by reference to external indexes based on pre-defined portfolios of Dutch government bonds. The bonds included in the portfolios have differing remaining maturities and interest rates. Together they are considered an approximation of the long-term rate of return on high-quality Dutch financial investments.

Term and whole life insurance

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

Annuity insurance

Annuity insurance includes products in the accumulation phase and products in the deaccumulation phase. Payout commences at a date determined in the policy, and usually continues until the death of the insured or the beneficiary. Premiums are paid at inception of the policy or during the accumulation phase of the policy. The contracts contain minimum guarantees of 3% or 4%, and prior to 1999, of 4%. Interest rebates are given on both single and regular premium annuity insurance, and may be based on a portfolio of Dutch government bonds although other calculation benchmarks may also be applied. There are also profit-sharing schemes set by reference to external indexes based on pre-defined portfolios of Dutch government bonds.

Variable unit-linked products

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

ten years. Tontine plans are unit-linked contracts with a specific bonus structure. At the end of the year in which the insured dies, the policy balance is distributed to surviving policyholders that belong to the same tontine series, rather than to the policyholder's estate. A death benefit is paid to the dependents in the event that the policyholder dies before the policy matures. Tontine policyholders may invest premiums in a number of Aegon funds. Aegon the Netherlands manages tontine plans, but no longer sells them.

Mortgage loans

At present, Aegon the Netherlands mostly offers annuity mortgages. Before 2013, Aegon the Netherlands also offered interest-only, unit-linked and savings mortgage loans, and is continuing to do so for existing mortgage loans that are being renegotiated. Mortgage loans are partly funded by issuing residential mortgage-backed securities in Saecure Aegon's Dutch residential mortgage-backed securities program. In 2015, Aegon the Netherlands increased its mortgage loan fee business. For this business, Aegon originates the mortgage loans fully for account of third parties and remains the service provider for these mortgage loans.

Savings accounts

Aegon the Netherlands offers flexible savings accounts with cash withdrawal with limited restrictions, and deposit accounts 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 from the performance of the investments.

Long-term deposits (Banksparen)

Banksparen is a tax-deferred savings product in which amounts are deposited in a locked bank account. The amount saved is available after a certain period of time for specific purposes such as for a supplementary pension or paying off a mortgage.

Sales and distribution

Aegon the Netherlands Life & Savings products are sold through Aegon's intermediary and direct channels.

Pensions

The Pensions business provides a variety of full-service pension products to pension funds and companies.

Products

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

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Separate account group contracts are large group contracts that have an individually-determined asset investment underlying the pension contract. For older generation products, a guarantee consists of profit sharing, and is the highest of either the market interest rate or the contractual interest rate of 3% or 4%. At present, the contracts offered to clients hold a maximum guarantee of 3%, and Aegon is also planning to introduce a 0% guarantee product. If profit sharing turns into a loss, the minimum guarantee becomes effective, but the loss in any given year is carried forward to be offset against future surpluses. In general, the guarantee is dependent on the life of the insured in order that their pension benefit is guaranteed. Large group contracts also receive part of the technical results for mortality risk and disability risk. The contract period for these types of contracts is typically five years and the tariffs, cost loadings and risk premiums are generally fixed over this period.

Aegon the Netherlands also offers products for small and medium-sized companies, defined benefit and defined contribution products on a subscription basis. These products reduce complexity and enable Aegon to adapt the tariffs, cost loadings and risk premiums annually. Every year, clients also have the opportunity to decide whether or not they wish to continue with the contract.

Defined benefit group contracts provide a guarantee on the benefits paid. The longevity risk therefore lies with Aegon the Netherlands.

Aegon also offers customers an all-in defined benefit product with guaranteed benefits. The expected profit for the customer and anticipated investment returns are taken into account in the pricing of the product. Customers may contribute funds for future pension increases to a separate account. Aegon the Netherlands also offers defined contribution products for both single and recurring premiums. Profit sharing is based on investment returns on specified funds. All positive and negative risks, such as investment risk and longevity risk, are attributed to the employees.

A decrease in the number of company and industry pension funds in the Netherlands will continue over the next few years. By law, the assets and liabilities of a terminated pension fund must be transferred to another pension provider. Aegon the Netherlands offers a pension fund buy-out product for its terminating pension funds. It takes on the guaranteed or non-guaranteed liabilities, with or without annual pension increases, and receives a lump-sum premium upfront. All risks related to the transferred benefits are carried by Aegon the Netherlands.

On December 22, 2015, legislation was passed that enables companies to set up Algemeen Pensioen Fonds (General Pension

Fund). In 2016, Aegon the Netherlands introduced this new proposition to clients. This offers pension solutions to clients in which Aegon the Netherlands provides no guarantees and the investment benefits lie with the participants. Aegon the Netherlands provides fee-based services to this General Pension Fund as administration and investment solutions.

Sales and distribution

Most of Aegon the Netherlands' pensions are sold through sales and account management and Aegon's intermediary channel. Customers include individuals, company and industry pension funds, and small, medium and large corporations. Aegon the Netherlands is the country's leading pension provider.

For the majority of company and industry customers, Aegon the Netherlands provides a full range of pension products and services. In addition, TKP Pensioen specializes in pension administration for company and industry pension funds, and also provides defined contribution plans to corporate and institutional clients. Aegon offers defined contribution plans for small and medium-sized companies, and Stichting CAPPITAL Premiepensioeninstelling offers the same plans for large companies.

Non-life

The Non-life business consists of general insurance and accident and health insurance.

Products**General insurance**

Aegon the Netherlands offers general insurance products in retail markets. These include house, inventory, car, fire and travel insurance. In the Netherlands, Aegon has completed a thorough business review and will restructure its non-life business to focus exclusively on the retail and SME segments of the market.

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which includes property & casualty and disability insurance. Aegon will exit the proxy channel entirely and is considering strategic options for its commercial lines business. These actions are expected to result in improved non-life returns in the future.

Accident and income protection insurance

Aegon the Netherlands offers disability and sick leave products to employers that cover sick leave payments to employees not covered by social security, and for which the employer bears the risk.

Sales and distribution

Aegon the Netherlands offers non-life insurance products primarily through direct and intermediary channels. In addition, sales and account management provides products for larger corporations in the Netherlands.

¹ Verzekerd van cijfers 2014, Verbond van Verzekeraars.

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Distribution

Of the distribution channels owned by Aegon the Netherlands, Unirobe Meeùs Group is the main one, through which it offers financial advice to customers, including the sale of insurance, pensions, mortgage loans, financing, and savings and investment products.

Competition

Aegon the Netherlands faces strong competition in all of its markets from insurers, banks, investment management companies and pension funds. Its main competitors are NN Group, Achmea, ASR, Vivat and Delta Lloyd. In addition, these markets are subject to fast-changing dynamics, including the growing use of online distribution channels and a changing pensions landscape (such as the introduction of Premie Pensioen Instellingen and the Algemeen Pensioen Fonds).

Aegon the Netherlands has been a key company in the total life market for many years, and was ranked number one in 2014¹ based on gross premium income. The life insurance market in the Netherlands comprises pensions and life insurance. The top six companies in the Netherlands by gross premium income accounted for approximately 90% of total premium income in 2014 in the insurance market. Aegon the Netherlands is one of the main companies in the pension market for insurance companies and pension funds. Aegon the Netherlands is ranked fifth in the individual life insurance market². Aegon the Netherlands is one of a number of many insurers in the non-life market. Aegon the Netherlands' non-life market share is around 4.2% measured by premium income.

In the mortgage loans market, Aegon the Netherlands held a market share of approximately 11% based on new sales⁴ in 2014 and its market share continues to grow. Rabobank, ING and ABN AMRO are the largest mortgage loan providers in this market. Competition from foreign competitors and capital from pension funds is increasing.

Aegon the Netherlands holds approximately 1.9% of Dutch household savings⁵, and is therefore small in comparison to banks such as Rabobank, ING, ABN AMRO and SNS Bank.

Since 2008, several regulatory changes have had an impact on demand for insurance products in the Dutch market – notably in the life insurance market where the tax deductibility of certain products has been reduced, which has also caused a shift to bank saving products (banksparen). Furthermore, low economic growth and financial market volatility have made customers more reluctant to commit to long-term contracts. These changes have increased competition, resulting in a greater focus on competitive

pricing, improved customer service and retention, and product innovation.

In the pensions market, pension funds face pressure on their coverage ratios, in addition to increased regulatory and governance requirements. In response, these funds are seeking to reduce risk exposure by insuring the whole or part of their business. This is an opportunity for pension insurers, and Aegon is one of the leading providers of these solutions.

The premium pension institution (PPI) market is set to grow significantly due to the shift from defined benefit plans to defined contribution plans, and demand for more transparent and cost-efficient pension products. As a result, significant economies of scale will be required to service this market effectively, and the number of providers is expected to shrink within a few years. Aegon the Netherlands has identified this market as an opportunity for growth and plans to invest in building a leadership position.

Regulation and supervision

General

Regulation of the financial sector in the Netherlands is included in the Financial Supervision Act (Wet op het financieel toezicht or Wft). The Wft came into force on January 1, 2007, replacing the seven, primarily sectoral financial supervision Acts that were in place at that time, completing reform of financial supervision legislation in the Netherlands.

The aim of the Wft is to embed the cross-sectoral functional approach within the Dutch supervisory system. This approach replaced the prior sectoral approach to financial supervision, which was embedded in the previous legislation. The supervision of financial institutions pursuant to the Wft rests with the Dutch Central Bank (DNB) and the Authority for the Financial Markets (AFM).

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DNB is responsible for prudential supervision, while the AFM supervises the conduct of business of financial institutions, and the conduct of business on financial markets. The aim of DNB's prudential supervision is to ensure the solidity of financial institutions and contribute to the stability of the financial sector.

The AFM's conduct of business supervision focuses on ensuring orderly and transparent financial market processes, integrity in relations between market parties and due care in the provision of services to clients. With regard to insurance companies and banks, DNB is the supervisory authority, and therefore the main insurance and banking supervisory authority in the Netherlands, in the case of the latter, together with the European Central Bank (ECB).

1 Verzekerd van Cijfers.

2 Verzekerd van Cijfers.

3 Dutch Central Bank.

4 The Land Registry (Kadaster), 2015.

5 Dutch Central Bank.

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The Dutch supervisory authorities have a number of formal tools to exercise their supervisory tasks. These tools include the authority to request information, if this is necessary for the purpose of prudential supervision; and the power to issue formal instructions to financial institutions, to impose fines, or to publish sanctions. DNB, as prudential supervisory authority, can, under certain circumstances, require a recovery plan, a short-term financing plan, appoint a trustee, draw up a transfer plan or (ultimately) withdraw the license of a financial institution.

Financial supervision of insurance companies

Insurance supervision in EU member states is based on EU legislation, which, up until December 31, 2015, was set out in the Solvency I framework. Effective as of January 1, 2016, EU insurance regulation is contained in the Solvency II framework. The Solvency I framework consisted primarily of EU directives, which were transposed into national law, in the Netherlands in the Dutch Financial Supervision Act and lower level national rules, such as in particular the Decree on Prudential Rules for Financial Undertakings (Besluit prudentiële regels Wft or Bpr Wft).

The Solvency II framework also consists of an EU Directive and has consequently been transposed into the Dutch Financial Supervision Act. However, a large part of the Level II Solvency II rules are also set out in EU regulations, which apply directly in EU member states, and as a consequence do not need to be implemented into national legislation, such as in the Bpr Wft.

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

- ι Aegon Levensverzekering N.V.;
- ι Aegon Schadeverzekering N.V.;
- ι Aegon Spaarkas N.V.; and
- ι Optas Pensioenen N.V.

An insurance company is neither permitted to conduct both life insurance and non-life insurance business within a single legal entity (with the exception of reinsurance), nor to carry out both insurance and banking activities within the same legal entity. Within Aegon the Netherlands, Aegon Levensverzekering N.V., Aegon Spaarkas N.V. and Optas Pensioenen N.V. conduct life insurance activities. Aegon Schadeverzekering N.V. conducts non-life insurance activities. Prudential supervision is exercised by the home state supervisory authority (DNB in the Netherlands). Insurance companies in the Netherlands may conduct their activities on a cross-border basis or through a branch office based on the mutual recognition of (prudential) supervision in the EU (the so-called 'European passport'). Aegon the Netherlands does not have material cross-border insurance business or business conducted through branch offices elsewhere in the EU.

Solvency I

Under Solvency I, life insurance companies were required to maintain certain levels of capital in accordance with EU directives.

During 2015, this level was approximately 4% of general account technical provision or, if no interest guarantees were provided, approximately 1% of technical provisions with investments for the account of policyholders, and an additional 0.3% charge for value at risk. General insurance companies were, under Solvency I, required to maintain shareholders' equity of equal to or greater than 18% of gross written premiums a year, or 23% of the three-year average of gross claims.

With respect to the period up to December 31, 2015, every life and non-life insurance company licensed by DNB and falling under its prudential supervision must file audited regulatory reports on at least an annual basis. These reports, which are 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 insurance company's investments. DNB's regulatory reporting is based on a single entity focus, and is designed to highlight risk assessment and risk management.

Preparing for Solvency II

Solvency II came into effect on January 1, 2016. In anticipation of Solvency II, the Dutch Ministry of Finance made the European Insurance and Occupational Pensions Authority (EIOPA) Preparatory Guidelines for Solvency II reporting mandatory as of May 17, 2015, by amending the Decree on Prudential Rules for Financial Undertakings. This amendment to the Bpr Wft meant that insurance companies were required to submit an annual report for 2014 and two quarterly reports (for the second and third quarters of 2015) on the basis of the EIOPA guidelines in preparation for Solvency II. These mandatory preparatory Solvency II reports replaced the Theoretical Solvency Criteria (TSC) introduced on January 1, 2014. Solvency I quarterly reports were therefore no longer required as of the second quarter of 2015, and yearly reports are no longer required from 2016 onwards.

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In the run up to Solvency II, all Dutch insurance companies were required to produce an Own Risk and Solvency Assessment (Eigen Risico Beoordeling or ERB) for 2015. Both the preparatory Solvency II reports and ERB were used as proxies for the ability of insurance companies (going forward) to comply with the applicable solvency requirements. Capital requirements until the date from which Solvency II came into force were based on Solvency I.

If an insurance company in the Netherlands is not compliant with the Solvency II requirements or does not expect to remain compliant with the applicable Solvency II requirements within one year, the approval of the DNB is required for it to be able to pay a dividend or to redeem capital. For this reason, the preparatory Solvency II reports also served as indications for the ability to pay a dividend or to redeem capital.

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Solvency II

Aegon the Netherlands uses a Partial Internal Model to calculate the solvency position of its insurance activities under Solvency II. The calculation includes the use of the volatility adjuster, but does not include the use of any transitional measures. The internal model was approved on November 26, 2015, by the regulator DNB as part of the Internal Model Application Process. The solvency position of the banking activities will continue to be calculated using the CRR/CRD IV framework. The combined Solvency II position of the activities of Aegon the Netherlands on December 31, 2015, is estimated to be ~150%.

Financial supervision of credit institutions

As of November 4, 2014, Aegon Bank N.V. has been subject to indirect supervision by the ECB under the new European system of banking supervision, the Single Supervisory Mechanism (SSM), which comprises the European Central Bank and the relevant national authorities of participating EU Member States. The SSM is one of the elements of the Banking Union. The ECB may give instructions to DNB in respect of Aegon Bank N.V. or even assume direct supervision over the prudential aspects of the Aegon Bank N.V.'s business. Pursuant to the banking supervision by DNB, Aegon Bank N.V. is (among others) required to file monthly regulatory reports and an audited Annual Report.

Credit institutions are subject to regulatory requirements. These include (among others) capital and liquidity requirements, the requirement to maintain a certain leverage ratio, governance and reporting requirements in line with the requirements of EU Directive 2013/36/EU (CRD IV) and EU Regulation 575/2013 (CRR).

CRD IV and the CRR are the European Union's translation of the Basel III accord for prudential supervision of credit institutions and investment firms. The CRR is binding for all EU member states and became effective on January 1, 2014. CRD IV is an EU directive, and is required to be implemented into local legislation. CRD IV has been implemented in the Netherlands by means of amending the Financial Supervision Act (Wet op het financieel toezicht, the Wft) on August 1, 2014. The majority of the requirements became effective as of that date, with the liquidity coverage ratio becoming effective on October 1, 2015 and a number of other requirements (such as the leverage ratio and net stable funding ratio) to be further defined.

The CRR has applied across all EU member states since January 1, 2014. The CRD IV and CRR frameworks include requirements with respect to capital adequacy, and introduce requirements with respect to the counterparty risk relating to derivative transactions, a new liquidity framework (liquidity coverage ratio and net stable funding ratio) in addition to a leverage ratio and two new, supplementary capital buffers, a capital preservation buffer and a countercyclical buffer. The capital requirements include qualitative in addition to quantitative requirements.

Capital of the highest quality, Core Equity Tier 1 or CET1 capital, forms a substantial part of the capital of a credit institution. Additional Tier 1 capital (AT1 capital) forms the rest of the Tier 1 capital. In addition, the capital of a credit institution may be composed of Tier 2 (T2) capital, which is of a lesser quality than Tier 1 capital.

EU Directive 2014/59/EU (the Banking Recovery and Resolution Directive, BRRD) has been implemented in the Netherlands as of November 16, 2015, by means of an amendment of the Wft. The BRRD gives regulators powers to write down debt (or to convert such debt into equity) of ailing banks, certain investment firms and their holding companies to strengthen their financial position and allow such institutions to continue as a going concern subject to appropriate restructuring. Pursuant to the BRRD, the banks are required at all times to meet a minimum amount of own funds and eligible liabilities (MREL) expressed as a percentage of the total liabilities and own funds. The resolution authority will set a level of minimum MREL on a bank-by-bank basis based on assessment criteria due to be set out in technical regulatory standards.

Other financial undertakings in the Netherlands

DNB also supervises pension funds, including premium pension institutions (PPIs), investment firms and fund management companies.

Asset liability management

Aegon the Netherlands Risk & Capital Committee, which meets every month, determines and monitors the balance sheet and profit and loss account. The focus of these meetings is, among other activities, to ensure an optimal strategic asset allocation, to decide on hedging strategies to reduce interest rate and equity risks, to manage and possibly hedge actuarial risks, and to decide on the need for securitizations of residential mortgage portfolios in order to improve the liquidity and funding position of Aegon the Netherlands.

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Most of the liabilities of Aegon the Netherlands, insurance or otherwise, are long-term. Scenarios and optimization analyses are conducted for fixed income, equities and real estate asset classes. The result is an asset allocation and hedges representing the desired risk-return profile. Constraints, such as the minimum return on equity or economic required capital and the minimum desired solvency ratio, are also taken into account. The implementation of Solvency II on January 1, 2016 has implications for Asset Liability Management. The majority of Aegon the Netherlands' investments are managed by Aegon Asset Management. Risk-based restrictions are in place to monitor and control actual portfolio allocations against strategic portfolio allocations. An internal framework limits investment exposure to any single counterparty.

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Aegon the Netherlands partially offsets the risk of future longevity increases related to parts of its insurance liabilities by buying longevity index derivatives. These longevity derivatives will pay out if the mortality rates in future years have decreased more than a pre-determined percentage compared with the base scenario at the moment of signing the contract. To further implement the strategy of reducing longevity risk, Aegon the Netherlands implemented an additional longevity hedge on July 15, 2015. This hedge is based on a longevity experience index and provides out-of-the money protection. The tenor is 50 years, while Aegon the Netherlands has a one-sided option to exit after five years and after ten years.

Reinsurance ceded

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

Since January 1, 2014, Aegon the Netherlands reinsures its term life assurance through a quota-sharing contract between its subsidiary Aegon Levensverzekering N.V. and a reinsurer.

For non-life, Aegon the Netherlands reinsures its property, marine, general and motor third-party liability business only. For property insurance, an excess of loss contract is in place with a retention level of EUR 3 million for each separate risk, and EUR 20 million for each windstorm event. For motor third-party liability insurance, Aegon the Netherlands has reinsurance in place with a retention level of EUR 2.5 million for each event. For general third-party liability, Aegon the Netherlands has reinsurance in place with a retention level of EUR 1 million for each event.

For marine insurance there is also an excess of loss contract in place with a retention level of EUR 1.5 million for each event.

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In the United Kingdom, Aegon is a major provider of corporate and individual pensions, protection products, annuities, and savings products. Aegon Ireland is a specialist provider of variable annuity (guarantee) products in the United Kingdom, Germany and France. Aegon UK and Aegon Ireland have over two million customers, approximately 2,500 employees, and GBP 63 billion in revenue-generating investments.

Aegon UK is now predominantly a retirement savings and protection business, supporting customers who are retired or saving for their retirement. Products are increasingly sold through its web portals, which enable advisors, employers and individuals to buy and manage investments online, and to have a single view of investments.

Organizational structure

Aegon UK PLC (Aegon UK) is Aegon holding company in the United Kingdom. It was registered as a public limited company at the beginning of December 1998. The leading operating subsidiaries (both operating under the Aegon brand) are:

- Scottish Equitable PLC; and
- Aegon Investment Solutions Ltd.

Aegon UK's main offices are in Edinburgh and London.

The main office of Aegon Ireland PLC (Aegon Ireland) is located in Dublin, Ireland, with a branch office in Frankfurt, Germany.

Overview of sales and distribution channels

In the United Kingdom, Aegon has three main distribution channels: Financial Advisors (referred to as Retail), Workplace and Direct to Customer. An award-winning platform supports all of these channels in an integrated way. It continued to be one of the fastest-growing platforms in the UK market in 2015¹.

Retail channel Aegon Retirement Choices (ARC)

Aegon UK offers a comprehensive digital proposition to independent financial advisors and strategic partnerships. Aegon Retirement Choices (ARC) helps advisors and their customers with the transition from work to retirement. ARC uses leading-edge digital technology to deliver 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 advisors to demonstrate their professionalism and display their charges for advice in a transparent way. In addition to the Self Invested Pension Plan which provides a range of pre-and post-retirement investment options for high-net-worth customers (including insured funds and a wide range of open-ended investment companies) Individual Savings Accounts and General Investment Accounts are also offered.

Aegon UK offers two distinct versions of the proposition targeted at distinct market segments:

- A full-wrap service, which includes multiple wrapper choices, fully open architecture fund choice and digital advisor/ customer self-service access; and
- One Retirement, a standalone pension accumulation and drawdown product, designed to be a single-point solution for customers that do not have a broader set of needs.

Aegon UK's Retail sales team has been increasing adoption of the proposition by helping Independent Financial Advisors (IFAs) to upgrade existing business and to acquire new assets from other providers.

Workplace channel Workplace Aegon Retirement Choices

Aegon is building and diversifying its workplace distribution capability to cover a range of advisors from IFAs to large Employee Benefit Consultants (EBCs), for example by extending Aegon UK's successful partnership with Mercers. Services that Aegon UK offers include:

- Workplace Aegon Retirement Choices¹, a comprehensive pension proposition that manages workplace pensions for employers in a seamless and streamlined way, enabling them to offer employees a choice of savings wrappers;
- Employers' auto-enrolment obligations, which are supported through Aegon's SmartEnrol capability;
- Support for the governance of the workplace pension scheme, which is offered through the sophisticated analytics of Aegon's Smart Governance; and
- Employee access to Retiready, which enables employers to cater for all levels of employee investment knowledge and confidence, in addition to moving with their employees throughout their working life.

Direct to Customer channel

In April 2014, Aegon launched its Retiready digital retirement planning service, which is designed to help customers understand how on track they are for the retirement they want, and to support them in taking action. Answering a few simple questions gives customers a Retiready score out of 100, showing how ready they are for retirement.

¹ Plaforum, UK Advisor Platform Guide, November 2015.

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Since its launch, Aegon UK has been focusing on existing Aegon customers that no longer have an advisor, and either upgrading them to Retiready or offering a Digital Look Through service for their existing Aegon policy on Retiready. Retiready customers have access to a number of tools to help them better engage with and manage their retirement savings. In 2015, over 140,000 customers with assets of around GBP 2 billion were upgraded to the new proposition.

Overview of sales and distribution channels Aegon Ireland

Aegon Ireland products are sold exclusively through Aegon UK's retail advisor channel in the United Kingdom. In Germany, Aegon Ireland has its own branch office in Frankfurt and has a number of distributors and a customer service team. Business in France is conducted through a reinsurance contract with AG2R La Mondiale.

Aegon Ireland offshore investment bonds are offered exclusively in the UK, and are distributed through the ARC proposition, other third-party propositions, banks and financial advisors.

Overview of Business Lines

In line with the rest of the Group, reporting for Aegon UK is organized along two business lines: Life and Pensions. Life comprises protection products sold to individuals and small and medium sized companies (SMEs), offshore investment bonds and individual annuities. Pensions comprises a broad range of workplace and personal pensions in addition to investment products and variable annuities.

From a business management perspective, the Aegon UK has been reorganized into Digital Solutions and Traditional Pensions Business. These have separate leadership teams and operating models that allocate systems and resources so that Aegon UK is able to split profitability and capital requirements by business line.

The Digital Solutions business is responsible for our new digital propositions sold through Retail Advisor, Workplace and Direct to Customer channels. The majority of new assets going forward will be accumulated in this business. In addition, where appropriate, Aegon UK is upgrading customers from its Traditional Pensions Business to Digital propositions to ensure an enhanced customer experience, a more engaged relationship and lower cost to serve. The Digital Solutions business also includes Aegon UK's protection proposition. As of January 1, 2016, Aegon's European variable annuity business has also been part of this business line.

The Traditional Pensions Business is responsible for older products that are no longer actively marketed to new customers. However, new assets are accumulated as customers pay into existing policies, or as new employees join older workplace schemes. These propositions include older style group and individual pensions, with-profits policies and annuities.

Products

Aegon UK's main product focus is on retirement solutions and protection products.

Retirement solutions

Aegon UK provides a full range of personal and corporate pensions and pension-related products. These include:

- Individual Saving Accounts;
- Flexible personal pensions;
- Self-invested personal pensions;
- Platform-based corporate pension schemes;
- Transfers from other retirement plans;
- Phased retirement options and income drawdown;
- Secure retirement income (SRI), a new retirement solution that bridges the gap between annuities and income drawdown products. It offers customers a guaranteed income for life, in addition to continued control over their investments. This product is currently unique in offering a guaranteed pension product integrated into a digital proposition. The underlying guarantee is reinsured by Aegon Ireland PLC; and
- A range of unit-linked guarantee investment products that provide valuable guarantees for the at-retirement market. These include an offshore investment plan, which provides a guaranteed income for life, and an offshore bond, which provides capital guarantees (offered by Aegon Ireland PLC).

Protection products

Aegon UK offers a range of products for individual customers, including life cover, critical illness, income protection, and offshore investment bonds. The target market is wealthier customers over the age of 40, where Aegon UK's underwriting expertise helps it to provide a customer-centric proposition. This also provides a strong overlap with the target customers for Aegon Retirement Choices, giving opportunities to leverage sales and promotional activity. In addition, Aegon UK offers a range of protection products for small and medium-sized companies that wish to insure key personnel. This is a key market for Aegon, and the Company currently protects 400,000 customers.

Packaged products

Packaged products are those managed by Aegon's Traditional Pensions Business and include a variety of individual and corporate pensions, with-profits products and annuity products. These products are not actively marketed.

Competition

There is a diverse range of competitors in the markets in which Aegon UK operates, and market dynamics are continuing to evolve. Aegon UK faces competition from three main sources: life and pension companies, retail investment firms, and retail platform service companies. While competition can be seen partly in terms of product features and benefits, it is also increasingly played out in terms of establishing Aegon UK's proposition as the primary or secondary tool used by advisors to manage their clients assets, or as a preferred partner for EBCs advising corporate clients.

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In recent years, the life and pension market has been increasingly concentrated among the largest companies and those perceived to be financially strong. Aegon UK's competitors include insurance companies such as Legal and General, Standard Life, Zurich and Aviva, in addition to independent platform businesses such as Transact. Consolidation and realignment is taking place in the market, for example Aviva's acquisition of Friends Life.

One of the key drivers for competition is the considerable regulatory and legislative change that is continuing to create new commercial opportunities. The impact of the Financial Services Authority's (FSA) Retail Distribution Review (which has regulated provision in order to bring about greater transparency of charging and improve the quality of financial advice) and of Auto-enrolment (which requires all employers to offer pensions to their employees) are still working through the market.

In addition, in April 2015, the government removed all restrictions on individuals being able to access their pension pots, thereby significantly increasing the flexibility with which individuals can use their pension savings. Individuals are now no longer restricted to buying an annuity or entering drawdown, and can choose to withdraw some of their money, all of it, take flexible income through drawdown, or secure income via an annuity or guaranteed product. This development has had a substantial impact on the retirement market, with a large reduction in annuity sales and an increase in the purchase of income drawdown products. Financial Conduct Authority (FCA) industry sales data show that annuity sales fell by 70% in the first half of 2015 compared with the first half of 2014, while income drawdown sales rose by 67%. In addition, many customers chose to withdraw part of their pension pot tax-free.

The shift from annuity products to drawdown products has created significant opportunities for Aegon UK because it has been a relatively small player in the UK annuity market, and much stronger in drawdown products. The recently launched Secure Retirement Income product – a UK-style variable annuity – is unique in the UK in providing a guaranteed retirement income product on a platform. In the UK, Aegon has two direct competitors offering variable annuities: Axa and MetLife. New retirement income products are expected to come to market in 2016.

In Germany, several competitors offer variable annuity type products, but they are generally not essential to their overall offering. The main competitors for variable annuity business are Canada Life and Swiss Life. Other providers include Allianz, Generali, Helvetia and Standard Life.

In France, AXA and Allianz are the only other providers offering variable annuities other than AG2R La Mondiale.

The UK offshore investment bond market has been increasingly concentrated among the largest companies and is highly competitive.

Regulation and supervision

All relevant Aegon UK companies based in the United Kingdom are regulated by the Prudential Regulation Authority (PRA) and/or the FCA.

The PRA is responsible for the prudential regulation of deposit takers, insurers and major investment firms. The FCA is responsible for regulating firms' conduct in retail and wholesale markets. It is also responsible for the prudential regulation of those firms that do not come under the PRA's remit.

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

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

Financial supervision of insurance companies Solvency I

The European Union Insurance Directives referred to collectively as Solvency I are incorporated into UK law. The directives are based on the home country control principle, i.e. an insurance company with a license issued by the regulatory authorities in its home country is allowed to conduct business in any country of the European Union, either directly or through a branch. Separate licenses are required for each branch of the insurance company where it conducts business. The regulatory body that issued the license (the PRA in the UK) is responsible for monitoring the solvency of the insurer.

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Under UK law, a company (other than existing conglomerates) is not permitted to conduct both life insurance and non-life insurance business within one legal entity, nor is a company allowed to carry out both insurance and banking business within the same legal entity.

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

The PRA may request additional information it considers necessary and may conduct an audit at any time. The PRA may also make recommendations for improvements, and may, ultimately, withdraw an insurance company's license.

Under Solvency I, life insurance companies are required to maintain certain levels of shareholders' equity in accordance with EU directives. Until January 1, 2016, this level was approximately 4% of general account technical provision.

The PRA also requires that all life insurance firms conduct an annual Individual Capital Assessment (ICA) of the capital required to withstand a 1 in 200 shock on a 1-year value at risk basis. The PRA reviews the underlying assumptions for each firm's ICA every few years, and may apply an Individual Capital Guidance if they deem this appropriate.

Solvency II

Since the introduction of Solvency II on January 1, 2016, Aegon has been using a Partial Internal Model to calculate the solvency position of its insurance activities in the United Kingdom. The calculation includes the use of both the matching adjustment in addition to the use of transitional measures. The internal model was approved on December 14, 2015, by the PRA as part of the Internal Model Application Process. The combined Solvency II position of the activities of Aegon in the United Kingdom on December 31, 2015, is estimated to be ~140%.

Aegon Ireland has been using the Standard Formula to calculate the solvency position of its insurance activities. The Solvency II position of Aegon Ireland on December 31, 2015, is estimated to be ~125%.

Asset liability management

In the United Kingdom, asset liability management (ALM) is overseen by Aegon UK's 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 guiding philosophy is to match guarantees with appropriate investments. The nature of with-profit businesses, however, typically prevents perfect matching, and the role of the MIC is therefore to monitor the capital implications of any mismatching. Reports covering the impact of a range of possible investment scenarios on the solvency of each of the funds are produced on a periodic basis. These reports allow the investment strategy for the with-profit funds to be discussed, and are summarized for the With-Profits Forum a sub-committee of the Board of Aegon UK.

For non-profit business, considerable interest rate risk arises from 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 is to closely match the unit liabilities with units in the relevant underlying funds. A proportion of the unit-linked assets are invested in funds managed by external investment managers. The MIC monitors the performance of the investment managers against fund benchmarks.

Aegon Ireland's main market exposures arise from the guarantees provided on Variable Annuity (guarantee) products. The primary exposure is to changes in equity and interest rates. Aegon Ireland employs a dynamic hedge program to mitigate these financial market risks associated with the guarantees provided. On a daily basis, and if necessary on an intra-day basis, the hedge positions are reviewed and updated. Instruments used for the hedge program include equity futures, total return swaps, variance swaps and interest rate swaps.

With-profit fund

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The invested assets, insurance and investment contract liabilities of Aegon UK's with-profit fund are included in for account of policyholder assets and liabilities. Assets and liabilities are always equal, as an excess of assets over liabilities regarding guaranteed benefits and constructive obligations is classified as an insurance or investment contract liability. All assets in the Scottish Equitable with-profit fund are held 100% for participating policyholders.

Guarantees

With the exception of Aegon Secure Lifetime Income and 5 for Life (which are written by Aegon Ireland) and the product guarantees within Secure Retirement Income, Investment Control and Income for Life (which are reinsured to Aegon Ireland PLC), all Aegon UK contracts with investment guarantees are written in policyholder-owned funds (otherwise called with-profit funds).

These funds contain free assets that have not yet been fully distributed to individual policyholders. Free assets help meet the cost of guarantees and provide a buffer to protect the fund from the impact of adverse events. Aegon UK has an exposure only once these assets have been exhausted. As outlined below, Aegon UK believes this exposure to be low.

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Scottish Equitable only sells guaranteed annuity products in the UK to existing customers. Certain policies also have a guaranteed minimum rate of return, guaranteed minimum pension, or guaranteed death or other benefits. Guaranteed rates of return only apply if the policy is kept in force as per the dates specified, or according to the events described in the policy conditions. The costs of all guarantees are borne by the with-profit funds, and therefore impact payouts to with-profit policyholders.

As part of its demutualization process prior to acquisition by Aegon N.V., the business and assets of Scottish Equitable Life Assurance Society were transferred to Scottish Equitable PLC on December 31, 1993. Aegon UK has no financial interest in Scottish Equitable PLC's with-profit fund, except routine yearly fund management charges, and costs and expenses that the Company agreed to accept at the time of demutualization.

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

Management of the with-profit fund

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

The results of the with-profit fund's investment performance are distributed to policyholders through a system of bonuses that depends on:

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

As mentioned above, the free assets (assets that, as yet, have not been distributed to policyholders) help meet the cost of guarantees and provide a buffer to deal with adverse events. These free assets are partly invested in equity puts and fixed interest swaps/swaptions to protect against adverse market movements. Aegon UK has an exposure only once these free assets are exhausted. The risk of exposure has been assessed by Aegon UK as remote, based on applying the risk-based capital approach now required for Solvency II reporting in the UK.

As the Scottish Equitable with-profit fund is now closed to new business with investment guarantees, the free assets are gradually being distributed to with-profit policyholders through the bonus system outlined above. This includes ensuring that any surpluses in the with-profit fund from other (historic) business lines can be distributed to existing with-profit policyholders at a suitable rate, helping to prevent a tontine effect as the number of with-profit policyholders declines.

Reinsurance ceded

Aegon UK uses reinsurance to both manage risk and maximize financial value, through returns achieved and efficient capital management. The degree to which reinsurance is used across the product lines varies, depending largely on the appropriateness and value of reinsurance available in the market.

The protection business is significantly reinsured. A reinsurance panel is in place to provide reinsurance, predominantly on a quota share basis across the range of benefits. A facultative reinsurance panel is also used to assist the placement of the very large cases. Longevity reinsurance is in place for a number of in-force tranches of annuity business. Financial reinsurance has been used historically across the unitized business with the final repayments made in 2014.

Aegon UK uses a range of reinsurers across the reinsurance market. Reinsurance is currently in place with Hannover, Munich Re, Pacific, RGA, Scor, Swiss Re, and XLRe. In addition, internal reinsurance is in place with Blue Square Re.

While Aegon Ireland does not cede any reinsurance, it does accept reinsurance of certain guarantee lifetime income options on behalf of Aegon UK, including the new guaranteed pension product Secure Retirement Income and AG2R La Mondiale.

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Overview of Central & Eastern Europe

Aegon has operations in the Central & Eastern European (CEE) countries of the Czech Republic, Hungary, Poland, Romania, Slovakia, Turkey and Ukraine. Aegon first entered the Central & Eastern European market in 1992 with the purchase of a majority stake in Hungary's former state-owned insurance company, Állami Biztosító. Aegon Hungary is Aegon's leading business in Central & Eastern Europe.

Organizational structure

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

- Aegon Hungary Composite Insurance Co. (Aegon Magyarország Általános Biztosító Zártkörűen Működő Részvénytársaság);
- Aegon Poland Life (Aegon Towarzystwo Ubezpieczeń na Życie Spółka Akcyjna);
- Aegon Poland Pension Fund Management Co. (Aegon Powszechne Towarzystwo Emerytalne Spółka Akcyjna);
- Aegon Turkey (Aegon Emeklilik ve Hayat A.Ş.);
- Aegon Romania Pension Administrator Co. (Aegon Pensii Societate de Administrare a Fondurilor de Pensii Private S.A);
- Aegon Czech Life (Aegon Pojišťovna, a.s);
- Aegon Slovakia Life (Aegon životná poisťovňa, a.s.);
- Aegon Slovakia Pension Management Co. (Aegon, d.s.s., a.s); and
- Aegon Life Ukraine

Overview of sales and distribution channels

Aegon operates through a number of different sales channels in Central & Eastern Europe. These include tied agents, insurance brokers, call centers, online channels and particularly in Hungary, Poland, Romania and Turkey retail banks.

Overview of business lines

Life & Savings

Aegon companies in Central & Eastern Europe offer a range of life insurance and personal protection products. These include traditional life and unit-linked products. Unit-linked products cover all types of life insurance, including pension, endowment and savings.

Traditional general account life insurance consists mainly of index-life products that are not unit-linked but have guaranteed interest rates, in addition to group life and preferred term life products.

Preferred life is an individual term life insurance product that offers insurance protection. The product distinguishes between smoker and non-smoker status, and uses standard and preferred pricing dependent on the respective health of clients.

Group life contracts are renewable each year and carry optional accident and health cover.

In Poland, Aegon is one of the leading providers of unit-linked products¹. In addition, Aegon Poland Life also offers traditional saving type products.

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In Hungary, Aegon offers a wide range of life insurance products, including term life products, whole life products, group life insurance, and accidental life and traditional saving type products, in addition to unit-linked policies, which are frequently accompanied with riders. These riders provide customers in addition to the main coverage with additional financial support in the event of, for instance, having an accident, disabled disability, or being hospitalized, over and above that of the main coverage. Furthermore, Aegon is also a significant market player² in Hungary in the unit-linked segment.

In both the Czech Republic and Slovakia, Aegon focuses on the unit-linked segment, in addition to offering term life products and offering a wide range of riders that cover, among others, accidental death, disability, critical illness risks, and providing a daily hospitalization allowance to insured clients.

In Turkey, Aegon provides only traditional life insurance products, the most important of which are pure term life with several riders, term life with premium refund on maturity, and saving-type endowment products. Aegon's insurance portfolio is growing significantly in Turkey due to the country's high growth rate.

Aegon entered the Ukrainian life insurance market in February 2013 by acquiring Fidem Life, a life insurance company offering mainly endowment traditional life products. The company was subsequently renamed Aegon Life Ukraine. The business has developed slowly due to the unstable political and economic climate.

¹ https://www.knf.gov.pl/en/about_the_market/Insurance/Financial_and_statistical_data/Quarterly_data/quarterly.html

² <http://www.mabisz.hu/en/market-reports.html>

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In Romania, Aegon undertakes life insurance business via Aegon Poland Life Insurance Company. The Romanian branch sells unit-linked, term life and endowment insurance policies. In April, 2014, Aegon Poland Life's branch took over Eureko Asigurari S.A.'s life portfolio in Romania, which consists of mainly traditional life and unit-linked policies.

In 2013, Aegon Hungary Composite Insurance Company incorporated a new subsidiary, Aegon Hungary Home Savings and Loan Association. The new entity provides a saving product combined with a preferential loan option, which is subsidized by the state during the saving period.

Mortgage loans

Aegon Hungary first offered mortgage loans to retail customers in 2006 via Aegon Hungary Mortgage Finance Co., a subsidiary of Aegon Hungary Composite Insurance Company.

The mortgage loan business has been affected by several legislative changes in recent years. According to laws enacted in 2014, financial institutions were required to retrospectively apply exchange rates of the Central Bank of Hungary (MNB), instead of the exchange rates they applied in the past, to foreign currency denominated loans. In addition, following a decision made by the Curia (the Hungarian Supreme Court), financial institutions were required to reimburse unilateral fee and interest increases made in the past under the loan agreements to debtors. The settlement with debtors was completed in accordance with the law. Furthermore, due to additional legislative changes also enacted in 2014, most foreign currency denominated loans were required to be converted into Hungarian forint-based loans at fixed exchange rates in 2015, with subsequent interest charges maximized by law.

On March 17, 2014, Aegon Hungary Mortgage Finance Company suspended the acceptance of new loan applications for an indefinite period of time.

Pensions

Aegon's pension business in Central & Eastern Europe experienced considerable growth before the financial crisis of 2008, mainly due to the region's strong economic growth, and the reform of pension systems in many of the countries in the region. In recent years, pension systems in several countries in the region have been revised, and this has had a significant impact on Aegon's business activities.

Aegon is currently active in the (formerly mandatory) private pension market in Slovakia, Poland and Romania. In the voluntary pension market, Aegon is active in Hungary, Turkey and Romania.

In Romania, Aegon Romania Pension Administrator Company took over the management of Eureko private pension fund on October 10, 2014. The Eureko fund merged with Vital, the Pillar 2 private pension fund managed by Aegon. As a result, it became the fourth largest fund of its kind in the country¹.

Aegon launched its Pillar 3 voluntary pension fund, Aegon Essential, in Romania, on May 11, 2015. On December 4, 2015, Aegon Romania Pension Administrator Company took over the management of Eureko's voluntary pension fund, which subsequently merged with Aegon Essential.

In terms of assets under management, Aegon's private pension funds in Poland⁴, Slovakia⁷ and Romania¹, and its voluntary pension fund in Hungary⁸, are among the largest in the respective countries. In terms of numbers of members, Aegon has a significant market presence in Poland⁴, Romania¹, and Hungary⁸. As of December 2015, Aegon had over 2.1 million pension fund members in Central & Eastern Europe.

Non-life

Aegon Hungary offers non-life cover (mainly household and car insurance, along with some wealth and liability industrial risk and travel insurance). Aegon is the leading insurance company in the Hungarian household market². In recent years, margins on non-life insurance in Hungary have been attractive. Moreover, household insurance provides considerable opportunities for the cross-selling of life insurance.

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

Competition

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In 2015, Aegon was the third largest life insurance provider in Hungary, based on the first nine months' standardized premium income, and the third largest provider in the non-life insurance market³. Aegon is also a significant market participant in Poland. As of September 2015, it was ranked eighth for unit-linked products in Poland, based on gross written premiums⁴. In addition, at the end of June 2015, Aegon Life Ukraine was the fifth largest in the market, based on the first six months' premium income⁵. Aegon is a less significant market participant in Slovakia, the Czech Republic and Romania. In Turkey, Aegon was ranked ninth based on written premium at the end of October 2015⁶.

- 1 <http://asfromania.ro/informatii-publice/statistici/statistici-pensii/evolutie-indicatori>
- 2 <http://www.mabisz.hu/images/stories/docs-eng/publications/yearbook-2014-english.pdf>
- 3 <http://www.mabisz.hu/images/stories/docs-eng/publications/quarter/2015-i-iii-quarter.pdf>
- 4 https://www.knf.gov.pl/en/about_the_market/Insurance/Financial_and_statistical_data/Quarterly_data/quarterly.html
- 5 <http://uainsur.com/stats/life/>
- 6 <http://www.tsb.org.tr/official-statistics.aspx?pageID=1003>
- 7 <http://www.adss.sk/en/Default.aspx?CatID=60&fundID=566>
- 8 <http://www.mnb.hu/felugyelet/idosorok/v-aranykonyv>

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Aegon was ranked third in terms of both the number of participants and managed assets in 2014 in the voluntary pension fund market in Hungary¹. For managed assets, at the end of 2015, Aegon was ranked fifth in the Slovakian private pension market². In November 2015, Aegon ranked tenth in terms of both the number of participants and managed assets in Poland³. At year-end 2015, Aegon was the fourth largest provider in the Romanian mandatory private pension market, both in terms of net assets under management and number of participants⁴.

Regulation and supervision

In Central & Eastern Europe, a single insurance company may only be licensed for and conduct either a life insurance business or a non-life insurance business - not both. In Hungary, however, insurance companies established before 1995 are exempt from this rule. This exemption therefore applies to Aegon Hungary.

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

- The Central Bank of Hungary (MNB);
- National Bank of Slovakia (NBS);
- Czech National Bank (CNB);
- Polish Financial Supervisory Authority (KNF);
- Authority for Financial Supervision (ASF) (Romania);
- Undersecretariat of Treasury (Turkey); and
- National Commission for State Regulation of Financial Services Markets (Ukraine).

The authorities mentioned above 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 members of a number of self-regulatory groups in their respective countries. These self-regulatory groups are the main forums for discussion among insurance companies. Their specialized departments (for example, actuarial, financial, and legal) meet periodically.

In preparation for the implementation of Solvency II, with the exception of the Czech Republic, the other European Economic Area (EEA) countries that form part of the CEE region enacted the new insurance laws during 2015, incorporating the requirements of the new solvency regime. As of January 1, 2016, when the Solvency II requirements became effective, Aegon's EU-domiciled entities in Central & Eastern Europe have been using the Standard Formula to calculate the solvency position of their insurance activities. The activities in Ukraine and Turkey have been included through Deduction & Aggregation on a Solvency II

Standard Formula basis. The combined Solvency II position of the activities of Aegon CEE on December 31, 2015 is estimated to be ~250%.

In Hungary, the foundation and operations of voluntary pension funds are regulated by the country's Voluntary Mutual Pension Funds Act (XCVI. 1993). Activity in this area is also supervised by the MNB. Slovakia's pension market is regulated by the Pension Asset Management Companies and Respective Notices Act (43/2004). The private pension business is under the supervision of the National Bank of Slovakia (NBS). In Romania, the private and voluntary pension system is regulated and supervised by the Authority for Financial Supervision (ASF). The mandatory pension system is subject to the Privately Administered Pension Funds Act (411/2004) and the voluntary pension system is subject to the Voluntary Pension Law (204/2006), both complemented by individual regulations (as secondary legislation). In Poland, this activity is supervised by the KNF and governed by the Organization and Operation of Pension Funds Act. In Turkey, the voluntary pension funds are under the supervision of the Undersecretariat of Treasury and the companies are subject to Individual Retirement Saving and Investment System Law No. 4632.

In Hungary, the Credit Institutions and Financial Enterprises Act (2013) stipulates the foundation, operation and reporting obligations of the country's financial institutions (including Aegon Hungary Mortgage Finance Company). In addition, Aegon Hungary Mortgage Finance Company is under the supervision of the MNB, in exactly the same way as Aegon Hungary Home Savings and Loan Association.

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, which meets on a quarterly basis. Aegon CEE's asset liability management focuses on asset liability duration and liquidity. The performance of the portfolios against benchmarks is also evaluated during the Committee's meetings.

Reinsurance ceded

Aegon takes out reinsurance for its life and non-life businesses in Central & Eastern Europe, the aim of which is to mitigate insurance risk. In accordance with Aegon's Reinsurance Use Policy, Aegon's companies in the region only work through large multinational reinsurers that have well-established operations in the region. For short-tail business, Aegon CEE accepts reinsurance companies with a minimum Standard & Poor's (S&P) rating of A-. For long-tail business Aegon CEE accepts reinsurance companies with a minimum S&P rating of AA-.

- 1 <http://www.mnb.hu/felugyelet/idosorok/v-aranykonyv>
- 2 <http://www.adss.sk/en/Default.aspx?CatID=60&fundID=566>
- 3 https://www.knf.gov.pl/en/about_the_market/Pension_system/Financial_and_statistical_data/Monthly_data.html
- 4 <http://asfromania.ro/informatii-publice/statistici/statistici-pensii/evolutie-indicatori>

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The credit standing of the reinsurance partners is strictly monitored, discussed on a monthly basis by the Global Reinsurance Use Committee, and assessed on a quarterly basis by the Risk & Capital Committee. From 2013, Aegon Hungary began a long-term arrangement with Aegon's internal reinsurer, Blue Square Re, for property, catastrophe, general third-party liability and motor third-party liability risks. In the first phase, Blue Square Re takes the risk and, in the second phase, Blue Square Re retrocedes the risk in the reinsurance market, potentially with some level of retention. In addition, in 2014, Aegon Turkey started to cede the mortality risk stemming from the bulk of its traditional life portfolio to Blue Square Re.

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

- Property catastrophe excess of loss treaty (EUR 16 million retention);
- Motor third-party liability excess of loss treaty (EUR 0.8 million retention);
- Property per risk excess of loss treaty (EUR 1.0 million retention); and
- General third-party liability excess of loss treaty (EUR 0.2 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 treaties, which are made on a surplus and quota-share basis (including various riders).

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Overview of Spain & Portugal

Aegon entered the Spanish insurance market in 1980 with the purchase of local insurer Seguros Galicia. In recent years, Aegon's activities in Spain have developed through distribution partnerships with Spanish banks.

Aegon Spain Holding (hereafter referred to as Aegon Spain) operates in Spain through Aegon España. In addition, Aegon Spain operates through partnerships with Banco Santander and Liberbank, S.A. Aegon Administracion y Servicios A.I.E., a separate legal entity, provides administration and operations services to all Aegon companies in Spain, including joint ventures with third parties. Aegon Spain has a long-term agreement to distribute both protection and general insurance products through Banco Santander's network of branches in Portugal.

Organizational structure

Aegon's main subsidiaries and affiliates in Spain and Portugal are:

- Aegon España S.A. de Seguros y Reaseguros;
- Aegon Administracion y Servicios A.I.E.;
- Aegon Activos A.V, S.A.;
- Aegon Santander Generales Seguros y Reaseguros (51%), in partnership with Banco Santander;
- Aegon Santander Vida Seguros y Reaseguros (51%), in partnership with Banco Santander;
- Aegon Santander Portugal Vida Companhia de Seguros S.A. (51%), in partnership with Banco Santander Totta;
- Aegon Santander Portugal Nao Vida Companhia de Seguros S.A. (51%), in partnership with Banco Santander Totta; and
- Liberbank Vida y Pensiones, Seguros y Reaseguros, S.A. (50%), in partnership with Liberbank, S.A

Overview of sales and distribution channels

The main distribution channel in the Spanish market is bancassurance, which accounts for 67% of life sales, in comparison with 28% for brokers and 5% for direct customers¹. Aegon Spain distributes its products nationwide through partner branches and its own sales network.

In the Portuguese market, approximately 69% of pure life risk premiums and 17% of health and general insurance premiums are written through bancassurance channels, where credit-related policies mostly related to household mortgages play a significant role².

Aegon Spain and Banco Santander

On December 20, 2012, Aegon Spain and Banco Santander formed a partnership to distribute a number of insurance products. This became fully operational on June 4, 2013, following regulatory approval.

Banco Santander is the largest financial institution in Spain, with over 3,500 branches nationwide. Aegon Spain's agreement with Banco Santander concerns the business lines of pure life risk and general insurance products (accident, home and commercial multi-risk insurance, and critical illness). These are sold through two insurance entities: Aegon Santander Vida for pure life risk products, and Aegon Santander Generales for general insurance products. Aegon's share in each entity is 51%.

In July 2014, Aegon Spain and Banco Santander Totta Seguros, a Portuguese insurance company that is part of the Santander International group, signed an agreement to distribute a number of insurance products. This became fully operational in January 2015, following regulatory approval. The agreement concerns the distribution of pure life risk and general insurance products (accident, home and commercial multi-risk insurance, and sickness) through over 600 branches nationwide – the largest network of its kind in the country. These are sold through two insurance entities: Aegon Santander Portugal Vida for pure life risk products,

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and Aegon Santander Portugal Não Vida, for general insurance products. Aegon has a 51% share in each entity.

Aegon Spain and Liberbank

Liberbank, S.A. has a presence nationwide, with special focus on retail markets in a number of Spanish regions (Asturias, Cantabria, Castilla La Mancha and Extremadura). Liberbank Vida y Pensiones currently distributes its products through nearly 700 Liberbank, S.A. branches.

On December 31, 2014, Cantabria Vida y Pensiones (Aegon's partner until 2014) was taken over by Liberbank Vida y Pensiones.

- 1 Investigación Cooperativa entre Entidades Aseguradoras y Fondos de Pensiones (ICEA), which is responsible for researching, compiling and publishing all statistics in the Spanish insurance industry.
- 2 Associação Portuguesa de Seguradores (APS), which promotes risk management in Portugal.

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Distribution

Aegon Spain offers life insurance, general insurance, health, pension products and mutual funds. It uses three main distribution channels: bancassurance, which comprises 58%; 40% through its own network of brokers and agents; and 2% through a direct channel. Aegon Spain's sales network is focused on individual life, pensions, general, accident and health insurance in both urban and rural areas.

Overview of business lines

Aegon Spain focuses primarily on retail customers. It offers individual life, pensions, general insurance, accident and health cover through different distribution channels, including its own channels (agents, brokers and direct), together with bancassurance products through its joint venture partnerships with Liberbank, S.A. and Banco Santander, the latter of which in both Spain and Portugal.

Life insurance & Pensions

Aegon Spain's life insurance business comprises both individual and group protection and savings products, with individual products forming the larger part of the business.

Protection business includes primarily life, accident and disability cover, and products can be complemented with critical illness, income protection and other riders. Customers' saving needs are serviced by Aegon Spain through its targeted offering of universal life, unit-linked and pension funds. Both savings and protection products are distributed through the channels mentioned above. In addition, Aegon Spain distributes mutual funds from third parties.

General insurance

Aegon Spain first offered general insurance products in 2013 through its joint venture with Banco Santander. The offering focuses mainly on household protection products, distributed through the banking network of partner Banco Santander.

Health

Health insurance is offered by Aegon in Spain through both its own network of brokers and agents, and direct channels. Medical expense coverage for doctor visits, diagnoses, hospitalization, dental and other health covers are offered through a broad network of medical partners across Spain.

The gross premium written contribution in 2015 for each of Aegon Spain's business lines was 55% for life insurance, 20% for accident and health insurance, and 25% for general insurance.

Competition

The Spanish insurance market is highly competitive. For Aegon Spain's traditional life, unit-linked variable life and pension products, the major competitors are retail bank-owned insurance companies. The life market is dominated by Grupo VidaCaixa, with a 28% market share, and Zurich, with a 12% market share, followed by BBVA Seguros, with a 7% market share. Aegon Spain's market share is less than 1%.

For Aegon Spain's health and general insurance products, the main competitors are both foreign and local companies. Mapfre leads the non-life insurance market with a 15% market share, followed by Grupo Mutua Madrileña with a 13% market share, and Allianz with a 7% market share. The non-life market is more fragmented than the life market. Aegon Spain's multi-risk business line is responsible for non-life and has a market share of less than 1%.

With respect to the Portuguese market, the risk life bancassurance market is dominated by Ocidental Vida and Fidelidade, which distribute their products through Milleniumbcp and Caixa Geral de Depósitos respectively. These companies have a market share of 20% each³.

In the non-life bancassurance market, Ocidental Seguros is currently the market leader in terms of issued premiums, with a market share of 34%. It is followed by Fidelidade and CA Seguro (which sells through the Crédito Agrícola branch network) both of which have a market share of 14%⁴.

Regulation and supervision

Insurance companies in Spain are required to report on a quarterly basis to the Direccion General de Seguros y Fondos de Pensiones (DGSFP), the regulatory authority for the Spanish insurance industry. Spanish regulations incorporate all requirements from the relevant EU directives.

The regulatory authority for the Portuguese insurance industry is the Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF). Insurance companies are required to report to the ASF on a monthly basis and more extensively on a quarterly basis. Portuguese regulations also incorporate all requirements from the relevant EU directives.

- 1 Source: Investigación Cooperativa entre Entidades Aseguradoras y Fondos de Pensiones (ICEA).
- 2 Investigación Cooperativa entre Entidades Aseguradoras y Fondos de Pensiones (ICEA).
- 3 Associação Portuguesa de Seguradores (APS).
- 4 Associação Portuguesa de Seguradores (APS)

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Solvency I

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

Solvency II

As of January 1, 2016, under the new Solvency II requirements, Aegon Spain has been using the Standard Formula to calculate the solvency position of its insurance activities. The calculation includes the use of the matching adjustment or volatility adjustment, depending on the underlying portfolio in addition to transitional measures. The combined Solvency II position of the activities of Aegon Spain on December 31, 2015, is estimated to be ~190%.

Asset liability management

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

Reinsurance ceded

Aegon Spain has a one Aegon reinsurance management policy. This means that both its joint ventures and own business are treated as a whole, with the same economic conditions and reinsurers panel, but with individual profit shares without losses carried forward by each entity belonging to Aegon Spain. The main contract for mortality and morbidity provides proportional reinsurance protection for both its individual risk and group risk policies. With this approach, Aegon Spain seeks to optimize the cost of reinsurance coverage, sharing the profits and not the losses, while achieving prudential diversification of its insurance risk by limiting the maximum possible losses on risks that exceed retention levels. Maximum retention levels vary by product and by the nature of the risk being reinsured, although the retention limit is in general between EUR 9,000 and EUR 60,000 per life insured. Aegon Spain remains contingently liable for the amount ceded should the reinsurance company fail to meet its obligations. Aegon Spain generally only uses reinsurance companies that have a Standard & Poor credit rating of A- or higher. Aegon's Group Reinsurance Use Committee is involved in the pre-approval of reinsurers, and the selection of reinsurers where a reinsurer has a rating below A-. In addition, to reduce its exposure to defaults, Aegon Spain has several reinsurers on its panel and regularly monitors the creditworthiness of each. Further protection is taken out through funds that are withheld for investment by the ceding company where appropriate.

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Overview of France

On November 24, 2014, following a strategic review, Aegon announced its decision to sell its 35% share in La Mondiale Participations, subject to regulatory review. The sale was finalized on March 3, 2015.

Background

Aegon began a partnership with mutual insurer La Mondiale in 2002 through the acquisition of a minority interest in La Mondiale Participations, La Mondiale's subsidiary company. La Mondiale Participations offered a range of life insurance,

pensions, savings, investment and asset management services to corporate and individual retail customers through three subsidiaries: Arian Assurance, La Mondiale Partenaire and La Mondiale Europartenaire.

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Results 2015 Asia

	Amounts in USD millions			Amounts in EUR millions		
	2015	2014	%	2015	2014	%
Net underlying earnings	(4)	(34)	89%	(3)	(26)	87%
Tax on underlying earnings	27	12	130%	24	9	176%
Underlying earnings before tax by business / country						
High net worth businesses	45	17	170%	40	13	-
Aegon Direct & Affinity Marketing Services	5	(2)	-	5	(1)	-
Strategic partnerships	(27)	(38)	27%	(25)	(29)	15%
Underlying earnings before tax	23	(23)	-	20	(17)	-
Fair value items	7	4	108%	7	3	150%
Gains / (losses) on investments	7	6	13%	7	5	35%
Net impairments	-	(1)	73%	-	(1)	68%
Other income / (charges)	(68)	5	-	(61)	4	-
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	(31)	(9)	-	(27)	(7)	-

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<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	3	(3)	-	3	(2)	-
Income tax	(3)	(12)	76%	(3)	(9)	71%
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(3)	3	-	(3)	2	-
Net income	(33)	(21)	(57%)	(30)	(16)	(89%)
Life insurance gross premiums	1,902	1,458	30%	1,713	1,097	56%
Accident and health insurance premiums	117	136	(14%)	105	102	3%
Total gross premiums	2,019	1,594	27%	1,819	1,199	52%
Investment income	216	164	31%	194	124	57%
Fees and commission income	69	70	(1%)	62	53	18%
Total revenues	2,304	1,829	26%	2,076	1,376	51%
Commissions and expenses	268	256	5%	242	192	26%
of which operating expenses	143	146	(2%)	129	110	17%
New life sales	Amounts in USD millions			Amounts in EUR millions		
High net worth businesses	151	123	23%	136	93	47%
Aegon Direct & Affinity Marketing Services	1	4	(86%)	1	3	(83%)
Strategic partnerships	41	24	68%	37	18	101%
Total recurring plus 1/10 single	193	152	27%	173	114	52%
New premium production accident and health insurance	Amounts in USD millions			Amounts in EUR millions		
	31	30	3%	28	23	24%

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	Amounts in USD millions			Amounts in EUR millions		
Gross deposits (on and off balance)						
Strategic partnerships	453	699	(35%)	408	526	(22%)
Total gross deposits	453	699	(35%)	408	526	(22%)

Exchange rates

	Weighted average rate	
Per 1 EUR	2015	2014
US dollar	1.1100	1.3288
Chinese Yuan Renminbi	6.9598	8.1902

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Results 2015 Asia

Net loss in 2015 amounted to USD 33 million, which was mainly driven by Other charges. Higher underlying earnings before tax in 2015 compared with 2014 were mainly the result of one-time charges in 2014 from assumption changes and model updates. Gross deposits decreased to USD 453 million primarily due to a pricing change on variable annuities in Japan to maintain profitability of new sales. New life sales of USD 193 million mainly related to universal life products sold out of Hong Kong and Singapore.

Net income

Net loss in 2015 amounted to USD 33 million. Net losses increased mainly due to charges of USD 68 million primarily the result of a more detailed approach to modeled reinsurance premiums. The charges were partially offset by a fair value gain relating to hedging results, gains on investments and the strong performance of Asia's high net worth business out of Hong Kong and Singapore.

Underlying earnings before tax

In Asia, underlying earnings before tax increased to USD 23 million in 2015 compared with a loss of USD 23 million in 2014.

- ⌚ Underlying earnings before tax from the high net worth businesses in Hong Kong and Singapore increased significantly to USD 31 million, compared with USD 4 million in 2014. This increase was the result of higher policy fees and the non-recurrence of a charge from model updates.
- ⌚ Earnings in Aegon Direct & Affinity Marketing Services (ADAMS) increased to USD 7 million driven by the divestment of its activities in Hong Kong and the restructuring of the Australian business.
- ⌚ Losses from Strategic Partnerships improved to USD 15 million due to lower new business strain in Japan, a more profitable product mix in China and lower expenses.

Commissions and expenses

Commissions and expenses increased by 5% in 2015 compared with 2014 to USD 268 million. Operating expenses decreased by 2% in 2015 compared with 2014 to USD 143 million. The decrease in operating expenses was mainly due to restructuring of ADAMS, partly offset by higher expenses in TLB, as a result of higher employee expenses to support growth.

Production

New life sales increased by 27% in 2015 to USD 193 million.

- ⌚ In the high net worth businesses in Hong Kong and Singapore, new life sales were up 23% to USD 151 million. This increase was mainly the result of higher sales of universal life products.
- ⌚ New life sales in Strategic Partnerships were up 68% to USD 41 million due to a strong increase from sales in China mainly driven by the continued success of the whole life critical illness product.

Gross deposits in Asia declined to USD 453 million. This was the result of management actions in Q2 2015 to lower commissions on variable annuities in Japan to maintain profitability of new sales.

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New premium production in Asia's accident & health and general businesses remained stable compared with 2014 at USD 31 million, driven by continued strong performance of fee-based health sales in ADAMS.

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	Amounts in USD millions			Amounts in EUR millions		
	2014	2013	%	2014	2013	%
Net underlying earnings	(34)	15	-	(26)	12	-
Tax on underlying earnings	12	30	(62%)	9	23	(62%)
Underlying earnings before tax by business / country						
High net worth businesses	17	91	(82%)	13	69	(81%)
Aegon Direct & Affinity Marketing Services	(2)	6	-	(1)	5	-
Strategic partnerships	(38)	(52)	28%	(29)	(39)	27%
Underlying earnings before tax	(23)	46	-	(17)	34	-
Fair value items	4	(21)	-	3	(16)	-
Gains / (losses) on investments	6	-	-	5	-	-
Net impairments	(1)	2	-	(1)	1	-
Other income / (charges)	5	(11)	-	4	(8)	-
Income before tax (excluding income tax from certain proportionately consolidated joint ventures and associates)	(9)	15	-	(7)	11	-
<i>Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	(3)	(11)	76%	(2)	(8)	76%
Income tax	(12)	(24)	49%	(9)	(18)	49%
<i>Of which Income tax from certain proportionately consolidated joint ventures and associates included in income before tax</i>	3	11	(76%)	2	8	(76%)
Net income	(21)	(9)	(134%)	(16)	(7)	(133%)
Life insurance gross premiums	1,458	809	80%	1,097		